THE LANCASHIRE COTTON TRADE

By F. R. Jones

BEFORE 1914 the Lancashire cotton industry was regarded as one of the most prosperous in the country. For fifty years it had been expanding at an unprecedented rate. Its products sold readily in India and China, and manufacturers had little difficulty in holding their own against foreign competition. For the most part the mills worked full time. Among the men and women employed in spinning, weaving, printing and merchanting the percentage of unemployment was comparatively low. Workers invested a great deal of their savings in shares of the mills in which they worked. Most purchasers of cotton shares were able to congratulate themselves on numerous increases in value.

The war marked a transition period which was to a large extent hidden by the considerable diversion to war purposes of men and capital engaged in the industry. When the post-war slump arrived, the people in Lancashire found themselves facing a changed world. In India home mills had been erected, which span and wove into cloth the East Indian cotton so like the American growths used in Lancashire. Most of the remainder of the huge Indian crop went to Japan, where more and more spindles and looms turned it into material for sale in India and China and elsewhere at prices so low that rarely could British products compete.

Not merely in India and Japan were new mills constructed, but also in Europe, in the new countries which quickly sought to establish home manufactures behind the shelter of tariff walls. Cotton spinning began at Lodz in Poland, Bratislava in Czechoslovakia, Budapest in Hungary. In Italy it was not long before all the home demand was met, leaving a surplus for export.

The steady development of this world trend in the cotton trade hit the Lancashire mills very hard. Most seriously affected were those engaged in spinning " short staple " cotton and weaving the yarn into coarse cloth—the suppliers to the poorer peoples of the earth. One after another a number of these mills closed down. The majority of the remainder worked only part time, mostly at a loss that ate into their resources. In many cases all assets, including the mill buildings and machinery, were pledged for bank loans until prospects became so black that the banks refused to lend.

The position of all these mills was complicated to the superficial observer by the way in which their shares had been manipulated. Several times before, during and just after the war, when business was booming and dividends high, new shares were issued in place of the old. In nearly every such case shareholders received several new shares for each old share they possessed. By this means the apparent level of dividends was reduced. Where, for example, a dividend of 18 per cent had been attained on old shares which were replaced at the rate of four new for one old, the declared dividend rate was thereby brought down to 4½ per cent on each new share. Trading in shares was facilitated by this increase in their number. Many passed into fresh hands.

When business slumped, the dividend rate on the new inflated share issues fell in many cases to ½ per cent or lower. It is essential to realize that this in itself made no difference to the industry. It was entirely an effect, with no causal relationship except with respect to the incomes of shareholders.

It is often said that many of Lancashire's difficulties are due to " over-capitalization." This is sheer nonsense. When the nominal value of a share issue is several times the market value of the real capital it represents, each share gets a smaller portion of what profit is earned than would be the case if share value equalled real capital value. But the earning power of the business is not thereby affected. That is determined solely by the quantity and selling price of the products in relation to costs.

Another criticism of the Lancashire cotton trade is that its plight is due to inefficiency. It is said that much of the machinery is out of date, particularly as regards weaving, and that it should have been replaced long ago by more modern installations, such as automatic looms.

This is again confusing effect with cause. Given the certainty that the products of automatic looms could be sold for a sufficient time to come at a reasonable margin of profit, capital would be promptly forthcoming to provide such looms. Indeed, it is a fact that wherever there has been a satisfactory prospect of business, automatic looms and other up-to-date devices have been immediately installed and old machinery scrapped.

No, the real trouble in Lancashire arises primarily because not enough cotton goods can be sold to employ the whole of the workers and capital in the industry. What is needed is an expansion of both home and foreign demand for Lancashire products, an expansion on a big scale. Through this alone can the mill towns be made busy again and the sturdy Lancashire workers be brought to high wages, permanent employment and independence.

THE COTTON INDUSTRY (REORGANIZATION) ACT

The problem cannot be localized. It certainly will not be solved by such an *ad hoc* improvised method as the Cotton Industry Act which has just become law. As was rightly pointed out by a Committee of Independent Manufacturers, Merchants and Shippers, this Act originated as the nursling of the large Combines, who are far from being the most successful firms in their respective sections of the industry. It is significant that the chief opposition to it came from the successful and prosperous producers, like Barlow and Jones, Ltd., and Tootal Broadhurst Lee Co., Ltd.

The Act appoints a central Board to carry out its provisions. All businesses engaged in the industry will have to register with the Board and pay levies to it. Like similar Boards appointed for other industries, the Cotton Industry Board is to promote technical and economic research and examine and formulate " scientific " marketing schemes in an endeavour to recover lost trade.

The sinister significance of the Act lies in its price-fixing and redundancy clauses. As the *Statist* points out in its issue of 26th August, the two primary objects of the Act are to establish minimum prices and deal with redundant machinery. The Board is given powers to buy up and scrap redundant plant which is lying idle or which is being insufficiently used, not only in the spinning section of the industry but also in the manufacturing and finishing branches. Minimum prices can be fixed for both yarn and woven material. The *Statist* rightly remarks that there is not much difficulty in fixing minimum prices on the spinning side, but that it will be far from easy to arrive at minimum cloth prices. The outcome is bound to be that British consumers will be made to pay more for their cotton goods.

Sane cotton men perceive the danger of raising prices to the British public. So many new substitutes for cotton are on the market or are in process of being invented. These substitutes will be turned out on a greater scale if cotton goods are dearer. The Act foresees this by forcibly including the rayon manufacturers, very much against their will. But there are other substitutes than rayon. Dearer cotton goods will undoubtedly mean very considerably reduced sales—still less work for the hungry and suffering people in the stricken Lancashire towns.

The redundancy clauses are a clever move by the Combines who were the main backers of the Bill. These Combines were originally formed by acute men who saw how to apply a simple but ingenious idea. Numerous mills had individually only enough business to keep them working on short time, profits being almost eaten up by the heavy overhead expenses. By merging several of such mills together, the total business could be handled by a few of the mills working full time, the others being closed down. Overhead expenses were thus reduced and profits increased. Mill after mill came into the Combines on terms which guaranteed a slightly greater profit to their shareholders. The profit was at the same time made more certain, because competitors were thus made mutual associates.

The Combines have now grown very large and have many idle mills on their hands. Under the redundancy clauses of the Cotton Industry Act they may be able to foist these on to the Board at a good price. As the Committee of Independent Manufacturers, Merchants and Shippers stated in their memorandum against the original Bill :—

> *Redundancy Schemes.* Under these, too, the Combines do not appear to have been unmindful of their own particular interests. There are dozens of bleachworks, printworks and dyeworks which they have kept idle for many years. Some of these works have been bought from private firms for no other purpose than to close them down, and so increase the particular Combine's grip on a section of the trade. Offers from outsiders for these works have never been entertained. A good opportunity now presents itself, under the proposed Redundancy Schemes, for the Combines to maintain their grip on the section of the trade concerned by selling these idle works to the Industry for scrapping, and the money received could be used for erecting more works abroad. When their plants in foreign countries are in full production, no doubt the Combines will have some more works here for sale to the Industry.

It is important here to note how the present rating system helps the Combines in their deliberate policy of holding up their idle mills. Though many of these mills stand on valuable central sites, no rates whatever are payable so long as they remain unoccupied. Under these conditions it is easy for the Combines to hold on indefinitely while they scheme to induce the Board to buy the property they do not need. This greedy policy would be made unprofitable by land value rating, under which there would be a constant payment of rates on the value of the sites, used or unused, with total exemption of the buildings.

FOREIGN COMPETITION

Sufficient has been said to show that the Cotton Industry Act, mainly promoted by large interests, will never help the masses who are unemployed or work for starvation wages because of the fall off in the demand for British cotton products. However amended, its various schemes for higher prices and pooling of resources can only further reduce total demand and injure the efficient mills which still keep busy.

What then can be done for the Lancashire cotton trade? Before that question can be answered there is one extremely important matter to be explained. To a great extent foreign markets have been lost to the Lancashire manufacturers because of Japanese and other foreign competition. How is it that the Japanese can profitably sell their products in India and elsewhere at lower prices than British goods? Admittedly the greater part of these Japanese articles are inferior in quality to the British products, yet they are sold so cheaply that demand is seriously diverted from the better materials offered by Lancashire merchants.

The most usual explanation for the extreme cheapness of Japanese goods is that the workers in the Japanese mills receive very much lower wages than the workers in Lancashire. But this, stated crudely, ignores the fact that wages in Japan are paid in Japanese currency, while wages in Lancashire are paid in pounds, shillings and pence. It is chiefly because the yen is relatively so much lower than the British pound on the money markets of the world that Japanese wages and prices measure so considerably below British.

The Japanese Government has forced down the yen in relation to all other currencies partly by a deliberate inflationary policy, partly (and chiefly) by extensive buying of raw products and materials of war. Each such depreciation of the yen has acted much in the same way as a subsidy to Japanese exporters, who have thereby been enabled to sell at lower prices in foreign countries and yet receive as much in yen as before. The cost of this pseudo-subsidy has been borne in higher prices and heavier taxes by the already overburdened producers and consumers of Japan.

Meanwhile the British Government has pursued an opposite policy that has kept the pound sterling at an artificially high level. It has imposed a multitude of protective tariffs which have very considerably discouraged British consumers from buying foreign goods. With British buyers putting less pounds in the hands of foreign sellers than would otherwise be the case, the pound has been made comparatively scarcer—and therefore dearer—to foreigners.

The protectionist activities of the present Government have therefore directly hurt all British exporters. Clearly has it been shown how the deliberate restriction of imports is bound to cause a restriction of exports. British goods, which are valued in pounds, have been made much dearer to foreigners than would have been the case if there had been no interference with importation. How this tariff policy of the British Government has hit Lancashire is clearly shown in India, where the purchaser of British goods now receives less than eighteenpence for his rupee instead of the two shillings pre-war.

FREE TRADE IN ITS FULLNESS

The Lancashire manufacturers and workers should really be blaming the general protectionist policy in England for a great deal of their troubles. An essential preliminary to recovery in the cotton trade is the removal of all the tariffs that now make foreign goods dear and lessen or stop their importation. Unable to sell freely their own products, foreign peoples cannot obtain the wherewithal to buy enough British goods, including cotton manufactures.

The cotton trade thus cannot be treated as isolated from the rest of British industry. Its evil condition, like the condition of other exporting industries, demands the sweeping away of all protective tariffs and the establishment of full freedom for foreign goods to enter this country.

But even that is not enough. True prosperity for cotton producers cannot be attained apart from general prosperity. The cotton industry cannot recover solely by selling more products abroad. It must sell much more at home.

There is only one way by which home demand for cotton and other goods can be brought to expand to the requisite extent. We must turn to free trade in its fullness—freedom to produce as well as freedom to exchange. We must apply the land value policy which would take taxes completely off all processes and products of human labour, and instead would raise revenue from the communally created values of land.

In this cotton problem, as in all economic problems whatsoever, we are thus finally brought round to the sole remedy, Henry George's great reform—*abolish all taxation save that on land values.* It has already been explained how the pressure of a land value rate—the local taxation of land values—would make unprofitable the holding up of idle mills. The far greater pressure of a national tax on land values, applying continuously to all land, used and unused, city, mineral and agricultural, would make impossible the withholding of any land of any description.

The land value reform would open everywhere to labour and capital ampler and richer opportunities, by providing freer and freer access, on cheaper and cheaper terms, to the practically inexhaustible storehouse of the country. By this simple fiscal change the whole enormous force of taxation, now unjustly operating in opposition to all the processes of industry, would be brought to bear in an immense and constant pressure to promote and push forward production through every channel to the full satisfaction of human wants.

The first result of such an expansion of industry and absorption of labour would be higher wages everywhere. A tremendous increase in the demand for commodities would follow. The cotton mills would soon be working full time to replenish the emptying shelves of the shops. The workers in Lancashire, with all other workers in the kingdom, would at last come into their own—the happy state of those who dwell in true justice and freedom.

Britannica Junior is an "Encyclopaedia for Boys and Girls," in 12 volumes, prepared under the supervision of the Editors of the Encyclopaedia Britannica, and published 1934 by Encyclopaedia Britannica Inc., New York, Toronto, London. The biography (Vol VI) of Henry George "the famous economist who dedicated his life to the betterment of mankind," is well and sympathetically done. His remedy for poverty is stated briefly but clearly. In Vol. XI, under "Taxation," there is a long explanation of Henry George's Tax Doctrines, to which no exception can be taken. Unfortunately, the writer of the article adds a feckless comment, quite his own, that "the taxing state would have to find some way to compensate the owners, thus in effect it would have to buy all the land in the State and pay for it somehow, a practically impossible undertaking." However, the fruitful thought is left with the boy and girl readers that "a sound taxation system may lead to the highest development of a community, while a bad may reduce it to stagnation and despair."

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"The Irish would be free long ago only for their damned souls. . . ." Later on under the landlord system whenever a tenant came out to air what looked like a new suit, or ventured to give a lick of whitewash to his house, the rent was raised. Now it wasn't the tame submission to this scheme of law and order that brought relief or a sense of security.—Sean O'Casey in *Picture Post*, 15th July, "The Value of Violence."

THE NEW WATERLOO BRIDGE IN LONDON

The cost of a necessary street improvement nearly twice the cost of the bridge itself

AT ITS meeting on 18th July, the London County Council decided to carry out a scheme for the northern approach to Waterloo Bridge, for constructing a "roundabout" at the Strand end, which involves the acquisition of sufficient land and property comprising the Lyceum Theatre, Inveresk House (the old *Morning Post* building), Waterloo House and other properties. The cost is estimated to be £46,000 for actual works and £2,200,000, less surplus £317,000, for acquisition of property.

MR HERBERT MORRISON, M.P., speaking in the House of Commons, 5th July, on the Ministry of Transport vote referring to this transaction, said: We are demolishing an old bridge and building a new bridge over the Thames at Waterloo Bridge, which the Committee has already heard about. We are doing that at a total cost of £1,250,000. On the north side a development is taking place in connection with the Lyceum Theatre with a big roundabout in the Strand. It is quite right that the work should be done, but we should have preferred to wait until the new traffic bridge over the Thames had been completed and then see what is necessary to be done on the north side. We are asking for special powers; and we are getting them. But what have we to pay for this construction, including compensation for property, and the making of a big roundabout at the northern side of Waterloo Bridge? We are building a new bridge for £1,250,000 but we have to pay over £2,000,000 for one roundabout. It makes my heart bleed. It is only after negotiations with all the resources and ingenuity on both sides, County Hall and the Ministry of Labour, that we have a grant which will make it possible for us to do this and not make more than a reasonable call upon the ratepayers. We are going ahead. We have to buy the land, and it is very expensive. We have to buy the buildings, but we have to do more than that. We have not only to compensate people for their property and reimburse them for any expenditure that they have already incurred. We have also had to compensate people for profits they have never made, but which they might make in the future when that property was developed. We have had to sign on the dotted line because we knew that unless we did, the Bill would not get through Parliament.

I say that Parliament as an institution is one of the biggest conspirators against public improvements being made, because when Parliament has the choice between compensation for private interest, not only up to what is reasonable but up to speculative amounts in the future; when Parliament has to choose between private and public interests, Parliament gives it to private interests nearly every time. As long as Parliament does that and is anti-social-minded, as long as Parliament has a bias in favour of private interests, we are going to be robbed in these public improvements and their speedy development is going to be obstructed.
