

**Selling English cotton into the world market:
implications for the rationalisation debate 1900-1939**

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I. INTRODUCTION

Douglas Farnie titled his seminal work *The English Cotton Industry and the World Market, 1815-1896*.¹ The title was and is appropriate for what remains the most authoritative work on the subject, because the English cotton industry can only be understood in the context of world markets. England grows no cotton, so all of the raw material was imported. And cotton was England's largest export for 125 years, from the Napoleonic Wars until 1939, and at its 1913 peak the nation exported over 7 billion yards of cloth.² Even as late as 1944 John Maynard Keynes saw cotton spearheading Britain's post-war export drive, asking 'Who will export cotton goods if Britain does not – Japan, America, who?'³

And yet, whilst the dimensions of the production side of the British cotton industry are well-established, surprisingly little is known about the dimensions of the merchanting section, particularly for the export trade. Farnie himself worked in this area, using subscriber numbers to the Manchester Royal Exchange as an index of commercial activity. Against this, membership was individual rather than corporate, and so the picture may not fully capture the merchanting sector.⁴ Although Redford provides corporate membership figures for the Manchester Chamber of Commerce, which identifies cotton merchant firms, membership was far from complete⁵. In this paper, we use trade directories to provide a consistent series over time on the number of merchant firms in the export trade. The number continued to increase across World War I and did not fall back below the 1913 level until the 1930s depression, despite much lower exports during the 1920s. We hope that this paper expands on a part of

¹ D.A. Farnie, *The English Cotton Industry and the World Market, 1815-1896* (Oxford University Press, 1979).

² P. Deane and W.A. Cole, *British Economic Growth 1688-1959* (Cambridge University Press, second edition, 1969) pp. 186-8, L. Sandberg, *Lancashire in Decline* (Ohio State University Press, 1974) p. 4.

³ Quoted in J. Singleton, *Lancashire on the Scrapheap: The Cotton Industry, 1945-1970* (Oxford University Press, 1991) p. 37.

⁴ D. A. Farnie, 'An Index of Commercial Activity: The Membership of the Manchester Royal Exchange, 1809 – 1948', *Business History*, xxi (1, 1979), p. 102.

⁵ A. Redford, *Manchester Merchants and Foreign Trade, Vol II: 1850 -1939* (Manchester University Press, 1956).

the cotton industry's history which, though identified as important by Farnie, has been neglected by historians.

Even less is known about the size distribution of merchant firms than of their absolute number. Kenyon's widely cited study relates to 1940⁶, some time after the sector's collapse during the 1930s, while in 1930 Ellinger and Ellinger made estimates for circa 1929 based largely on information about limited companies⁷. We establish the 1927 size distribution by matching firms from trade directories with data on gross estimated rental for warehouse space from the Manchester poor rate books. Our estimates suggest a less concentrated structure than found by Kenyon and the Ellingers, with a small number of large firms accounting for a large percentage of business, but with a long tail of very small firms.

We consider the implications for schemes of rationalisation put forward during the 1920s and subsequently. Contrary to Mass and Lazonick⁸, we see vertical specialisation as a continuing strength of the Lancashire cotton industry into the twentieth century, generating external economies of scale and delaying the loss of comparative advantage to low wage competitors such as Japan. The heaviest market losses occurred in lower quality products, which were suitable for mass production and mass distribution. But Britain was inherently least able to compete against low wage countries such as Japan, as well as against indigenous producers, in these goods. The fact that the merchant community remained largely intact despite the export trade's decline in the 1920s meant that: (1) producers maintained access to a wide geographic spread of markets; and (2) individual producers could continue

⁶ H. Kenyon, 'The Shape and Size of the Export Merchanting Section of the Cotton Industry', *Transactions of the Manchester Statistical Society*, session 1944-45, pp. 1-20.

⁷ B. Ellinger and H. Ellinger, 'Japanese Competition in the Cotton Trade', *Journal of the Royal Statistical Society*, xciii (1930), pp. 185-231.

⁸ W. Mass and W. Lazonick, 'The British Cotton Industry and International Competitive Advantage: The State of the Debates', *Business History*, xxxii (4, 1990), pp. 9-65.

specialising in a narrow product range while the industry continued to supply a wide product range because of the merchants' mixing function. Furthermore, there are good reasons to doubt the schemes for horizontal amalgamation in the merchant sector put forward by writers such as Ellinger and Ellinger⁹ would have helped: small merchant firms could respond flexibly to detailed local knowledge, delaying the market loss in higher quality goods. Furthermore, it is far from clear that the Japan's export success owed much to its marketing organisation, when compared with the country's lower production costs.

II. THE SIZE OF THE COTTON EXPORT MERCHANTING SECTOR

We pull together previous estimates of the export merchant sector between 1900 and 1939.¹⁰ Table 1 gives data from the Royal Exchange and Slater's Directory, whose 'cotton and associated trades' classification remained unchanged in 1900-1939. For 1900-1911 we have broad agreement that the number of merchants rose, but by less than the 32 per cent rise in cotton piece good exports. The most interesting developments, however, occur after World War I. Membership of the Royal Exchange peaked in 1920, and Slater's Directory has more members in 1921 than 1911, as if in lagged response to the Edwardian boom and/or as an immediate response to the post-war boom, which suggested to contemporaries that the Edwardian boom had only been interrupted by the war. After the 1920-21 slump, Royal Exchange membership and shipping merchants declined, although grey cloth merchant and agent numbers did not fall until after 1927; even then the numbers were higher at the end of the 1920s than at the height of the Edwardian boom. It is only with the further decline during the 1930s that the dense merchant network at the heart of the specialised Lancashire system broke up: by 1935, Royal Exchange membership and the number of merchant firms had both

⁹ See Ellinger and Ellinger, 'Japanese Competition'.

¹⁰ Merchant numbers for the nineteenth century are provided in S.N. Broadberry, *Market Services and the Productivity Race, 1850-2000: British Performance in International Perspective*, (Cambridge University Press, 2006), p.187.

declined to about three-quarters of their 1900 levels. These trends fit closely with information from other sources. Chapman comments that “on the marketing side the old structure changed surprisingly little” and that “it was only after the economic catastrophe of 1929-31 that this century-old system began to expire”¹¹. Thus, in the 1920s, Lancashire still benefited from a large merchant community with the skills and experience to market its product abroad in an efficient and cost-effective manner.

III. THE SIZE DISTRIBUTION OF MERCHANT FIRMS

In this section we look at the size distribution of firms. The most widely cited evidence is Kenyon’s study of merchant converters operating in 1940¹². Section II makes clear that the situation in 1940 is not a reliable guide to the merchant sector’s earlier position, since the sector had declined dramatically by then. Accordingly, in this section we provide evidence on the size distribution of merchant firms in 1927, using data on gross estimated rental from the Manchester poor rate books. Like Kenyon, we find that a small number of firms accounted for a large share of business. However, we also find that the tail of small firms accounted for a more significant share of business than allowed for by Kenyon, reducing overall concentration.

Kenyon’s (1944) study is summarised in Table 2 and Figure 1. These show that the top forty-nine firms accounted for 50 per cent of exports, while the smallest 130 firms accounted for just 0.03 per cent of exports. In cumulative terms, just over a quarter of the firms accounted for 90 per cent of exports. This is a more concentrated structure than in cotton goods production, where average firm size remained relatively small even after the

¹¹ S. Chapman, ‘The Commercial Sector’, in M.B. Rose (ed.), *The Lancashire Cotton Industry: A History Since 1700*, (Lancashire County Books, 1996), pp. 89-90.

¹² H. Kenyon, ‘The Shape and Size of the Export Merchanting Section of the Cotton Industry’, *Transactions of the Manchester Statistical Society*, Session 1944-45 (1944), pp. 1-20.

interwar amalgamations. That concentration can be seen clearly in Figure 1, which displays the information from Table 2 graphically as a Lorenz curve. A Lorenz curve is an inequality plot, whereby firms are plotted in order, from smallest to largest. If all firms are the same size, the Lorenz curve will be a straight line, rising at 45 degrees. The further the actual line is from this 45 degree line, the greater the degree of firm size inequality. In this case the size distribution was extremely heterogeneous, with many, many small firms and a handful of larger ones.

Slater's Directory lists 1,154 merchant and exporter firms in 1927, broadly consistent with Clay's estimate that "their number cannot be less than a thousand"¹³, which is interpreted liberally by Chapman as being over 1,200¹⁴. Ellinger and Ellinger suggest "some 740 merchants exporting cotton goods" in Manchester,¹⁵ close to the 789 shipping merchants in Slater's Directory for 1930, and apparently excluding 'grey cloth merchants and agents'. For 1927, we combined the data on shipping merchant's addresses from Slater's Directory with data on gross estimated rental from the Manchester poor rate books for 1926-27.¹⁶ We argue that the problems in doing so are small enough to give a valid approximation to the size distribution of firms. Of course the Directory will not have included all merchants, with smaller and more transient firms most likely to have been omitted, biasing our measure of industry concentration upwards. About one third of merchants cannot be found in the rate books at the addresses given in the Directory. They could have failed or moved to new premises between the compilation of the Directory and the rate books; alternatively, the real

¹³ H. Clay, *Report on the Position of the English Cotton Industry* (confidential report, Securities Management Trust Ltd., 1931) p. 2.

¹⁴ Chapman, 'The Commercial Sector', p. 89.

¹⁵ Ellinger and Ellinger, 'Japanese Competition', pp. 214-215.

¹⁶ In addition to the 851 shipping merchants listed in Slater's Directory, we have added piece goods merchants listed in *Skinner's Directory of the Cotton Trades of the World* (1927-28 edition), when they were not listed as home trade houses in Slater's Directory. For poor rate data see *Manchester Poor Rate Books*, Manchester Central Reference Library.

occupier might have differed from the formal occupier due to sub-letting. If, as seems likely, smaller firms were more mobile between warehouses and more likely to fail, our source will overestimate industry concentration by excluding some such firms.

The second problem is that we need to assume that gross estimated rental proxies firm size. Some warehouses probably offered superior handling facilities, were more favourably located in relation to transport facilities, or were more prestigious. We rely, however, on the assumption that competitive pressures forced merchants to avoid rentals larger than necessary, so that gross estimated rental is a reasonable proxy for warehouse space and for firm size.

Our findings, based on a 270 firm sample, are presented in Table 3 and in Figure 2. Whereas in Kenyon's (1944) sample the largest 4.1 per cent of firms accounted for 50 per cent of business, in our sample the top 6.3 per cent of firms accounted for only 39.3 per cent of business. At the other end of the distribution, whereas Kenyon found the smallest 36 per cent of firms accounted for just 0.5 per cent of business, in our sample the bottom 19.3 per cent of firms accounted for 1.7 per cent of business. Overall, then, the distribution is rather less concentrated in our sample than in Kenyon's study. Hence although there are theoretical reasons to expect a bias towards finding a concentrated structure in our study, our results show clearly that there was an extensive tail of small firms in the interwar era.

Our findings contrast with those of Ellinger and Ellinger¹⁷, who examined the size distribution of merchant firms circa 1929 using paid-up capital plus reserves. Their results are reported in Table 4 and Figure 3. The Ellingers divided the 742 firms in their sample into

¹⁷ Ellinger and Ellinger, 'Japanese Competition'.

three classes, largely on the basis of personal knowledge, and defined the average size of each according to the average paid-up capital of the limited companies within it. Since only about half of the firms in Class 1 were limited companies, and this proportion fell to less than a quarter in Class 3, we might question the accuracy of this procedure. This is compounded by their supplementing paid-up capital with an allowance (also estimated) for “declared reserves”. It is not clear that “declared reserves” have meaning for private firms. Without the adjustment for declared reserves, the size distribution is even more concentrated, but in either case the Ellingers’ estimates exhibit more concentration than in our sample. Whereas for the Ellingers the top 17.7 per cent of firms accounted for 74.1 per cent of business, in our sample the top 16.3 per cent of firms accounted for only 60.2 per cent of business. Even the top 29.2 per cent of firms in our sample accounted for only 76.0 per cent of business. The differences can be seen most obviously by comparing the shapes of Figures 2 and 3. Two points stand out. First, our data (Figure 2) show a smoother curve, reflecting their higher quality. Second, our data show less concentration, that is, the solid line in Figure 2 is closer to the 45 degree line than its equivalent in Figure 3.

IV. RATIONALISATION REVISITED

Having established the key dimensions of the export merchanting section of the British cotton industry, and having noted in particular the survival of large numbers of merchants, including large numbers of small merchants, into the interwar era, we now consider the implications for schemes of rationalisation put forward during the 1920s and subsequently. Mass and Lazonick see the combined effect of horizontal integration within merchanting and vertical integration between production and merchanting as allowing product specialisation and long production runs; they argue that this approach played a major role in the Japanese cotton

industry's success during the interwar period¹⁸. They cite Barnard Ellinger's (1927: 33) comment that, "the present organisation of the industry in Lancashire *prevents* mass production and distribution"¹⁹. We argue that the specialised structure of the Lancashire cotton industry and the merchanting sector delayed, rather than accelerated, the loss of comparative advantage to low wage competitors such as Japan²⁰. Small producers could concentrate on particular types of cloth and gain economies of standardisation, despite the enormous variety produced by the industry as a whole²¹. Copeland sums it up thus:

The advantage accruing from this multiplicity of middlemen is not inexpensiveness but flexibility. The tentacles of the Manchester trade reach out to all corners of the world, and whatever form of manufactured cotton is sought, whatever accommodation is desired, some one can be found in Manchester ready to accept the commission. Of all the assets which make it possible for the cotton industry to attain its largest dimensions in a country which does not produce the raw material, and which consumes only ten or twenty per cent of the yarn and cloth manufactured in its mills, none is more significant than the adaptability of the commercial organization²².

In the rest of this section, we show first that the areas in which Britain lost out to Japan are best explained by the product cycle model, before moving on to look in detail at the export experience. In all cases we concentrate particularly on the Indian market.

1. Quality and Britain's loss of export markets: the product cycle approach

Table 5 describes Britain's export markets losses in cotton piece goods between 1909-13 and 1937. Grey goods accounted for 40 per cent of the loss of export volumes, while India and Burma accounted for over 47 per cent of the loss, as predicted by the product cycle

¹⁸ Mass and Lazonick, 'The British Cotton Industry', p. 44.

¹⁹ Ellinger and Ellinger, 'Japanese Competition', p. 33; italics in Mass and Lazonick, 'The British Cotton Industry', p. 44.

²⁰ S. N. Broadberry and A. J. Marrison, 'External Economies of Scale in the Lancashire Cotton Industry', 1900-1939', *Economic History Review*, lv, (1, 2002), pp. 51-77.

²¹ A. Marshall, *Industry and Trade: A Study of Industrial Technique and Business Organization; And of their Influences on the Conditions of Various Classes and Nations* (Macmillan, 1919) pp. 600-601.

²² M. T. Copeland, *The Cotton Manufacturing Industry of the United States* (New York, 1912; Augustus Kelly Reprint, 1966) p. 371.

framework²³. According to Vernon's model, new products are usually developed in advanced countries, because of the demands on knowledge skills²⁴. However, as knowledge spreads and the technology is simplified, labour cost becomes the key factor determining location and the pioneer country loses its comparative advantage, particularly at the basic, standardised end of the market. The loss of comparative advantage will, however, be slower at the higher quality, customised end of the market, where knowledge and skills remain more important. This accurately captures the experience of British cotton exporters.

More evidence in favour of the product cycle model comes from within the Indian market, where the British were most successful at the higher end of the market, while the Japanese were more successful at the lower end. In 1931-2 Britain still had a 74% share of imports of higher value-added white goods, even though her share of low value grey goods imports had fallen to 24%, while the figures for Japan were 21% and 74% respectively.²⁵ Again, within grey goods, Britain was more successful in the higher value added subsectors, such as grey dhutis, saris and scarves, as well as jaconets, madapollams, mulls and cambrics, where Britain's exports were fifteen times those of Japan even in the late 1920s, a period in which Japan's exports of simpler grey products, such as shirtings, sheetings, drills and jeans were four times those of Britain.²⁶ Dhutis, for example, were less standardised than plain grey goods because they were bordered, and marketed in pairs of garment pieces, often of 2-6 yards, rather than by the 30-50 yard length which was normal for piece goods. They also had to be folded and packed in specific ways. Even within the category of plain grey goods,

²³ Sandberg, *Lancashire in Decline*, Singleton, *Lancashire on the Scrapheap*.

²⁴ R. Vernon, 'International Investment and International Trade in the Product Cycle', *Quarterly Journal of Economics*, lxxx (1966), pp. 190-207.

²⁵ A. R. Burnett-Hurst, 'Lancashire and the Indian Market', *Journal of the Royal Statistical Society*, xcvi (1932), pp. 422-423.

²⁶ F. Uteley, *Lancashire and the Far East* (Allen & Unwin, 1931), pp. 266-267

Britain retained a strong position in the differentiated products at the higher end of the quality spectrum.

2. Assessing the role of distribution in explaining Japanese export success

We have argued elsewhere that the small merchant firms that made up the bulk of the sector served Lancashire's manufacturing base effectively.²⁷ Hence we reject the suggestion of Ellinger and Ellinger²⁸ (1930) that horizontal integration within the merchant sector would have been beneficial. Although their claim has not been supported by subsequent economic and business historians *per se*, some scholars have noted the benefits to Japanese export performance of the great trading companies. This approach has led Douglas Farnie and Takeshi Abe to pose the question of whether superior marketing could have been more important in the rapid spread of Japanese cottons into foreign markets than production-cost superiority.²⁹

Like the Lancashire industry, the Japanese industry had both vertically integrated and vertically specialised manufacturing firms. Particularly under the influence of the deflation of 1927-31, the large spinning firms (some 74 in 1935) rationalised and adopted high-draft rings. These firms mostly owned wide power looms and produced "a few standardised lines of cotton piece goods for export, especially cheap shirtings and sheetings." But as such products encountered increasing competition in the 1930s, Japan "*had to export a greater proportion of higher quality fancy goods which were turned out by specialist weaving sheds*". Hence the proportion of Japanese piece-goods exports supplied by the combined spinning-

²⁷ Broadberry and Marrison, 'External Economies', pp.76-69.

²⁸ Ellinger and Ellinger, 'Japanese Competition'.

²⁹ W. Mass and W. Lazonick, 'The British Cotton Industry', pp. 9-65; D.A. Farnie and T. Abe, 'Japan, Lancashire and the Asian Market for Cotton Manufactures, 1890-1990', in D.A. Farnie, T. Nokaoka, D.J. Jeremy, J.F. Wilson and T. Abe (eds.), *Region and Strategy in Britain and Japan, 1890-1990* Routledge International Studies in Business History, 7, (Routledge, London, 2000) pp. 115-57.

weaving mills fell from 60 per cent in 1928-29 to 42 per cent in 1935-36.³⁰ The Japanese merchant houses were instrumental in channelling orders back to these small firms.

The trading houses, which had been in existence since the early Meiji period, not only replaced local brokers and other intermediaries in overseas markets with trained Japanese staff, but also had close links with producers, links which extended to the provision of finance and the development of new technology (hence facilitating product specialization and long production runs), purchasing raw cotton and speculating in cotton futures, and gathering market intelligence.³¹ However, a descriptive cataloguing of all the activities and functions of the trading companies stands in danger of being translated into a conviction that all these activities were highly rather than marginally valuable, and that the market was incapable of providing the same services by other means. For instance, Farnie and Abe note that after 1850, Lancashire's tendency towards disintegration led to "vertical ignorance" increasing among spinners and weavers:

The insulation of spinners from the ultimate market for woven goods made it more difficult for them to spin the yarns best suited to specific types of cloth. Spinners could not know that a printing cloth was best made from a dense well-compacted yarn and an Indian shirting from a warp yarn more loosely spun.³²

Yet despite this, Lancashire prospered. In placing his order, the shipper was able to tell the

³⁰ H. Shimizu, *Anglo-Japanese Trade Rivalry in the Middle East in the Inter-war Period* (London, 1986) pp. 31-2 (our emphasis).

³¹ Pearse notes that in January 1930 the Indian branches of the Japanese houses, which kept large stocks in Bombay, Calcutta, and Karachi, "slaughtered" their stocks at much below replacement prices on advice from their New York and Dallas offices, where it was perceived that the raw cotton market was due for further falls following the Wall St. crash. In his words: "Such transactions are too speculative for the average-sized firm; to carry them out successfully requires a world-wide organization with a staff of first-class economists ... These hedges are not undertaken ... by [Japanese] manufacturers, but by the firms who export the cotton goods, i.e. by the shipping houses, as the term is generally used in Manchester. How many European exporters of cotton goods use hedges?" See A.S. Pearse, *The Cotton Industry of India*, (Manchester, 1930), p. 192.

³² Farnie and Abe, 'Japan, Lancashire and the Asian Market', p. 133.

weaver he wanted a print cloth for subsequent finishing, and the weaver surely knew that a dense yarn would be best for this purpose, and would order accordingly from the spinner. Britain's internal yarn market was highly developed, and the merchant's orders to the weaver and finisher very specific. Here, we argue, is a case in which Japan's visible hand was necessary to remedy the absence of the invisible one that operated in Britain, and thus offered no advantage to a country in which the invisible hand already operated so effectively.

It has been argued that an advantage of the large Japanese trading companies was their ability to penetrate the interior of foreign markets. Sugiyama argues that British failure in China stemmed from British houses' failure to branch out of their treaty port enclaves, instead relying on Chinese merchants to develop trading ties with local retailers, while Japanese firms established direct contacts.³³ Allen and Donnithorne echo this criticism, though significantly they note that during the 1930s this "advantage" did not prevent the Japanese from being squeezed out by "China's growing cotton industry".³⁴ However, in arguing thus they neglect the fact that a considerable proportion of Chinese output now originated in foreign-owned and -operated (Japanese) mills. The truth is that, given this foreign presence, supported by successive Chinese boycotts against Britain (1926-27) and Japan (1931) and the blistering tariff of 1931, it is clearly not relevant to stress differences between Lancashire's and Japan's merchanting systems which could have only been minor in comparison. Indeed, offshore Japan's exports of yarn to China declined after 1915, and of cloth after 1925.³⁵

³³ S. Sugiyama, 'Textile Marketing in East Asia, 1860–1914' *Textile History*, 19, pp. 279-98; S. Sugiyama, 'The Expansion of Japan's Cotton Textile Exports into South-East Asia', in S. Sugiyama and M.C. Guerrero (eds.), *International Commercial Rivalry in South-East Asia in the Inter-War Period* (New Haven, 1994).

³⁴ G.C. Allen and A.G. Donnithorne, *Western Enterprise in Far Eastern Economic Development: China and Japan*, (London, 1954), p. 92.

³⁵ Farnie and Abe, "Japan, Lancashire and the Asian Market", pp. 136-9.

In the Indian context Pearse, writing in 1930, stated that:

“times have changed and require *more direct contact between the manufacturer and the wholesale dealer*. The three big Japanese importing houses have caused to be established in the Bombay bazaar a syndicate of 15 dealers who specialize on Japanese goods and deal in no others. Their selling brokers are in close and almost permanent touch with the syndicate, with whose chairman I had long interviews.

There is no syndicate for the sale of European goods, but there are hundreds of wholesale dealers, *each trying to compete and each depressing the price*”.³⁶

But Pearse supplies no detail on how the Japanese “selling broker” at the port ensured such successful relations with the interior merchant and his claim that such syndicates prevented price falls for Japanese goods in the Indian market seems hard to reconcile with India’s demand for cheapness and Japan’s known emphasis on price-sensitive standardised products. Indeed, according to the Indian Tariff Board, in 1928-29 Britain supplied 38 per cent of the Indian domestic market for cotton goods, compared with 12.6 per cent for all other imports (mainly Japanese) put together. In 1932-33 the figures were 13.4 per cent and 13.9 per cent respectively, and in 1934-35 they were 12.7 per cent and 9.0 per cent. Again any marketing differences were dwarfed: nationalist influences, operating through boycott and tariffs, ensured the ascendancy of indigenous Indian production, operating first on lower qualities and ensuring that Japanese advance was only ephemeral.³⁷ According to such figures, between 1928 and 1935 the penetrative power of the Japanese trading company seems to have been negligible.

Nor were Japanese trading houses invariably able to deal directly with interior merchants elsewhere. In the Middle East, for example, there is plentiful evidence that

³⁶ Pearse, *Cotton Industry of India*, p.193 (our emphasis).

³⁷ B. Chatterji, *Trade, Tariffs and Empire: Lancashire and British Policy in India, 1919-1939*, (Oxford University Press, Delhi, 1992), pp. 161-7, esp Table L, p. 167.

Japanese trading companies dealt with local (*ie.* non-Japanese) agency houses in Alexandria and other middle eastern ports.³⁸ Here the British often did better at penetrating the interior. Our own analysis of the day-to day activities of middle eastern traders B.& S.H. Astartjian shows that there were excellent connections between Manchester and, through what was in effect the firm's "main office" in Constantinople (Istanbul), the interior merchants of *several different* adjacent countries.³⁹ Furthermore, Shimizu's work gives strong indications from several middle eastern countries that it was Japanese exporters who had a reputation for giving credit only on the most stringent terms, and he cites the Italians as offering the most generous. Only in the early 1930s did Japan's export trade with the Middle East become concentrated mainly in the hands of Japanese firms themselves, after vigorous Japanese government effort (involving subsidies to export merchants directly and to steamship services) to assist in the late 1920s.⁴⁰

An important part of the Japanese trading company's strength in China and India lay in proximity, and, in the case of China, in the imperial nature of Japan's relationship with Manchuria. Where markets were more distant, such as the Middle East, Japanese trading houses were much less effective. Distance seems to have been less of a bar to Manchester merchants, with 140 out of our late 1920s sample of 304 Manchester shippers stating a competence in the Chinese and Indian markets, the two areas of greatest Japanese penetration. These areas were also historically the territory of some of the largest British trading firms, firms like Ralli Brothers and Jardine Mathieson, which dealt in multiple products and had long-standing connections with shipping companies. If large Japanese-style merchanting firms were needed to export to China, then these firms would have become dominant. That they did not, and the fact that their cotton trade declined with the industry and

³⁸ Shimizu, *Anglo-Japanese Trade Rivalry*, *eg.* pp. 72, 81, 100, 192, 197.

merchanting sector as a whole, strongly suggests that it was something more fundamental, such as product cycles, that determined the ability of Lancashire to export.

There are two further reasons to be sceptical about the extent to which the rest of the world, and particularly Britain, could have gained from adopting the Japanese system of large trading houses. First, as Farnie and Abe note, the rise of the Japanese trading company began in the late nineteenth century, when Japan's penetration of world markets, especially of piece-goods, was small indeed.⁴¹ Large trading companies were thus not sufficient for export success. Second, and perhaps most importantly, we need to realise how short was the pre-eminence of Japan in her main export markets. Japanese cloth exports became a significant presence on the world market during the First World War. Whilst they made steady inroads thereafter, their victory in Britain's main markets, India and China, was ephemeral. For example, Japanese exports to India peaked in 1932, *three years before* Japan overtook Britain as the chief foreign supplier to the Indian market. In other words, Japanese exports were declining and only overtook British exports because the latter were declining more rapidly! As Farnie and Abe put it, "Japan's aspirations to surpass Lancashire in the supply of the Indian market, as it had in China, were crowned with ultimate but brief success."⁴²

That there was a limited window in many of Britain's remaining export markets before even the Japanese producers would be driven from the field by (albeit tariff protected) indigenous producers supports our belief in the importance of product-cycle analysis, and makes any debate over the historical importance of differences between the marketing

³⁹ Broadberry and Marrison, 'External Economies', esp. pp. 66-69.

⁴⁰ Shimizu, *Anglo-Japanese Trade Rivalry*, pp. 84-6, 102, 98-123, 133.

⁴¹ Farnie and Abe, 'Japan, Lancashire and the Asian Market', pp. 127-30.

⁴² Farnie and Abe, 'Japan, Lancashire and the Asian Market', p. 144. It should be noted that the sequence outlined by Farnie and Abe does not correspond to that of the Indian Tariff Board figures reported in Chatterji, *Trade, Tariffs and Empire*, Table L, p. 167.

systems of Lancashire and Japan of trivial significance to the history of the Lancashire cotton industry. Shimizu's identification of the trend towards higher-quality goods in the Japanese export-mix in the 1930s, goods turned out by specialist weaving sheds, only reinforced this conclusion.⁴³

V. CONCLUDING COMMENTS

As an industry employing relatively simple technology, easily exportable to countries with lower labour costs, the cotton industry was clearly subject to product-cycle analysis. The industry was never going to remain primarily located in high labour cost countries. The interesting question is whether one form of industrial organisation was able to hasten a country's rise, or slow its decline. We argue that externalities created by Britain's many merchant firms and agents lengthened Lancashire's dominance beyond its time. We have documented how this community survived the first post-1918 onslaught on the industry and so allowed manufacturers to continue to focus on producing a narrow range of products efficiently, while offering consumers around the world the variety for which Lancashire was renowned. We end, fittingly, with a passage that, for all its international origins, is stamped indelibly with the style of Swinton's greatest scholar:

Scholars have never tired of debating the causes of ... [Lancashire's] decline and of indulging in the pastime of 'giving lectures to the dead'. What is surely most important is not the contraction of that industry but the long duration of its primacy. The decline of the Lancashire cotton industry remains the least significant feature of its long history: its influence changed the world for ever.⁴⁴

⁴³ Shimizu, *Anglo-Japanese Trade Rivalry*.

⁴⁴ Farnie and Abe, 'Japan, Lancashire and the Asian Market', p. 151.

TABLE 1: Growth and decline of the cotton export merchanting sector, 1900-1939

	Subscribers to the Manchester Royal Exchange	Merchants listed in Slater's Directory of Manchester and Salford	
		Cotton shipping merchants	Grey cloth merchants and agents
1900	7,877	727	222
1911	9,921	773	226
1913	10,371		
1920	11,539		
1921	11,223	1,007	293
1927	10,215	851	303
1929	9,368	823	284
1932	7,008		
1935	5,979		
1937	5,566	534	172
1939	5,062		

Sources: Manchester Royal Exchange: Farnie, 'An Index of Commercial Activity: The Membership of the Manchester Royal Exchange, 1809-1948', *Business History*, xxi (issue 1, 1979), p. 101;

Trade directories: *Slater's Directory of Manchester and Salford*, (Manchester, Slater).

TABLE 2: The size distribution of merchant converters in 1940

Quantity converted (yards)	Number of firms	Share of firms (%)	Share of exports (%)	Cumulative share of firms (%)	Cumulative share of exports (%)
5m +	49	4.1	50.0	4.1	50.0
0.5m – 4.99m	257	21.2	40.0	25.3	90.0
0.05m - 0.49m	468	38.7	9.5	64.0	99.5
5,000 – 49,000	306	25.3	0.47	89.3	99.97
Less than 5,000	130	10.7	0.03	100.0	100.0

Source: S. Chapman, 'The Commercial Sector', in M.B. Rose (ed.), *The Lancashire Cotton Industry: A History Since 1700*, (Lancashire County Books, 1996), p.90; derived from H. Kenyon 'The Shape and Size of the Export Merchanting Section of the Cotton Industry', *Transactions of the Manchester Statistical Society*, Session 1944-45 (1944), 1-20.

TABLE 3: The size distribution of merchant firms in 1927, based on rental

Gross estimated rental (£)	Number of firms	Share of firms (%)	Share of rental (%)	Cumulated share of firms (%)	Cumulated share of rental (%)
2,000 +	6	2.2	22.4	2.2	22.4
1,000 –1,999	11	4.1	16.9	6.3	39.3
500-999	27	10.0	20.9	16.3	60.2
300-499	35	12.9	15.8	29.2	76.0
200-299	31	11.5	8.9	40.7	84.9
100-199	53	19.6	8.8	60.3	93.7
50-99	55	20.4	4.6	80.7	98.3
Less than 50	52	19.3	1.7	100.0	100.0

Note: Results based on a sample of 270 firms.

Source: See text.

TABLE 4: The size distribution of Manchester shipping merchants circa 1929, based on paid-up capital plus reserves

Class	Number of firms	Share of firms (%)	Share of capital (%)	Cumulative share of firms (%)	Cumulative share of capital (%)
Class 1	131	17.7	74.1	17.7	74.1
Class 2	239	32.2	18.5	49.9	92.6
Class 3	372	50.1	7.4	100.0	100.0

Source: B. Ellinger and H. Ellinger, 'Japanese Competition in the Cotton Trade', *Journal of the Royal Statistical Society*, xciii (1930), p.215.

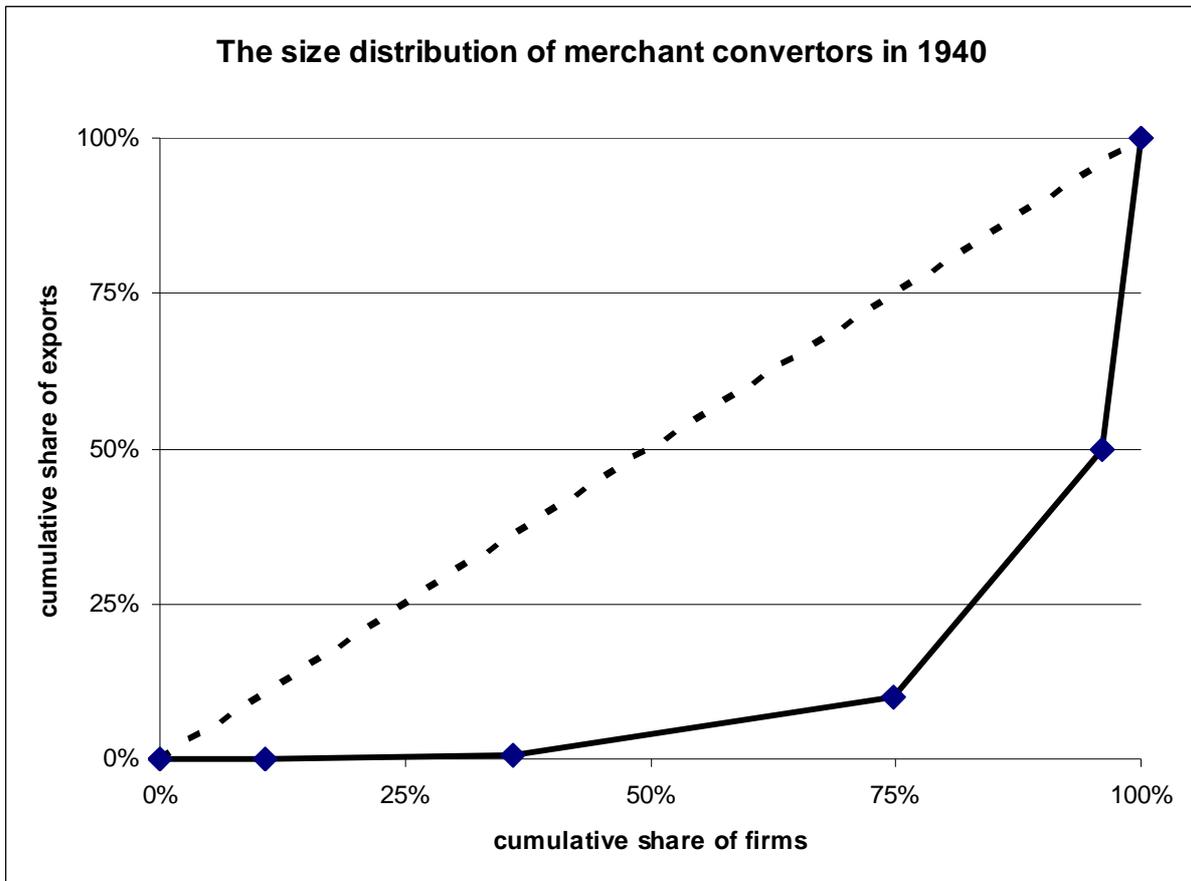
TABLE 5: British exports of piece goods by type and destination (million yards)***A. By type***

	Average 1909-13	1937	Change
Grey	2,150	317	-1,833
Bleached	1,828	572	-1,256
Printed	1,203	413	-790
Piece dyed	1,026	506	-520
Yarn dyed	268	112	-156
Total	6,476	1,921	-4,555

B. By destination

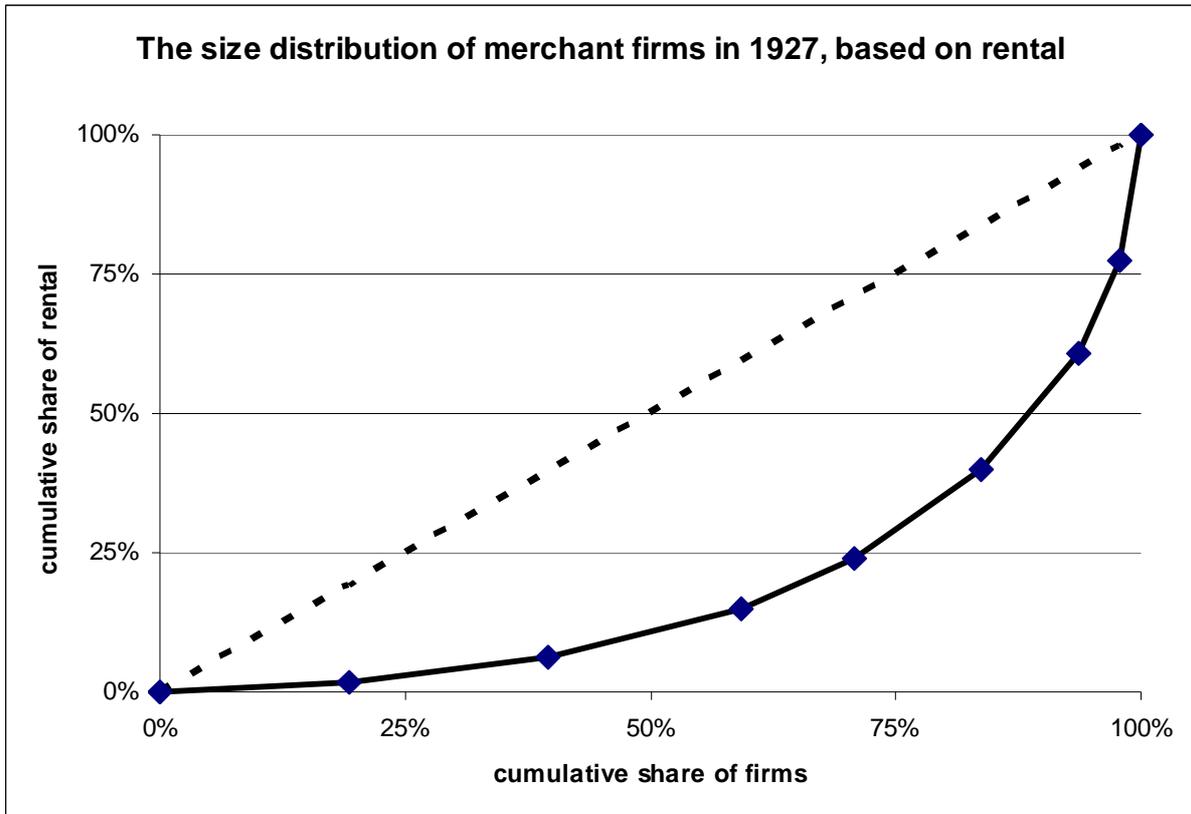
	Average 1909-13	1937	Change
India, Burma	2,507	356	-2,151
British Empire	724	768	+44
China, Far East	973	74	-899
Near, Middle East	744	88	-656
Europe	454	269	-185
Foreign Africa	187	51	-136
Latin America	766	295	-471
Other foreign	122	22	-100
Total	6,476	1,921	-4,555

Source: J. H. Porter, 'Cotton and Wool Textiles' in N. K. Buxton and D. H. Aldcroft (eds.), *British Industry between the Wars: Instability and Industrial Development 1919 – 1939* (Scholar, 1979), p.29.

FIGURE 1: Lorenz curve of the size distribution of merchant converters in 1940

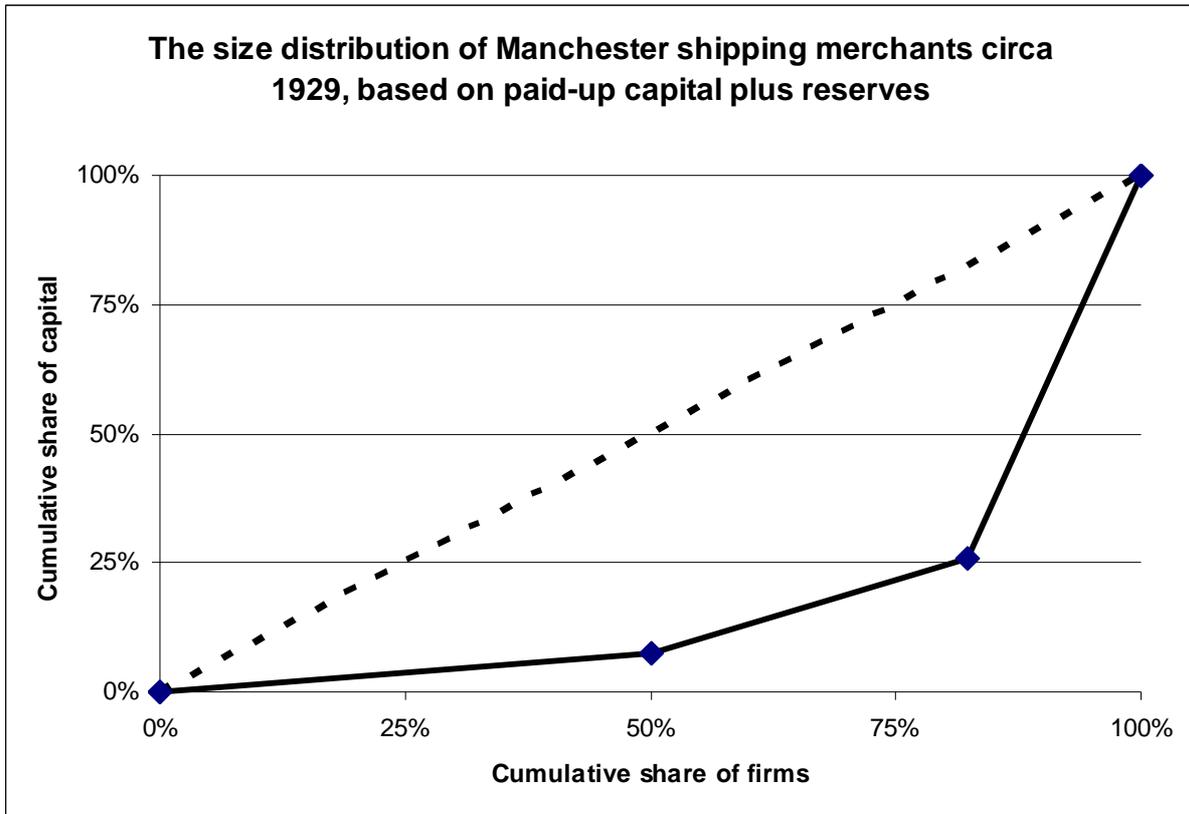
Source: Table 2.

FIGURE 2: Lorenz curve of the size distribution of merchant firms in 1927, based on rental



Source: Table 3.

FIGURE 3: Lorenz curve of the size distribution of Manchester shipping merchants circa 1929, based on paid-up capital plus reserves



Source: Table 4.

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