

FINANCING INDUSTRIAL INVESTMENT

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and
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Contents

<i>List of Tables and Figures</i>	viii
<i>Preface</i>	xv
1 PURPOSE AND PLAN OF THIS BOOK	
1.1 Purpose	1
1.2 Plan	4
2 BRITAIN IN THE INDUSTRIAL WORLD	
2.1 Britain's economic decline	19
2.2 Some suggested solutions	25
2.3 The Bacon-Eltis hypothesis	33
3 THE CONTRIBUTION OF CAPITAL TO ECONOMIC GROWTH	
3.1 Capital formation in economic theory	39
3.2 Denison's assessment of why growth rates differ	45
3.3 Some capital-output ratios	52
3.4 Capital investment in the UK	75
3.5 Some conclusions	86
4 THE TRANSFORMATION OF SAVING TO INVESTMENT	
4.1 Introduction	88
4.2 Transformation of saving to investment in France	91
4.3 Transformation of saving to investment in Japan	105
4.4 Transformation of saving to investment in West Germany	114
4.5 Transformation of saving to investment in the UK	124
4.6 Transformation of saving to investment in the USA	140

4.7 Relationships between financial and industrial structures	148
5 THE COSTS AND PROFITS OF CAPITAL	
5.1 The theory of capital gearing	155
5.2 The apparent costs of historic capital in secondary stock markets	162
5.3 The scale of new investment capital	166
5.4 The costs of new investment capital	175
5.4.1 France	179
5.4.2 Japan	180
5.4.3 West Germany	181
5.4.4 UK	180
5.4.5 USA	180
5.5 The profitability of plant and equipment investment	189
5.6 Two different industrial traditions	190
6 WELFARE AND ECONOMIC GROWTH	
6.1 The international comparison of real incomes	195
6.2 Factors affecting the level of household saving	200
6.3 Inflation, economic growth and living standards	207
6.4 Investment and employment	210
7 A POSSIBLE TRANSFORMATION POLICY FOR BRITAIN	
7.1 Three choices for Britain	217
7.2 What needs to be done	225
7.3 Conclusions	232
APPENDIXES	
Statistical Appendix A	234
Index to statistical tables	234
Tables A1–A28	235–58
Appendix B1 Differences in the systems of national accounting (SNA) between the five countries	258
Appendix B2 Equipment investment in the UK and elsewhere	261
Appendix B3 The effect of economic growth and inflation upon potential purchasing power	262

Contents

vii

**Appendix C Some components of a proposed economic
model**

266

Notes

269

Index

277

List of Tables and Figures

TABLES

Chapter 2

2.1	The economic performance of 17 developed countries	20
2.2	Size of five developed countries, 1960 and 1970	22
2.3	Annual income per head in US dollars	23
2.4	Growth rates in five countries, 1953–72	24
2.5	UK economic expansion and stagnation	28

Chapter 3

3.1	Cumulative incremental gross capital-output ratios for France, 1961–75	59
3.2	Cumulative incremental net capital-output ratios for France, 1961–75	60
3.3	Cumulative incremental gross capital-output ratios for Japan, 1961–75	61
3.4	Cumulative incremental net capital-output ratios for Japan, 1961–75	62
3.5	Cumulative incremental gross capital-output ratios for West Germany, 1961–75	63
3.6	Cumulative incremental net capital-output ratios for West Germany, 1961–75	64
3.7	Cumulative incremental gross capital-output ratios for the UK, 1961–75	65
3.8	Percentage allocation of UK gross domestic capital formation	66
3.9	Cumulative incremental net capital-output ratios for the UK, 1961–75	66
3.10	Cumulative incremental gross capital-output ratios for the USA, 1961–75	67
3.11	Cumulative incremental net capital-output ratios for the USA, 1961–75	68

List of Tables and Figures

ix

3.12	Growth and investment statistics for five nations, 1960–70 and 1960–75	69
3.13	Growth rates of gross capital stock	70
3.14	Incremental gross capital-output ratios	71
3.15	Capital accumulation rate (equipment investment) and rate of GDP growth, 1956–63	72
3.16	Capital consumption and gross capital formation in UK, 1962–72	75
3.17	Capital formation and consumption in UK manufacturing industry, 1962–72	76
3.18	Gross capital-output ratios for total UK economy, 1962–72	77
3.19	Net capital-output ratio for UK economy, 1962–72	78
3.20	Replacement costs of net capital assets of UK dwellings, 1970	79
3.21	Income and net capital assets of UK economic sectors, 1970	79
3.22	Income and net capital assets of UK economic sectors, 1962	82
3.23	UK gross domestic capital formation by economic sector, 1962–72	83
3.24	UK net domestic capital formation by economic sector, 1962–72	83
3.25	Average net/gross investment percentages	83
3.26	UK investment average discount factors	84
3.27	Average results of company and public corporation investment	84
3.28	UK plant and machinery investment per head, 1970	85

Chapter 4

4.1	Transformation of saving to lending in France, 1970	92
4.2	Canalisation of funds from insurer to user in France, 1970	94
4.3	Credit institutions in France: transformation of borrowing to lending, 1970–73	95
4.4	Credit institutions in France: timespan of resources	96
4.5	Medium- and long-term financing in France, 1973	97
4.6	Financial market in France, 1973 — issues and purchases	99
4.7	Financial market in France, 1970–73 — issues and purchases	101
4.8	New issues of shares and bonds in France, 1970–73	101

4.9	Distribution of medium- and long-term funds by lenders in France, 1973	102
4.10	Summary of French saving-to-investment transformation, 1973–75	104
4.11	Credit creation by Japanese banks, 1946–68	106
4.12	The increase in supply of industrial funds in Japan, 1961–75	108
4.13	Supply of funds to Japanese business, 1970	109
4.14	Average debt-equity ratios of industrial and commercial companies in Japan, 1960–65	110
4.15	External supply of industrial funds in Japan, 1960–75	111
4.16	Financial surplus or deficit of non-financial sectors in Japan, 1968–72	112
4.17	External capital sources for Japanese industrial and commercial companies as percentages of GDP	112
4.18	Deposits and loans and discounts of all Japanese financial institutions, 1971–75	113
4.19	Transformation of saving to lending in West Germany, 1970	116
4.20	Credit institutions in West Germany: transformation of borrowing to lending, 1970–73	118
4.21	Credit institutions in West Germany: timespan of resources, 1970–73	119
4.22	Funds borrowed by non-financial enterprises in West Germany, 1970–74	122
4.23	The financial market in West Germany: new issues of shares and bonds, 1970–74	122
4.24	Summary of West German saving-to-investment transformation, 1970–74	123
4.25	Transformation of saving to lending in the UK, 1970	126
4.26	Credit institutions in the UK: transformation of borrowing to lending, 1970–74	129
4.27	Credit institutions in the UK, 1970–74	130
4.28	Funds borrowed by non-financial corporate and quasi-corporate enterprises in the UK, 1970–74	131
4.29	Sources of capital funds for UK industrial and commercial companies, 1971–75	132
4.30	Contribution to capital funds source of UK industrial and commercial companies, 1971–75	133
4.31	Uses of capital funds by UK industrial and commercial companies, 1971–75	134

List of Tables and Figures

xi

4.32	External long-term capital raised in UK by domestic industrial and commercial companies, 1963–75	136
4.33	Long-term external capital sources for industrial and commercial companies, 1963–75	137
4.34	UK financial market: new issues of shares and bonds, 1970–74	137
4.35	Summary of saving-to-investment transformation in UK, 1970–74	138
4.36	Net acquisition of financial assets by economic sector, in UK, 1963–75	139
4.37	Funds raised in credit markets by non-financial sectors in the USA, 1970–73	142
4.38	US government funds raised in credit markets, 1970–73	142
4.39	US state and local government funds raised in credit markets, 1970–73	143
4.40	New issues of shares and bonds for non-financial sectors in the USA, 1970–73	143
4.41	Distribution of total funds raised in USA credit markets, 1970–73	144
4.42	Finance of funds advanced in USA credit markets to non-financial sectors, 1970–73	144
4.43	Saving by individuals in USA, 1970–73	146
4.44	Sources of funds for non-farm non-financial corporate business in USA, 1963–73	147
4.45	Sources of funds as % of GDP for non-farm non-financial corporate business in USA, 1963–73	147
4.46	Net borrowing of households as percentage of their gross financial saving, 1970–73	152
4.47	Medium- and long-term external funds provided to non-financial corporate and quasi-corporate enterprises, 1970–73	153

Chapter 5

5.1	UK gearing percentages of quoted companies	158
5.2	Financial valuation of UK industrial and commercial companies, 1960–75	159
5.3	Debt-equity capital structures, 1970	160
5.4	Share yields in national stock markets	164
5.5	Profits as a percentage of sales (1971) for the 50 largest national companies	167

5.6	Saving of corporate and quasi-corporate enterprises, 1960–71	170
5.7	Analysis of corporate saving in the UK, 1960–71	170
5.8	Capital consumption as a source of finance in corporate and quasi-corporate enterprises, 1960–71	171
5.9	Fixed capital consumption as a percentage of internal capital funds, 1960–71	172
5.10	Total internal financing of gross capital accumulation in corporate and quasi-corporate enterprises, 1960–71	173
5.11	Total external capital funds provided to non-financial corporate and quasi-corporate enterprises, 1970–74	173
5.12	Medium- and long-term capital funds provided to non-financial corporate and quasi-corporate enterprises, 1970–74	174
5.13	Medium- and long-term funds as a percentage of total capital funds, 1970–74	174
5.14	Total medium- and long-term finance made available (sum of internal and external funds) as % of GDP	175
5.15	Interest rates charged on loans to industry, 1970–74	176
5.16	Percentage repayment rate associated with debt	183
5.17	Percentage repayment rate associated with debt for profitable companies	185
5.18	Net capital-output ratios in Japanese industry, 1963 and 1967	188

Chapter 6

6.1	Predicted indices of real private consumption per head, 1960	197
6.2	Calculated indices of real private consumption per head, 1970	198
6.3	Gross savings by households, 1965–70	200
6.4	Gross financial saving and net borrowing by households, 1970–73	202
6.5	Gross financial saving and net borrowing by households as % of GDP, 1970–73	203
6.6	International comparison of tentatively-calculated housing stock, 1968	203
6.7	Interest rate structure in Japan	206
6.8	UK net capital stock, output and employment incomes in companies and public corporations, 1962–72	214

List of Tables and Figures

xiii

6.9	Relation of UK net capital to output and employment, 1962–72	214
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FIGURES

3.1	Equipment investment and GDP growth for 12 countries	73
5.1	Conventional explanation of the theory of Anglo-Saxon capital structures of the company	157

Preface

This book is primarily a comparative analysis of how industrial investment is financed in five countries (France, Japan, West Germany, the UK and the USA) and a consequent prescription for the improvement of UK investment-funding systems. At present, when North Sea oil is freeing Britain from the balance of payments constraint on economic growth, there seems to be common consent that there should be a higher level of industrial investment, but some doubt about how this objective could be achieved. It is therefore our view that the subject matter of this book could hardly be more pertinent to the current economic debate.

For example, the Committee to Review the Functioning of Financial Institutions is due to produce an interim report on its progress in November 1977. Sir Harold Wilson, the chairman of that committee, was reported, in advance of the report, as hinting strongly that the committee evidence seemed to suggest that the supply of external capital might not be a problem, although the associated costs and terms might be too high.¹ The comparative analysis conducted in this book seems to throw doubt upon such a conclusion, and casts some light on why investment levels are higher in other countries than in the UK.

The propositions advanced in Chapter 5—that liquidity of a company takes precedence over considerations of profitability, and hence investment may occur up to the point at which the return on marginal investment projects is equal to the cash flow costs of investment capital—may explain part of the difference in national investment levels. But differences in government economic philosophies and attitudes to business, different levels of business savings, and different traditions in the degree of integration of the financial and industrial systems of countries, are also contributory.

While the bias in the final chapter is towards proposing possible methods of raising investment levels in the UK, there may also be lessons for other Anglo-Saxon countries—such as Australia, Canada, New Zealand, and the USA—in the suggested prescription for higher economic growth. The Anglo-Saxon traditions (of high internal funding

of investment and the separation of the financial and industrial systems) are not restricted to Britain; they are largely shared by other English-speaking countries.

The subject matter of this book covers a vast area and it is difficult to ensure that a proper perspective has been arrived at for there is a great deal of potential source material. The authors have sifted and sorted, and earnestly hope that a proper balance has been struck between sources.

We wish to acknowledge permissions granted by the Controller of Her Majesty's Stationery Office to quote from 'National Income and Expenditure, 1973' and 'Economic Trends Annual Supplement 1976'; and by all of those other authors, publishers and authorities whose assistance has been so valuable and who are individually mentioned in the notes.

Thanks are due to all of those friends, colleagues, economists and correspondents who provided critical and helpful comment during our researches into this subject, from late 1971 to the present; errors in this book are, of course, our responsibility alone.

25 September 1977

J.C.C. G.T.E.