HOME AND FOREIGN INVESTMENT
1870–1913
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1870-1913

Studies in Capital Accumulation

BY

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TO MY
MOTHER
CONTENTS

List of Figures ............................................................................................................. viii
List of Tables .............................................................................................................. ix
Preface ........................................................................................................................ xi

Chapter I Capital Accumulation in the Victorian Age ........................................... 1
   II Fluctuations in the Glasgow Building Industry, 1856–1914 ......................... 12
   III Investment in Canada, 1900–13 .................................................................. 37
   IV Internal Migration in Victorian England ...................................................... 65
   V The Victorian Capital Market ....................................................................... 84
   VI The Statistics of Investment, 1870–1913 ....................................................... 103
   VII Fluctuations in Home and Foreign Investment, 1870–1913 ..................... 187

VIII Investment and Migration ............................................................................. 209
IX Did Foreign Investment Pay? ........................................................................... 222
X The Victorians and Investment ......................................................................... 236

Index ......................................................................................................................... 247
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fluctuations in building plans passed, 1873–1913</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>Annual increment in occupied houses, 1860–1914</td>
<td>21</td>
</tr>
<tr>
<td>3</td>
<td>New houses and empty houses, 1860–1914</td>
<td>29</td>
</tr>
<tr>
<td>4</td>
<td>Rents and building costs</td>
<td>34</td>
</tr>
<tr>
<td>5</td>
<td>(a) Wages and prices, 1900–13</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>(b) Import, export and domestic prices, 1900–13</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Immigration into Canada and economic expansion, 1900–13</td>
<td>41</td>
</tr>
<tr>
<td>7</td>
<td>Current bank loans in Canada and secondary reserves, 1900–13</td>
<td>52</td>
</tr>
<tr>
<td>8</td>
<td>Internal migration, 1841–1911</td>
<td>69</td>
</tr>
<tr>
<td>9</td>
<td>Migration to the towns, 1841–1911</td>
<td>73</td>
</tr>
<tr>
<td>10</td>
<td>Migration from the countryside, 1841–1911</td>
<td>74</td>
</tr>
<tr>
<td>11</td>
<td>Shipbuilding, 1870–1914</td>
<td>132</td>
</tr>
<tr>
<td>12</td>
<td>Capital expenditure of British railway companies, 1870–1914</td>
<td>139</td>
</tr>
<tr>
<td>13</td>
<td>New construction, 1870–1914</td>
<td>168</td>
</tr>
<tr>
<td>14</td>
<td>Home and foreign investment, 1870–1913</td>
<td>188</td>
</tr>
<tr>
<td>15</td>
<td>Fluctuations in the value of British exports, 1885–1913</td>
<td>197</td>
</tr>
<tr>
<td>16</td>
<td>Fluctuations in the value of British imports, 1885–1913</td>
<td>198</td>
</tr>
<tr>
<td>17</td>
<td>Investment and unemployment, 1870–1913</td>
<td>199</td>
</tr>
<tr>
<td>18</td>
<td>Changes in national income, new construction and exports</td>
<td>201</td>
</tr>
<tr>
<td>19</td>
<td>Real wages and the terms of trade</td>
<td>207</td>
</tr>
<tr>
<td>20</td>
<td>Emigration, foreign investment and real wages</td>
<td>212</td>
</tr>
<tr>
<td>21</td>
<td>Residential building, 1870–1914</td>
<td>214</td>
</tr>
</tbody>
</table>
LIST OF TABLES

1  Residential building in Glasgow, 1862–1914  page 16
2  Occupied and unoccupied houses in Glasgow, 1870–1914  17
3  Houses in the Parliamentary burgh of Glasgow, 1856–80  18
4  Rate of ‘demolition’ at Glasgow, 1873–1913  26
5  Fixed capital formation in Canada, 1900–15  45
6  Investment in transport, 1900–14  46
7  Investment, savings and trade, 1900–14  47
8  Foreign borrowing and trade, 1900–14  53
9  Wages and the cost of living, 1900–13  59
10  Export and import prices, 1900–13  61
11  Immigration into Canada, 1900–13  63
12  Money and credit in Canada, 1900–13  64
13  Registration districts in England and Wales grouped into towns  67
14  Gain or loss by migration from towns, rural residues and colliery districts, 1841–1911  70
15  Losses by migration from rural residues of England and Wales, 1841–1911  76
16  Growth of population in England and Wales, 1841–1911  78
17  Net gain or loss by migration to or from eight large towns  80
18  Net gain or loss by migration to or from nine colliery districts  80
19  Birth- and death-rates in England and Wales, 1841–1911  82
20  Distribution of property as shown by estate duty statistics (average of 1911–12, 1912–13 and 1913–14). Proportion in which various classes of property were distributed between estates liable to duty  86
21  Composition of each class of estate (by percentage)  87
22  New construction and repairs, 1907  123
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Home investment in shipbuilding, 1870–1914</td>
<td>127</td>
</tr>
<tr>
<td>24</td>
<td>Shipbuilding on the Clyde, 1860–80</td>
<td>129</td>
</tr>
<tr>
<td>25</td>
<td>Shipping and shipbuilding, 1870–1914</td>
<td>131</td>
</tr>
<tr>
<td>26</td>
<td>Railway investment, 1870–1913</td>
<td>137</td>
</tr>
<tr>
<td>27</td>
<td>Factors influencing fluctuations in railway investment, 1870–1913</td>
<td>138</td>
</tr>
<tr>
<td>28</td>
<td>Loan-expenditure of local authorities, 1870–1914</td>
<td>143</td>
</tr>
<tr>
<td>29</td>
<td>Purposes for which outstanding debt of local authorities of England and Wales was contracted</td>
<td>144</td>
</tr>
<tr>
<td>30</td>
<td>Numbers employed in the building industry in England and Wales, 1861–1911</td>
<td>146</td>
</tr>
<tr>
<td>31</td>
<td>Indices of building activity, 1870–1914</td>
<td>149</td>
</tr>
<tr>
<td>32</td>
<td>Statistics of empty property in Great Britain, 1870–1914</td>
<td>153</td>
</tr>
<tr>
<td>33</td>
<td>Residential building construction in England and Wales, 1901–14</td>
<td>155</td>
</tr>
<tr>
<td>34</td>
<td>Index of residential building, 1870–1914</td>
<td>156</td>
</tr>
<tr>
<td>35</td>
<td>Residential building, 1870–1914</td>
<td>157</td>
</tr>
<tr>
<td>36</td>
<td>Home consumption of iron and steel, 1870–1914</td>
<td>164</td>
</tr>
<tr>
<td>37</td>
<td>Home consumption of machinery, 1870–1914</td>
<td>167</td>
</tr>
<tr>
<td>38</td>
<td>New construction, 1870–1914</td>
<td>169</td>
</tr>
<tr>
<td>39</td>
<td>Shipping freights and earnings, 1870–1913</td>
<td>176</td>
</tr>
<tr>
<td>40</td>
<td>Export of capital, 1870–1913</td>
<td>180</td>
</tr>
<tr>
<td>41</td>
<td>Government and industrial investments at the end of 1870</td>
<td>183</td>
</tr>
<tr>
<td>42</td>
<td>British investments in foreign countries between 1871 and 1914</td>
<td>185</td>
</tr>
<tr>
<td>43</td>
<td>Relative importance of markets for British exports and sources of supply for British imports</td>
<td>189</td>
</tr>
<tr>
<td>44</td>
<td>Terms of trade of capital-importing and capital-exporting countries, 1870–1913</td>
<td>191</td>
</tr>
<tr>
<td>45</td>
<td>Area under cereals in the United States, 1870–1910</td>
<td>194</td>
</tr>
<tr>
<td>46</td>
<td>Investment and national income, 1870–1914</td>
<td>203</td>
</tr>
</tbody>
</table>
**LIST OF TABLES**

<table>
<thead>
<tr>
<th>#</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>Wages and prices, 1870–1914</td>
<td>206</td>
</tr>
<tr>
<td>48</td>
<td>Export of capital and migration from Britain, 1871–1910</td>
<td>209</td>
</tr>
<tr>
<td>49</td>
<td>Factors affecting residential building, 1870–1914</td>
<td>213</td>
</tr>
<tr>
<td>50</td>
<td>Rents in England and Wales (excluding Metropolis), 1873–1910</td>
<td>215</td>
</tr>
<tr>
<td>51</td>
<td>Gains and losses by migration of nineteen groups of districts in England and Wales, 1881–1911</td>
<td>217</td>
</tr>
<tr>
<td>52</td>
<td>Gains and losses by migration of nineteen groups of districts in England and Wales, by age-groups</td>
<td>219</td>
</tr>
<tr>
<td>53</td>
<td>Yield on foreign investments, 1870–80</td>
<td>229</td>
</tr>
</tbody>
</table>
PREFACE

The studies in this volume were drafted—and several of them published—in the five or six years before the war. They cover a wide range of subjects, but they have a common theme and can be traced to a common origin. The theme is capital accumulation and the fluctuations that accompany it; the origin was an undergraduate thesis on ‘Capital Transfer and the Terms of Trade’. Reared on Keynes and Taussig, I thought that I detected both of the masters in confusion in their treatment of reparations and its consequences and was moved by so unaccustomed a spectacle to develop my own ideas on the subject. My interest in foreign investment and the dynamics of international trade gradually widened and eventually focused on two relationships: between foreign investment and home investment on the one hand, and between the migration of capital and of labour on the other. Not all the studies that follow deal specifically with these relationships; but all of them bear directly or indirectly upon them.

The central portion of this volume (Chapters V–IX) is a revised version of parts of the dissertation on ‘Home and Foreign Investment in Great Britain, 1870–1913’, which I submitted in 1935 for the degree of Ph.D. at Cambridge University. I cannot imagine that the theoretical section of the dissertation would be of much interest now, and I doubt whether it has been read by anyone since my examiners made their patient way through it. The statistical and historical sections, however, appear to have led a lively subterranean life in the footnotes of my colleagues, and I have been under pressure for some time to legitimate them in a printed text. I now do so with some hesitation.

My original intention was to use the dissertation as a kind of sketch and paint on a larger canvas in due course. In the introduction I confessed that I had ‘simply written on a number of topics which interested me, without bothering very much how they could be made to fit together….I have thought it better to give a survey of the whole ground—at the risk of superficiality—rather than begin prematurely to dig some special patch. This dissertation, in other words, has been undertaken as a prolegomenon to research rather than as a piece of research itself.’ Alas, the preliminary sketch had to be put away in the attic while I learned the trade of lecturer, was beguiled into writing on other subjects, and, with the war, turned to other trades and surrendered to other temptations.

It would, no doubt, have been possible for me to have published the dissertation without amendment immediately after its completion. But
xiv  P R E F A C E

I had too lively a sense of its deficiencies to have any wish to do so. It is one thing to try to satisfy a couple of examiners but quite another to waste the time of a large number of economists by letting loose on them a mass of supposititious statistics. I knew even in 1935 of the simple-minded who lie in wait for the man with the hardihood to speak in figures; who treat every statistical series, however ill-founded, with a sort of reverence; and who cannot see a statistical nut without itching to crack it under a mathematical steam-hammer. Publication would have been a laissez-passer for all so inclined; and the figures which I had marshalled for comparatively modest purposes would have been made to bear a weight of precision far beyond my intention.

How often, nevertheless, have I since come on some series of mine dressed in unfamiliar uniform and marching and counter-marching in an impossible campaign! It has been this sight that has convinced me of the need to publish. If I am to be honoured by quotation, I wish also to be honoured by criticism. The statistical material may be worth using, but only if its limitations are exposed to all who wish to do so.

When I was at last able to face the preparation of this volume for the press I had to decide what to do with the sketch in the attic. I easily concluded that it would be unwise to risk another long delay by starting afresh, and that I should limit myself to amendment. This proved a bigger undertaking than I had foreseen. All the working papers had gone; the basis of some of my estimates was highly obscure; and there were many features of my intellectual offspring that struck no parental chord in my memory. I was thus faced with the extremely distasteful task of undertaking research into my own research, and conducting a kind of post-mortem on myself. On the whole, the results were reassuring, and I even succeeded in conceiving some respect for the person in whose shoes I found myself standing.

An additional difficulty was to incorporate the results of later research into similar problems—notably the work of Hilgerdt, Hoffmann, Lenfant, Phelps Brown, Rostow, Rousseaux, Schlote, Tinbergen and Brinley Thomas. On the whole, I have made little use of this work because I felt that to do full justice to it would mean further delay and would oblige me to write a much longer book. I have preferred to confine myself to that part of my work which I judged to be still original and interesting, rather than to embark on a comprehensive analysis of the period.

Some important changes have been made in the chapter on ‘The Statistics of Investment’ and some less important changes in the succeeding chapter on ‘Fluctuations in Home and Foreign Investment’. The main change is the addition of an analysis of savings and investment in 1907 based on the Census of Production. Another important change
PREFACE

is the abandonment of my previous estimates of sales of machinery on the home-market—though I have included figures of iron and steel consumption and the conversion factors by which these were translated into engineering output. The estimates of residential building have also been completely revised; so have the estimates of shipping earnings.

Of the remaining chapters two (Chapters IV and X) are reprinted, substantially without amendment and two (Chapters II and III) have been largely rewritten. It would have been possible to expand any one of them into a separate book and at least one of them (Chapter IV) was originally written as a summary. I hope that the rather perfunctory treatment that such brevity enforces has not detracted from their readability.

There is still a great deal that could be done to improve the statistics of investment in the nineteenth century. The local authorities have more data on the history of building activity than I had previously supposed. It should be possible to construct more satisfactory series for the price of capital goods, whether the products of building or engineering. Very little has been written on profits (or dividends) in individual industries. The finance of railway building has not been adequately studied. No one has attempted to bring together indices of home investment—or even of industrial production—in all the principal countries so as to show how the national and international elements in the trade cycle interacted. I have drawn attention here and there to gaps in our knowledge that might readily be filled in the hope that someone may be encouraged to make the attempt.

When I first read a paper on ‘Home and Foreign Investment’ before the Keynes Club about twenty years ago, Keynes prefaced his comments on it by a reference to the origin of the Septuagint. He thought that the kind of history which I had presented to the Club should be submitted to a similar test before being accepted as holy writ. If seventy statisticians could be locked up, like the Hebrew scholars, in separate cells and each emerge with the same statistical series, it would be possible to accept their results without further question. Failing such proofs of inspiration and truth, one could only accept the plausible and reject the un plausible. This was a pronouncement from which I did not and do not dissent. The reader should look on what follows as one step to statistical exactitude and reflect on the sixty-nine steps that are most unlikely ever to be taken.

My obligations are heavy and not easily summarized. Most of the work was done as a Research Student of Trinity College. I am deeply grateful to the College for the opportunities afforded by the studentship and to Sir Dennis Robertson for constant help and advice during my tenure of it. I also benefited greatly from discussion with Mr Colin
xvi

PREFACE

Clark, and with a number of my fellow-students, particularly Mr R. B. Bryce. Among others in Cambridge who gave me encouragement and help were Professor Pigou and Lord Keynes.

In the revision of the manuscript I have had the assistance of Mr W. M. L. Murray and of Mr B. Weber, who has prepared the index. Miss Hattrick has worked wonders with an almost illegible text.

I am also indebted to Dr K. A. H. Buckley of the University of Saskatchewan for permission to use his figures of Canadian investment in Chapter III; to Dr Konrad Zweig for permission to reprint two charts from an article by him in Weltwirtschaftliches Archiv; to Sir Piers Debenham for permission to use some unpublished calculations of his in Chapter VII; to Sir Percy Mills for information on machinery prices; to Dr Horne and Miss Knox of the Corporation of Glasgow Health and Welfare Department; the staff of the Glasgow Dean of Guild Court; and to The Manchester School, The Review of Economic Studies, and The Economic Journal for permission to reprint Chapters IV, IX and X respectively. An earlier version of Chapter II appeared in The Review of Economic Studies in 1934 and Chapter III is based on a longer version published in Weltwirtschaftliches Archiv in 1937.

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