FINANCING INDUSTRIAL INVESTMENT

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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.