**Published work**
Toms, S, (2007) *Oldham Capitalism and the Rise of the Lancashire Textile Industry.* Working paper number 30.

University of York
The York Management School
Working Paper No. 30
ISSN Number: 1743-4041

# Oldham Capitalism and the Rise of the Lancashire Textile Industry

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**This paper is circulated for discussion purposes only and its contents should be considered preliminary.**

Abstract

The joint stock company, centred on Oldham, is a central narrative in Douglas Farnie's seminal book, the *English Cotton Industry and the World Market*. Farnie was the first to highlight the idiosyncratic nature of these limited companies, including their highly democratic system of governance. Documenting the collapse of this system is a useful post-script to Farnie's analysis. The chapter will extend Farnie's contribution by examining new evidence in the pre-1896 period. It will then go on to document subsequent developments after 1896 and show that changes in governance had serious consequences for the industry. Cliques of mill owners, and the speculative stock market capitalism they engendered, promoted over-expansion of the industry and financial instability. The over-expansion of the 1907 boom was repeated with disastrous consequences in the re-capitalisation boom of 1919. It will be shown that the activities of networks local directors, which had been established pre 1914, not financial syndicates, banks, trade unions or government, were responsible for the collapse that precipitated the industry's long decline.

## Introduction

The decline of the cotton textile industry has continued until the present day and has been a dominant theme in its historiography. Following the collapse in demand for Lancashire's output in the difficult world trading conditions of the 1920s, the debate focused on attribution of blame for inaction on various groups. Keynes accused the banks of abandoning their responsibilities, referring to the bankers as 'a species of deaf mutes' and Bamberg adds that the competitive structure of bank lending to have been inimical to industry recovery.[1] Obstinate directors, with 'individualistic attitudes'[2] have also been criticised as have the unions for lack of co-operation.[3] Subsequently, obsession with manufacturing decline in the 1970s and 1980s has

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[1] Keynes J.M. (1981) *The Return to Gold and Industrial Policy II*, Collected works, Cambridge: Cambridge University Press, p.601. Bamberg, J.H. (1988) `The rationalisation of the British cotton industry in the inter-war years', *Textile History*, 19: 83-102.

[2] Saxonhouse G. and Wright, G. (1987) 'Stubborn mules and vertical integration: the disappearing constraint', *Economic History Review,* 40: 87-94.

[3] Lazonick, W. (1986) 'The cotton industry', in B. Elbaum and W. Lazonick, *The Decline of the British Economy*, Oxford: Oxford University Press, pp. 18-50. Keynes, *The Return to Gold, pp.* 578-637; Skidelsky, 1992: 261-3).

coloured interpretations of pre 1914 Lancashire, and left its recent historiography dominated by the views of economists, and associated issues of efficiency and rational choice. For example it has been argued that the decline of the industry was entirely inevitable, and that attempts to preserve it represented a serious mis-allocation of resources.[4] Others have criticised the industry's leaders for their alleged conservatism, and the rationality of the choices made.[5] Lancashire's decline has also been analysed in the context of wider debates regarding the British economy; entrepreneurial failure, which has been developed and criticised from a broader sociological perspective;[6] and industry structure, particularly the impact of vertical specialisation.[7]

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[4] Singleton, J. (1991), *Lancashire on the scrapheap the cotton industry, 1945-70*, Oxford: Oxford University Press, p.232.

[5] Aldcroft, D.H. (1964), `The Entrepreneur and the British Economy' *Economic History Review*, 2nd Ser. Vol. 17, August, 113-34; Landes, D. (1969), *The Unbound Prometheus*, Cambridge: Cambridge University Press (1969). McCloskey, D. and Sandberg, L. (1972), `From Damnation to Redemption: judgements on the late Victorian entrepreneur'. *Explorations in Economic History*, Winter 1971-2, Vol. 9 No. 2: 89-108. Sandberg, L. (1974), *Lancashire in Decline* (Columbus: Ohio State University Press).

[6]Aldcroft, `The entrepreneur and the British economy' pp. 113-34; Weiner, M. (1981), *English Culture and the decline of the Industrial Spirit, 1850-1980,* London, Penguin, and the contrasting analysis in Rubinstein, W. (1993), *Capitalism, Culture, and Decline: 1750-1990*, London: Routledge.

[7] For the main interpretations see: Sandberg, *Lancashire in decline*; Lazonick, W. (1981), `Competition, Specialization and Industrial Decline', *Journal of Economic History*', Vol. XLI, No.1, pp. 31-8. Lazonick, W. (1981), `Factor Costs and the Diffusion of Ring Spinning Prior to World War One', *Quarterly Journal of Economics*, Vol.XCVI, No.1, pp. 89-109. Lazonick, W. (1983), `Industrial Organization and Technological Change: The Decline of the British Cotton Industry', *Business History Review*, Vol. LVII, Summer pp. 195-236. Saxonhouse, G. and Wright, G. (1987), `Stubborn Mules and Vertical Integration: the disappearing constraint', *Economic History Review*, 2nd Ser. Vol. XL(i), pp. 87-94. Mass, W. and Lazonick, W. (1990), `The British Cotton Industry and International Competitive Advantage: the state of the debates,' *Business History*, XXXII (4), pp. 9-65.

The town of Oldham, however, has not been a prominent feature in these stories. Indeed it has been subsumed within the larger story of cotton, the take-off industry of the industrial revolution and the dominant export sector of the British economy for a century thereafter. Yet, if the structure and ownership of this great industry are analysed in detail, it proves to be Oldham, with first its progressive brand of democratic and stock-market based capitalism, and later its domination by cliques of secretive directors, which perhaps goes furthest to explain its dramatic rise and fall.

An exception to the general neglect of Oldham is the work of Douglas Farnie, and in particular his benchmark monograph, *The English Cotton Industry and the World Market, 1815-1896*.[8] As Farnie explains, the Oldham "limiteds" constituted the most important group of joint-stock *manufacturing* corporations in Britain and were responsible for 12 percent of the *world's* cotton spinning capacity in 1890 (emphasis added).[9] In the chapter on the rise of the Oldham Limiteds, Farnie describes a unique phenomenon in economic history: a system of capitalism founded on principles of democracy, where share-ownership conferred the rights and obligations of participation in the management of companies by the shareholders themselves, many of whom were mill-operatives.[10] Although the 'Oldham system' enjoyed a relatively short period of supremacy from its inception in around 1860, its major features were still intact at the end of the period covered by Farnie in 1896. Thereafter was a

[8] Farnie, D. (1979), *The English Cotton Industry and the World Market*, Oxford: Clarendon Press.

[9] Farnie, D. (1982). 'The emergence of Victorian Oldham as the centre of the cotton spinning industry,' *Saddleworth Historical Society Bulletin*, 12: 41-53, p.42. The `Oldham District' comprised a large area of South East Lancashire (much of present day Greater Manchester) and included Rochdale to the north, Ashton to the south and Middleton to the west.

[10] Farnie, *English Cotton* chapter 7, 'The emergence of the Oldham Limiteds, 1874-1890'.

dramatic collapse, with the consequence that in almost Aristotlean fashion the virtues of the system turned into their opposites, from democratic ownership to factional block voting, from open participation and transparency to closed meetings and secrecy, from employee participation to collective bargaining, and from prosperity to collapse and prolonged decline.

The association between changes in ownership structure and fluctuation in economic performance offers a new perspective on the cause of the collapse of the industry and is intended as the first of two contributions in this chapter. It is inspired and subsumed by the second purpose, which is to extend Farnie's seminal work beyond 1896. The chapter begins with a re-examination of the democratic phase of development. A subsequent section shows how democracy was replaced quite suddenly by oligarchy in the slump of the 1890s. The new flotations of the oligarchs in 1907 and then 1919 are then examined. Both flotation booms had the same characteristics and both might have had the same consequences. In comparing the two it is shown that the success of the 1907 boom led to the disaster of the 1919 boom. Subsequently, as explained in the final section, the captains of the industry who led the final advance in 1907 were incapable of managing the subsequent retreat.

## The rise of democratic capitalism

'Private enterprise decays and dies, but companies may live forever'.[11] The citation that begins Farnie's chapter is from William Marcroft, the founder Sun Mill, Oldham's first co-operative factory and high priest of industrial co-operation. The self-help based system of co-operative production advocated by William Marcroft, Samuel Smiles and others became a solution to the radicals' conflict between personal

[11] Cited in Farnie, *English Cotton*, p.244.

and collective improvement, and between imitating the middle class and conspiring towards its defeat.[12] Close proximity to Rochdale, the site of the earliest experiments in retail co-operation, and social conditions in Oldham created a receptive climate for co-operative ideas. Some small employers who were also labour leaders adopted 'Owenite socialism' in the 1830s reflecting pressures from customers of their wholesale businesses and increasing working class agitation.[13] A 'labour aristocracy' of self-acting mule minders inspired by John Bright's 'Rochdale Man' vision of co-operation, contributed to a less confrontational climate of industrial relations.[14] Karl Marx, addressing the International Working Men's Association in 1864 recommended '…the working men to embark in co-operative production rather than in co-operative stores. The latter touch but the surface of the present economical system, the former attacks its groundwork'.[15]

Indeed the practical management of the cotton spinning companies of Oldham strongly reflected the democratic ideals of the enlightenment's radical wing. As late as 1892, co-operative societies, whether retail or industrial, were still based on the 'Rochdale plan' of the original pioneers of the 1840s. Each member had one vote at the quarterly meeting, without reference to the total number of shares held and was barred proxy representation. The earliest industrial co-operative was the Rochdale Co-

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[12] Hobsbawm, E. (1975) *The Age of Capital*, 1848-1875, London: Weidenfeld and Nicolson, p.264.

[13] Foster, J. (1974*), Class Struggle and the Industrial Revolution: Early Industrial Capitalism in Three English towns*, London: Weidenfeld and Nicolson. Jones, B (1894), *Co-operative Production*, Oxford: Clarendon Press.

[14] Joyce, P. (1991), *Work, Society and Politics: The Culture of the Factory in later Victorian England*, Aldershot: Gregg Revivals, pp.57-8

[15] Marx, K. 'Inaugural address', International Working Men's Association, 1864, paragraph 5(c)

operative Manufacturing Society established in 1854, later known as the Mitchell Hey Spinning Company Ltd. All the promoters were members of the Society, all employees were shareholders and surpluses were paid as a bonus to labour.[16] The company was quoted on the Oldham share market from the inception of the share list in 1875 through to 1914.[17] Links between the towns ensured that Marcroft's Sun Mill, Oldham's first co-operative mill, followed soon after. Having obtained the initial capital for the mill by 1862, shareholders were then offered employment at the company. As the original smaller operation expanded, during 1866, new capital was called at a rate of 3d per week on the £1 shares. A profit sharing scheme for operatives was introduced in 1869, although this was abolished in 1875. Similar schemes were operated elsewhere in the newer companies during the 1860s and early 1870s before being superseded by the shareholders' dividend. Sun Mill's financial success, as measured by the dividends distributed to its operatives, inspired similar projects in other districts of South- East Lancashire.[18]

These financial rewards reflected the serious approach of mill operatives to their responsibilities as investors and shareholders. Vociferous and active shareholders dominated company meetings, and their expertise often prevailed over the views of expendable and poorly rewarded boards of directors.[19] Farnie notes, 'Such shareholders proved to be the strictest of economists and were prepared to oust

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[16] *Rochdale Observer*, 10th May, 1890.

[17] Jones, *Co-operative Production,* pp.2-3.

[18] For details of Sun Mill's profits, see Farnie, *English Cotton*, p.248. Jones, *Co-operative Production* 1894, pp.282-90

[19] Directorships were frequently and often hotly contested. A contest at a meeting at the Higginshaw Spinning Company was likened to `a miniature Waterloo' (*Oldham Chronicle*, 30th December, 1893, p. 8(vii)).

a whole board which failed to produce an acceptable balance sheet, displaying as much ruthlessness as the Athenian Ecclesia or the leaders of the French Revolution towards their unsuccessful generals.'[20] Such ruthlessness was well-justified, and Ellison, quoting a contemporary report, explains precisely why:

> The daily discussions which take place amongst the shareholders as to why dividends are small or otherwise, have led almost every intelligent operative to become more economical with materials, more industrious and to see what effect his individual efforts have on the cost of the materials produced. In fact, the bulk of the working class operatives of Oldham have more knowledge of the buying of cotton, working it up, and selling the manufactured good than most private employers had ten years ago...The competition between the managers of one company and those of another, and also between the directors of different companies and the pride which each body of shareholders take in their own mill is leading to improvements.... so that *it is almost impossible for the management of any mill owned by working men to be seriously defective for any length of time*." (Emphasis added).[21]

Operatives' knowledge of the cotton economy and the workings of the mills helped form expectations about likely profits. Raw material prices were published in the local press and mill expenses were standard and well known. Hence operatives and other shareholders, assisted by press commentators formed expectations about the earning power of their investments. Almost all press share market reports and many company reports discussed expected results in comparison to the actual published figures.[22]

A strike in 1875, and the flotation boom that preceded it during 1873-5, altered the course of the history of these hitherto democratic limited companies. Feelings ran high during this labour dispute and 'as the limited companies, which had been

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[20] Farnie, *English cotton*, p.266.

[21] Ellison, T., (1886) *The Cotton Trade of Great Britain*, London: Frank Cass, Reprinted, 1968, p.138.

[22] *Oldham Standard*, and *Oldham Chronicle*, all Saturday issues, c.1875-1900; for a specific example see the report on the Stock Lane Spinning company, *Oldham Chronicle*, 25th December, 1897

accepted as embodying the co-operative principle, were mostly ranged on the side of the capitalists…the operatives determined to cripple these companies by withdrawing loan capital as far as possible…'[23] Even so, many still regarded the limiteds as an extension of working class control. At the inauguration of Industry Mill in 1875, the engine was christened the "Oldham", as a tribute to the 3.375 million spindles 'now controlled by the working class of Oldham'.[24] Meanwhile operatives and increasingly middle-class investors were taking shareholdings in several mills. Around 70 new companies were floated on the nascent stock market in the 1873-5 boom,[25] and it became common for operatives to own shares in mills other than their own workplace. By 1875 it is clear that a hybrid system had emerged, with co-operative principle of democratic voting on the one hand and a stock market system for buying and selling shares and collecting dividends on the other, so that Oldham earned the nickname, 'Diviborough'.[26] Some evidence of the mix of share-ownership in example companies is shown in table 2, which contrasts pre-1890 typically co-operative flotations and those that were formed later under the auspices of promotional cliques such as those

[23] Taylor, J.C. (1900) *The Jubilee History of the Oldham Industrial Co-operative Society Limited*, Manchester: CWS, p.122.

[24] *Textile Manufacturer*, June, 1877, p. 180

[25] Yonekawa (1987) Flotation Booms in the Cotton Spinning Industry, 1987-1890: A Comparative Study, *Business History Review*, 551-81, p. p.552. Ownership was diverse and, in the town of Oldham itself, may have been as large as a quarter of the adult population (Farnie, *English Cotton*, p.261).

[26] Farnie, *English Cotton*, p. 263. The term stock 'market' rather than stock 'exchange' is used deliberately. Despite attempts to establish an official exchange, promoters of the idea failed to secure permanent premises and succumbed to the tradition of *ad hoc* trading in local hotels. Thomas, W. (1973), *The Provincial Stock Exchanges*. London: Frank Cass and Co. Ltd, pp. 149-150. A possible reason was that it facilitated the trading of shares in outlying towns and industrial villages. For example the Oldham practices were copied by the 'Stalybridge Share Market', which carried on in a private house in Stalybridge (*Oldham Standard*, 13th December, 1884).

led by John Bunting.[27]

[27] Farnie, D. (1984-6), 'John Bunting', in Jeremy, D. (ed), *Dictionary of Business Biography*, London: Butterworths, pp.506-9, p.507.

## Table 1: Trends in Company share Ownership, 1874-1907

| *Panel a) All Companies* | **1874-6** | **1884-90** | **1894-7** | **1898-1907** |
|---|---|---|---|---|
| **Average number per company**: | | | | |
| Shareholders | 384.60 | 338.33 | 255.90 | 195.25 |
| Shareholder/operatives (1) | 78.40 | 42.00 | 26.20 | 14.25 |
| Share transactions per year | 78.20 | 71.17 | 10.00 | 31.88 |
| **Average number of shares per shareholder** | 27.91 | 37.71 | 73.79 | 157.62 |
| **Percentage of total shares per company held by**: | | | | |
| Operatives | 22.22 | 11.91 | 9.99 | 5.15 |
| Block holders (>3%) | 19.41 | 20.27 | 30.62 | 42.25 |
| | | | | |
| *Panel b) Companies floated before 1890 (2)* | | | | |
| **Average number per company**: | | | | |
| Shareholders | | | 331.67 | 297.00 |
| Shareholder/operatives | | | 32.17 | 21.25 |
| Share transactions per year | | | 11.33 | 54.00 |
| **Average number of shares per shareholder** | | | 37.92 | 48.21 |
| **Percentage of total shares per company held by**: | | | | |
| Operatives | | | 9.10 | 5.89 |
| Block holders (>3%) | | | 20.81 | 19.40 |
| | | | | |
| *Panel c) Companies floated after 1890* | | | | |
| **Average number per company**: | | | | |
| Shareholders | | | 152.80 | 59.67 |
| Shareholder/operatives | | | 18.40 | 2.00 |
| Shares controlled by block shareholders (>3%) | | | 6069.60 | 12513.00 |
| share transactions per year | | | 10.60 | 6.00 |
| **Average number of shares per shareholder** | | | 112.32 | 338.95 |
| **Percentage of total shares per company held by**: | | | | |
| Operatives | | | 11.41 | 1.94 |
| Block holders (>3%) | | | 43.05 | 75.48 |

*Source*: Adapted from the analysis of Annual Returns (Form E) in the Public Record Office (PRO) in J.S. Toms (2002), 'The Rise of Modern Accounting and the Fall of the Public Company: the Lancashire Cotton Mills, 1870-1914', *Accounting Organizations and Society,* Vol.27, No. 1/2, p.

*Notes*:

(1) Operative shareholders are defined as shareholders whose main occupation was described on the share list as related to textile factory work.

(2) Belgian, Henshaw Street, Livingstone, Shiloh, Thornham, and Dowry. Although Dowry was promoted by John Bunting in 1884, as a relatively early flotation it was included in panel B of table 2.

(3) Empire, Summervale and Times, floated by John Bunting post-1890 (Farnie, 1984-6, p. 507).

Table 1 shows the changing ownership patterns for these sub-groups. Companies Act legislation of 1844, 1856 and 1862 combined with the co-operative origins of the original companies promoted companies with broad share ownership among working classes investors. Belgian, Shiloh and Thornham were typical, and many shareholders in such companies owned only one partly paid share.[28] Athough block shareholders were important in the 1870s, they too reflected the co-operative principles. Local co-operatives provided significant amounts of loan and equity capital. In the boom years of 1874-5, the Oldham Equitable Co-operative Society took up 200 shares the Equitable Spinning Company and 100 in the Glodwick and Thornham Spinning Companies, whilst placing £3000, £3000 and £1000 respectively on deposit with the loan accounts of each company.[29] As a conduit for *local* savings, the Oldham stock market became an important institution. Another consequence of ownership structure was that some Lancashire companies Articles stated that Table A of the Companies Act did not apply and inserted clauses stating that each member shall have one vote only.[30] Such decisions closely reflected social ownership and provide historians and corporate governance regulators alike with a unique example of shareholder democracy.[31]

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[28] Respectively these companies had 639, 295 and 406 shareholders and average shareholdings of 22, 17 and 18 (PRO BT31/14469/7869, 14486/8310 and 14494/8449). See also Yonekawa, 'Flotation booms' p.552.

[29] Taylor, *The Jubilee History*, p.75.

[30] For example, Article 12 of the Thornham Cotton Spinning Company Articles of Association, 1874 (PRO BT31/14494/8449). This contrasts with the one share one vote rule adopted in the revised 1899 Articles.

[31] Democratic voting systems were compatible with Table A in the 1862 Companies Act. The use of graduated voting was quite widespread in the period 1862-1900 in the USA. Dunlavy, C. (1998). 'Corporate governance in late nineteenth century Europe and the U.S.: the case of shareholder voting rights'. In Hopt, K., Kanda, H., Roe, M., Wymeersch, E. and Prigge, S. (eds.). *Comparative Corporate Governance: The State of*

**The crisis of democracy and the rise of the speculator**

Although the benefits of one-shareholder one vote may seem desirable in the wake of Enron and other corporate scandals, it is unlikely that modern day regulators will follow the Oldham example. Notwithstanding the implied transfer of power away from finance capital, even socially embedded democratic systems need continued regulation, lest they contain the seeds of their own demise. In the Oldham case the fault lines of the democratic governance system were embedded in the inequality of wealth distribution in late Victorian England and fractured by the vicissitudes of the economic cycle.

The downturn of 1890-1 turned into a steep and unprecedented slump lasting until 1896 and this proved the decisive event for the transformation of democratic control into corporate oligarchy. "The darkest hour precedes the dawn", wrote an *Oldham Standard* correspondent hopefully in 1892, imagining perhaps that the recession would be of usual length and could not possibly continue much longer.[32] Lancashire's fortunes depended on export demand, but when combined with the speculative positions many firms had taken on the Liverpool market an acute scissors effect wiped out profit margins.[33] For local investors the consequence was a stock market crash of unprecedented length and severity (see figure 1). By 1896, most companies had adverse balances on their reserve accounts. In some cases these

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*the Art and Emerging Research*. Oxford: Clarendon Press, pp.29-32. However, there are no other examples of the 'one shareholder one vote' rule, co-operative principles of member participation and stock market quotation coinciding for such a large number of manufacturing companies.

[32] *Oldham Standard*, 20th February 1892.

[33] The lowest prices since 1848 were recorded in Liverpool in March 1892 (*Oldham Standard*, 12th March 1892). Falling prices and their misjudgement damaged the profits of companies those companies that bought speculatively and were left holding

balances amounted to several years' worth of average profits, so that there could have been no expectation of a dividend amongst the shareholders.[34] Financial adversity made operative shareholders less reliant on the 'divi' and reliant instead on effective craft-based trade union organisation.[35] Increasingly tempestuous industrial relations culminated in the 'Brooklands Lockout', the subsequent agreement of 1893 and the institutionalization of bargaining thereafter. An important feature of the new system was its promotion of employer and operative collaboration to further collective interests, for example through political lobbying.[36] The dispute and the agreement were predicated on the vulnerability of the industry to the business cycle.[37] The longest bear market they had known finally ended in March 1896, and as new gold discoveries in Alaska and South Africa restored competitiveness in silver using export markets, there followed a general return to prosperity in the years before 1914.

In the meantime the Oldham co-operative investors had fallen victim to

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significant stocks of 'dear cotton' (*Oldham Standard*, 7th February, 14th February, 28th February, 23rd May 1891).

[34] The poor condition of many companies was revealed by a survey in the *Oldham Standard*, 29th December 1894. The Belgian, Gladstone, Hope and Werneth Cotton Spinning Companies had adverse balances greater than £20,000 (the average subscribed equity capital per company in 1885 was £38,200 (calculated from the appendix data in Smith, R. (1961), 'An Oldham Limited Liability Company, 1875-1896', *Business History*, December, Vol, 4 (2), pp. 34-53, pp.52-3).

[35] For a detailed explanation of the epistemological and technical basis of trade union power, see Fowler

[36] For example, a joint committee was established to consider `the opening of new markets abroad, the alteration of restrictive tariffs, and other similar matters which may benefit of injure the cotton trade..', Brooklands Agreement, 1893, *Board of Trade Report on Wages and Hours of Labour, Part II, Standard Piece Rates*, C.7567, Vol. XXXI, pp. 9-11.

[37] Employers were allowed to move for up to a five per cent reduction in wages; conversely up to a five per cent increase could be requested by employees, as determined by the economic cycle; K. Burgess (1975), *The Origins of British Industrial Relations*, (London, Croom Helm, p. 233.

operators in the Liverpool market and more importantly for the longer run, to the activities of mill building syndicates within their own locality. Thus in the regular boom/recession cycle of the period 1870-1890, there were mill promotion booms in 1873-5, 1883-4 and 1889-90. These mill-building booms were punctuated by temporary periods of recession. Each flotation boom created significant profit making opportunities for cliques of mill promoters.[38] During the boom of 1888, the *Oldham Standard* published a vitriolic attack on the activities of fraudulent company promoters, describing them as 'thieves of a most destructive class'.[39] Whether fraudulent or not, 'hateful' and 'reckless' mill building was condemned both by private spinners and those committed to the existing co-operative factories. The resulting tendency to allow supply to outstrip demand posed a threat to the profits of established concerns.[40] Prior to the slump of the 1890s, promoters had attracted criticism for undermining the old limited liability system. Now, as share prices reached unprecedented low values, they had the opportunity to usurp it entirely.

A report in the *Oldham Standard* in 1898 noted the transition. 'It is said that they (promoters) are large holders of shares, many of which have been purchased within a comparatively recent period at very reasonable rates. One must hope that self-interest is not the guiding principle in their eagerness to get rid of the adverse balance, secure a dividend, and improve the selling price of the shares'.[41] The effects of systematic wealth transfers in favour of these cliques are indicated by the growth in block shareholders (table 2). They included private spinners, for example Ralph

[38] Farnie, *English Cotton*, pp. 250-1.

[39] *Oldham Standard,* 16th June, 1888.

[40] *Oldham Standard*, 27th April 1889.

[41] *Oldham Standard*, 24th September, 1898

Bagley, and Manchester-based tradesmen, such as William Kenyon. Their appearance on the share registers of John Bunting's new companies (Summervale, Empire and Times) also illustrates how promoters mobilised savings of known contacts. A further aspect of the changed structure of share ownership was the tendency for mill managers to purchase block shareholdings in their own companies and hence secure directorships and financial gain. Thomas Gartside (1857-1941), mill manager of Shiloh Spinning Company, acquired a large block of shares in the company during the period 1897-1905. Meanwhile, 'gangs of promoters' floated new mills. These comprised 'two or three mill managers who hankered after a directorship, a landowner with land to sell, a lawyer, architect, engineer and contractor in search of employment, and a yarn agent and cotton broker in quest of commission on the sale of yarn or cloth'.[42] One firm of accountants promoted 12 mills in the period 1899-1914.[43] Samuel Odgen Ward personified the transitional phase of Oldham capitalism. As an Alderman and JP, he was committed to the co-operative movement. Yet during the 1880s and 1890s he amassed directorships on the boards of several companies,[44] thereby breaking one of the movement's main rules, that committee members should hold no more than one office. Other examples in Oldham included Thomas Henthorn (1850-1913), Harry

[42] Report of the Tariff Commission, 1905, cited in Jones, Jones, F. (1959) The Cotton Spinning Industry in the Oldham District from 1896 to 1914, MA thesis, University of Manchester, p.13.

[43] Jones, The Cotton Spinning Industry, p.13.

[44] From reports of company meetings (*Oldham Standard*, various issues, 1888/9), Ward served on the boards of Werneth, Coldhurst, Henshaw Street, Northmoor and Broadway Spinning Companies. Taylor, *The Jubilee History* pp.112 & 125.

Dixon (1880-1947), William Hopwood (1862-1936), Ralph Morton (1875-1942), John S. Hammersley (1863-1933), and Sam Firth Mellor (1873-1938).[45]

In many companies during 1897 and 1898, these director-owners consolidated their control via the mechanism of extraordinary general meetings. Here they put forward and secured approval for the adoption of new articles of association. These allowed for the plutocratic one share one vote system, voting by proxy, minimum shareholding qualifications for directors and the removal of the obligation to forward accounts to shareholders.[46] Powerful new cliques usurped the voice prerogative to control company meetings and appoint directors, whilst disenfranchised minorities were left holding unsaleable shares. Economic and social change thereby underpinned voluntary changes in governance structures. There was a tendency for companies to move from quarterly to half yearly meetings and an increased reluctance to disclose financial information to the press, for example the resolution passed at the Glodwick Spinning Company in 1897.[47] As the new oligarchs consolidated their control, economic conditions gave them new opportunities to profit from mill flotations.

## The boom of 1907

A characteristic of the slump of the 1890s was the loss of the silver-using Indian market due to the relatively high price of gold. As gold prices fell, Lancashire and in particular the coarse sector around Oldham began to recover the Indian market. Although punctuated by minor recessions, until 1914, Lancashire entrepreneurs were

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[45] Gurr, D. and Hunt, J. (1989), *The Cotton Mills of Oldham*, Oldham: Oldham Leisure Services, pp. 9-10.

[46] For examples, *inter alia*, see *Oldham Standard*, 27th November, 1897, 1st October, 8th October, 5th November 1898

[47] Farnie, 'John Bunting' p.508; *Oldham Standard*, 27th November, 1897.

faced with consistent increases in demand and profits (Figure 2).[48] Accounting profit rates grew steadily from 1896 onwards and peaked in the boom of 1907.[49] In turn, this prompted an unprecedented mill building boom in the period 1904-8, centred on the Oldham district.[50] Special features of the boom of 1907 were that promoters attracted outside investors using large amounts of loan finance and a large proportion of the profit was distributed as repayments and bonus dividends.[51] Bunting floated the largest mill to date, the Times No. 2 in 1907 at 100,000 spindles (*Oldham Chronicle*, 28th December, 1907).

By the 1900s, `empires' of individually controlled mills but otherwise un-integrated businesses, became more clearly established.[52] Profits from existing mills were channelled via the estates of these proprietary capitalists into personally administered flotations or acquisitions of other concerns.[53] The proprietors of these

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[48] Figure two refers to the coarse spinning section only.

[49] Toms, S. (1998) 'Growth, Profits and Technological Choice: The Case of the Lancashire Cotton Textile Industry', *Journal of Industrial History*, Vol. 1(1); pp.35-55.

[50] During the period 1897-1913 installed spindleage increased by 2 per cent per annum in Lancashire but by 2.7 per cent in Oldham (calculated from Robson, R. (1957), *The Cotton Industry in Britain*, London: Macmillan. tables 2 and 5, pp. 334 and 340 and Farnie, *English Cotton,* p.42. The higher rate in Oldham was a function of the extraordinary boom of the middle years of the 1900s. For details of the mills constructed, see Jones, The Cotton Spinning Industry, pp. 221-3.

[51] Toms, S. (1998), 'Windows of opportunity in the textile industry: the business strategies of Lancashire entrepreneurs 1880-1914'. *Business History*, 40(1): 1-25.

[52] Toms S. (1998), `The Supply of and Demand for Accounting Information in an Unregulated Market: Examples from the Lancashire Cotton Mills', *Accounting Organizations and Society* Vol. 23, No. 2; pp.217-238.

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[53] Toms, S. (1994), `Financial Constraints on Economic Growth: Profits, Capital Accumulation, and the Development of the Lancashire Cotton Spinning Industry, 1885-1914,' *Accounting Business and Financial History*, Vol. 4 (3), pp. 364-383. Toms, S. (1996), `The Finance and Growth of the Lancashire Textile Industry, 1870-1914', Ph.D thesis, University of Nottingham, March. Toms 'Windows of

groups of mills possessed access to financial resources based on reputation and personal contact.[54] Strategy formulation became the exclusive preserve of these individuals whilst managers became nominee officials at plant level, trusted only with routine, thereby precluding the emergence of professional managerial hierarchies.[55] These changes created a highly unusual system of governance based on diversified directors and non-diversified shareholders (in the conventional model of Anglo Saxon economies it is the other way round). As a consequence capital ownership centralised and the industry increasingly fell under the control of speculative entrepreneurs.[56]

A further consequence was that speculative mill building in 1907 by these 'gangs of promoters' destroyed the profit margins of installed capacity and left the industry over-committed in subsequent slumps in demand.[57] According to a contemporary estimate in 1935, there were 13.5 million surplus spindles of which 9.5 were in the American section and 4 million in the Egyptian section, representing. plant utilisation of just 69%.[58] As early as the 1880s the industry already contained over 40 million spindles.[59] Put simply, the capacity installed by promoters in the boom period of 1896-1914 was all potentially surplus in the light of industry

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Opportunity'.

[54] Tyson, R. E. (1962), 'Sun Mill: A Study in Democratic Investment', Unpublished M.A. Thesis, University of Manchester, Thomas, W., *The Provincial Stock Exchanges*, London: Frank Cass and Co. Ltd (1973).962; Toms, 'The Supply of'.

[55] Toms, 'Windows of Opportunity' pp. 1-25; Toms, The Finance and Growth, pp. 217-238;

[56] Toms, The Finance and Growth, pp.226-31.

[57] Jones, The Cotton Spinning Industry, p.3.

[58] Barlow, T.D. (1935), "Surplus capacity in the Lancashire Cotton Industry." *Manchester School*, 6, pp.32-36: p.35; Robson, *The Cotton Industry*, Table 8, p.344.

[59] Calculated from Robson, *The Cotton Industry,* Table 5, p.340.

requirements after 1920. Over-capacity was compounded because corporate growth rates were strongest where private or family control was exercised and weakest where there was dependency on regional stock markets.[60] Yet it was in stock market dominated Oldham, where there was the greatest expansion of capacity.

A final important consequence of oligarchic control was for the technological development of the industry. Because the commercial and technical advantages of ring spinning and the automatic loom were not yet established,[61] entrepreneurs ploughed the resources from the pre 1914 booms into specialised establishments using traditional technologies. It is for this reason that whilst there were few advocates of integrated production before 1914, technical issues associated with disintegration came to the fore in the 1920s and 1930s. The critique of specialisation from within the industry came from disenfranchised technical experts rather than business leaders.[62] The governance structure inherited from the nineteenth century meant the opinions of

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[60] Toms, 'Windows of opportunity,' p.3.

[61] See, for example, Saxonhouse, G. and Wright, G. (1984), `New Evidence on the Stubborn English Mule and the Cotton Industry, 1878-1920,' *Economic History Review*, Second Series, vol. XXXVII, No.4, pp. 507-19, p.519. A more recent discussion of the commercial and technological factors which affected the adoption of ring spinning during the inter-war years is contained in D.M. Higgins and J.S. Toms (1997), `Firm Structure and Financial Performance: the Lancashire textile Industry, c.1884-1960', *Accounting Business and Financial History*, Vol. 7, No.2; pp.195-232, pp.212-214.

[62] Developments in intermediate processing, principally high drafting, doffing and winding that were developed and available commercially after 1914 gave a decisive advantage to the ring and automatic loom combination by the 1930s. J.S. Toms (1998), `Growth, Profits and Technological Choice: The Case of the Lancashire Cotton Textile Industry', *Journal of Industrial History*, Vol.1 (1), pp.35-55. For examples of technicians' criticisms of industry structure, see Lazonick, 'Industrial Organization and Technological Change', and Robinson, 'Business Methods'; Holt, 'High Speed Winding,' as cited in Lazonick, pp. 104-5.

mill managers were much constrained by the actions of the directors. Pre-1914, the industry ownership and its consequences dominated the issue of technical choice.

**The boom of 1919**

Following the gap left by the First World War, there was a further flotation boom in 1919. The overwhelming and immediate cause of the Lancashire crisis post-1922, was the collapse in demand in export markets. As Figure 1 shows the boom of 1919-20 was dramatic even by the standards of this heavily cyclical industry. Unlike the 1907 boom that led to expansion of capacity through mill building, the 1919 boom was driven by wider margins associated with shortages and temporary dis-equilibrium in world markets. There was no physical increase in demand for Lancashire textiles. Also, a new wave of mill construction was prevented by a shortage of equipment and building supplies. Consequently, money capital was invested by financial syndicates through the re-capitalisation of existing mills with bonus issues and new loan finance.[63] These aspects of the boom determined the subsequent financial characteristics of many Lancashire firms.

A crucial and previously unanswered question is who were the members of the financial syndicates? There were striking continuities between the investor groups in the Oldham section in the 1919-20 boom and the operations of similar groups, sometimes involving the same individuals, in the pre 1914 period. The syndicates investing in Oldham in 1919 -20 were organised by the pre-war investor groups using the networks they had built up before 1914. Therefore important features of the

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[63] Daniels, G. and Jewkes, J. (1928), 'The post war depression in the Lancashire cotton industry', *Journal of the Royal Statistical Society*, 91, pp. 153-206, p.170; Thomas, W. (1973), *The Provincial Stock Exchanges*, London: Frank Cass and Co. Ltd, p.156.

booms of 1907 and 1919 were the activities of John Bunting, Firth Mellor, Hammersley and others. As a result by 1919, promoter and share dealer Sam Firth Mellor was a director of 18 companies, and Bunting, of the same occupation held 14.[64] Another important continuity was the involvement of successor generations. So James Henry Bunting continued his pre-war apprenticeship whilst successive generations of the architects and mill-designers A.H. Stott and Sons continued their practice of investing in the mills they helped to build.[65] Outside investors were attracted using pre-1914 networks, so new calls were made on the likes of Manchester-based John Kenyon and William P. Hartley, (who had made money in preserves) to support the flotation of the Textile Spinning Company and the Asia Spinning Company. The Buntings, John and James Henry, were co-directors of Textile Mill. Just as in 1907, the investors of the 1919-20 re-capitalisation boom were local, inter-connected, had intensive knowledge of industry finance and were continuing well-established practice from before 1914.

The oligarchs who had brought about the demise of the democratic system in the Oldham district, now engineered the downfall of the whole industry. A statistical analysis of the accounts of a large sample of cotton companies taken from the period 1925-1931, shows that fewer recapitalised firms left the industry compared to non-

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[64] Firth Mellor's interests were: Argyll, Broadway; Fernhurst, Gee Cross Mill, Gorse, Greenacres, Hartford, Marland, Mars, Mersey, Monton, Moor, Orb, Peel Mills Co, Princess, Rugby, and Stockport Ring Mill. Mellor built up a substantial shareholding in many of these companies, for example, Argyll (7.55%), and Asia Mill (3.8%). See Higgins, D., Toms, S. and Filatotchev, I. (2007), 'Financial syndicates and the collapse of the Lancashire cotton industry, 1919-1931', York Management School Working Paper. In total Bunting is known to have been involved in fourteen or so promotions. Farnie, `John Bunting', p.508.

[65] For a biographical discussion of the activities of three generations of the Stott family, 1862-1937, see Farnie, D.A. and Gurr, D.A (1998), 'Design and construction of mills', in Gurr, D.A. and Hunt, J. *The Cotton Mills of Oldham*, Oldham, Oldham Education and Leisure. pp.15-18.

recapitalised firms. However, in view of the excess capacity problem, it was imperative that some firms exited the industry. Ownership itself, in particular oligarchic control, now became an overwhelming exit barrier, preventing the reorganisation of the industry.[66] They now pursued a rational strategy of forcing the managers of their firms to continue undercutting their competitors on marginal contracts, because the only alternative was to realise their investments at seriously deflated values, losing all the profits of their earlier speculations. In contrast to the arguments of Keynes, Bamberg and others, indebtedness to the banks, seems a less important cause of weak selling and indeed firms with greater bank debt were more likely to leave the industry. Oligarchic companies were typically larger and enjoyed stronger market position, and as a result tended to be more successful than their competitors in terms of profitability. However, most of the profit was paid out as dividend, allowing some recovery of invested capital, but starving the industry of cash for re-equipment.

The failure to re-equip had not been material in the pre-1914 expansion. Indeed, the spinning mule and Lancashire loom system were as effective as their alternatives until that point. However the 1920s saw major improvements in preparatory and intermediate winding processes and in high speed drafting. With these developments ring spinning and automatic weaving organised in vertically integrated factories. International competition, most notably the US cotton industry, was well placed to exploit these advances in production methods. Lancashire by contrast, needed to refinance before any such investment could take place, and refinancing was prevented by the ownership structure of the industry.

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[66] Higgins et al. 'Financial syndicates'. Filatotchev, I. and Toms, S. (2006), 'Financial constraints on strategic turnarounds', *Journal of Management Studies*

**Epilogue: Lancashire in the 1950s**

Following the end of the post-war boom in 1952, the Lancashire cotton industry once again faced problems of overcapacity and the need for reorganization. However, the ownership pattern that had developed before 1914, consolidated in the 1920s, continued to ossify along with the industry in the 1950s. Control by interlocking directorships was a crucial feature throughout the industry's decline phase. A survey using annual returns of these companies in the 1950s has revealed interlocking directorships and a rump of residual small private shareholders.[67] Table 2 shows that the typical Lancashire director sat on the boards of far more other companies in comparison to national averages. The average director of the typical large British company in 1950 held just that one board position, whereas the typical Lancashire director held three or four board positions with a significant minority holding more than six. This governance structure reflected the nineteenth and the early twentieth century developments referred to above. Hence the most common type of interlock was in other cotton industry companies. The average age of each director in the Table 1 sample was 59 years, suggesting that whilst many had served during the crisis years of the inter-war period, a minority had also participated in the development of earlier 'Bunting-style' groups. At the same time, it is suggestive that centralisation of directors' power acted as a barrier to the development of new managerial talent.

[67] Filatotchev, I. and Toms, J.S. (2003), 'Corporate Governance, Strategy and Survival in a Declining Industry: A Study of Lancashire Textile Companies', *Journal of Management Studies,* vol.40, pp.895-920.

**Table 2**

**The Distribution of Directorships in British Enterprises, 1950**

| | **(1) Cotton Textiles 1950** % | **(2) All British Enterprises** % |
|---|---|---|
| Number of directorships per person | | |
| 1 | 19.2% | 87.4% |
| 2 | 13.2% | 8.5% |
| 3-5 | 43.7% | 3.9% |
| 6 or more | 23.9% | 0.2% |
| | ------ | ------ |
| | 100.0% | 100.0% |
| | ------ | ------ |

(1) % of directors in each category from a sample of 167 directors from 45 quoted textile companies.
(2) % of directors in each category from the top 250 British enterprises. The % is estimated from Scott (1997), p.117 which provides breakdowns for the years 1938 and 1976. The figures shown here are a simple average for those two years.

***Sources*:** Annual Returns (form E) Companies House and PRO files. Scott (1997: 117). Toms J.S. and I Filatotchev (2004) Corporate Governance, Business Strategy and the Dynamics of Networks: A Theoretical Model and Application to the British Cotton Industry, 1830-1980, *Organization Studies,* vol.25, pp.629-651.

Meanwhile share-ownership was individual rather than institutional, primarily because share quotations were based on thin local stock markets, and this was also the case for the larger conglomerates and the larger number of smaller quoted firms.[68] Instead of institutional ownership there was substantial share-ownership by directors, their families and members of founding families. Oligarchic block share-ownership compounded the problem of thin markets and the general fortunes of this by now seriously under-invested and un-modernised industry meant there were few enthusiastic buyers of cotton shares.

## Conclusion: the English Cotton Industry and the loss of the world market

The English cotton industry's loss of its world market can be attributed primarily to its ownership by oligarchies of directors and their financial schemes before and after the First World War. The beginning of Lancashire's problems can be dated to 1896, which saw the end of democratic capitalism in Oldham and its replacement by the speculative oligarchs. Of course, other factors were important. The rise of overseas competition and the retreat from empire were the result of powerful forces that representatives of the cotton industry, in Oldham or elsewhere, could do little about.

With a different structure of ownership, however, the crisis of the 1920s need not necessarily have happened and cotton textiles might have retained its competitive edge for longer in line with other textile sectors. In relation to the problem of ownership and associated financial control, the issues raised by economic historians, such as failure to restructure and failure to invest in new technology are secondary as explanations for the poor performance and decline of the industry.

[68] D.M Higgins and J.S. Toms (2003) 'Financial Distress, Corporate Borrowing and Industrial Decline: The Lancashire Cotton Textile Industry, 1918-1938', *Accounting Business and Financial History,* vol. 13, pp.207-232.

With different ownership, new investment and re-organisation would have been possible. So is this merely a restatement of the entrepreneurial failure hypothesis? In the past, the entrepreneurial failure hypothesis has been set out in terms of failure to act according to the rational requirements of the economic situation. Examples might be failure to invest, to develop marketing expertise and so on. In the case described above, however, it is clear that the problem was not that entrepreneurs failed to act. Indeed they acted decisively to exploit the short run profit opportunities that frequently presented themselves in this cyclical industry. They acted decisively to overcome constraints that might be imposed on their actions through transparent structures of governance and accountability. They decisively seized control of the industry from other stakeholders. By 1922, they could not act decisively to reorganise the industry, because by that time they were paralysed by the consequences of their own actions.