The Cotton and Textile industry: Managing Decline

Case Studies in Industrial History

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1. Capital Ownership, Capital Structure and Capital Markets: Financial Constraints and Decline in the Lancashire Cotton Textile Industry, 1880-1965

David Higgins and Steven Toms

2. Quiet Successes and Loud Failures: The UK Textile Industries in the Interwar Years

Sue Bowden and David Higgins

3. The Decline of the UK Textile Industry: The Terminal Years 1945-2003

Allan Ormerod

Volume Five: Contribution and Key Findings

The fifth volume in this series is the second of two that deal with significant issues in the development of the British cotton textile industry. Along with volume 4, the present volume covers the period between the middle of the nineteenth century and the end of the twentieth century. Volume 4 examines the pattern of technological innovation in the mature phase of the industry. It offers some explanation as to why Lancashire entrepreneurs were reluctant to emulate international competitors. The present volume examines strategic responses to the loss of markets and industrial decline during the twentieth century.

The chapters of both volumes collectively constitute a significant contribution to the literature on textile history. Since publication, that literature has advanced in several directions which is worth documenting briefly to set the contributions in this volume in the broader perspective. Unlike other volumes in this series, the current volume, along with volume 4, have a single industry focus, and their chapters are commonly impacted by subsequent research. Instead of individual chapter postscripts therefore, this introduction ends with an overarching postscript on their collective contribution.

In the first chapter, Higgins and Toms investigate the investment decisions of entrepreneurs in the maturity and decline phase of the industry. Before 1914, they directed financial resources into vertically specialised mills centred on mule spinning technology, with profitable consequences. These decisions were rational in economic terms and also consistent with Holden's interpretation of the evolution of the technical alternatives in spinning and weaving, as outlined in volume 4, chapter 2. After 1920, further advances in ring spinning made it much more attractive as an alternative system. However, although entrepreneurs had made vast fortunes in previous booms, including in 1919, capital sunk in existing and now unprofitable mills with declining markets prevented redeployment into new capacity. The extensive use of debt finance in the boom of 1919 and the expansion of overdraft financing subsequently heightened these restrictions. Control by outside financial stakeholders now restricted options for reinvestment, while investors absorbed any cash that was generated in the form of interest payments and dividends.

The difficult circumstances of cotton textiles in the inter-war period were not closely mirrored in the wool sector. Bowden and Higgins attribute this difference to the absence of excessive speculation and recapitalisations during the short-lived post-war boom that had such a disastrous impact on the cotton industry. Without the endogenous shock of financial speculation and the ensuing paralysis afflicting the cotton industry, wool firms were in a much better position to invest in marketing. They were also less dependent on collective solutions to labour deployment and trade union negotiations. Wool firms, therefore, had greater control over variable cost and greater flexibility in the deployment of labour. As a consequence, they responded much better to the problematic trading conditions of the 1920s and 1930s.

Did the weaknesses that emerged in cotton in the 1920s, therefore, mean that it could not be rescued in the longer run? Allan Ormerod revisits attempts to reorganise the industry after 1945. He argues that the horizontal specialisation that had supported the export function of the industry so well now needed to integrate vertically to orientate more effectively to the domestic market vertically. He, therefore, condemns government re-equipment schemes that offered a lifeline to specialised firms at the expense of firms that were already integrated. Such a sub-optimal outcome resulted from the government bypassing the employers' associations. Successive government initiatives to reduce capacity and rationalise the industry were doomed to failure. The capital investment required to mitigate the labour cost advantages of tariff-free imports could not be made without interim protective measures. Even then, the rate of technical efficiency improvement would not achieve parity in weaving until the 1990s. Meanwhile, the rest of the industry was at risk from the government policy of Commonwealth preference. By the time the productivity revolution of the 1990s created the possibility of integrated advanced textile manufacturing at critical mass, government representatives could no longer see beyond the chimera of cheap labour competition. Instead, textiles were lumped together with clothing, with the consequence that inefficient, labour-intensive garment production was supported for too long, further undermining the possibility of a viable industry.

Taken together, the articles in this volume offer some fascinating counterfactuals of entrepreneurial history. What should entrepreneurs have done, and when should they have done it, and would anything they could have done been sufficient to preserve the industry? Ormerod's paper in particular highlights the social consequences of failure for the dying mill towns of Lancashire. The articles focusing on industry structure and technological choice before 1914 in volume 4 show that vertical integration was a straw man, and that horizontal structure supported both technical innovation and export success. The chapters in the current volume build on these conclusions, demonstrating that the speculations of 1919 created financial barriers to restructuring once vertically integrated ring spinning and automatic weaving in the same plant became a feasible choice. After 1945, the inter-war financial constraint was replaced by government policy mistakes. Over the ling run therefore, entrepreneurs were initially rational but successively trapped by their own speculations and then by their elected governments.

The chapters in this volume were published towards the end of two decades of international research centred on firm organisation and entrepreneurship in the Lancashire textile industry. Mass and Lazonick (1990) published an interim summary in their 'state of the debates' article. Their overall conclusions placed Lancashire entrepreneurs in the dock, for their alleged failure to integrate and modernise production. Subsequent research, including the chapters in the present volume and volume 4, challenged this view, as summarised above, stressing technological and financial rationalisations of entrepreneurial behaviour. These interpretations are complemented by coterminous publications that emphasised the role of the region as a source of competitive advantage (Farnie et al., 2000), and of external economies of scale in technological choice (Broadberry and Marrison, 2002; Leunig, 2001).

These contributions represented the last word on Lancashire, and the focus of research shifted internationally. In 2004, Farnie and Jeremy published *The Fibre that Changed the World*, a wide-ranging international perspective on industrial organisation, technology and technology transfer across three continents over four centuries. Their analysis reaffirmed the central role of cotton in industrialisation and economic development, setting the scene for Beckert's (2014) *Empire of Cotton*. His polemical account explains how Liverpool merchants, in particular, operated at the centre of a commanding global network, leveraging institutional support and political influence. Lancashire's decline, therefore, came as countries like India did the same, placing cotton as the centre of nationally organised industrialisation strategies from the second quarter of the twentieth century. None of these accounts belittles the importance of Lancashire, although they do shift the focus from its entrepreneurs. In his 2020 monograph, *Financing Cotton*, Toms switches the focus back to the history of Lancashire businesses. Drawing on the research presented in this volume with a more extensive and integrated dataset and covering the period 1780-2000, he shows how networks of production, marketing and finance first enabled and later restricted Lancashire's sustainability as an industrial district. Only rarely did market conditions provide favourable opportunities for reorganisation along vertical lines, a point which strongly echoes the conclusions of the present volume.

References

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