THE DEPRECIATION OF BRITISH HOME INVESTMENTS.

IV.[1]

THE war has both accelerated the depreciation considered in the three previous articles, and made it impossible to continue its examination on just the old lines. Minimum prices imposed upon the stock markets of Great Britain from August, 1914, to July, 1916, have, of course, rendered "average mean annual prices" of most of the investments unobtainable for those years. But now that these fetters have been removed it is possible to make use of present average prices instead, and to reduce them to number of years' purchase of dividends. As this gives quite a fair comparison with the former figures, it has been done in the accompanying tables as on December 31st, 1916, and the resultant years' purchase has been inserted in the diagram. The lines have, as might be expected, again fallen heavily. They are now nearer together, and show that the old preference for British railway debenture stocks and municipal stocks, where it has not disappeared, is less pronounced than ever. The difference between the former (line *A*) and the similar foreign and colonial issues covered by line *D* is now less than one year's purchase. In other words, in 1896 the yield of *A* was £2 11*s*. per cent. against £4 0*s*. 3*d*. of *D*—a difference of £1 9*s*. 3*d*.; whereas now the respective yields are £5 2*s*. 5*d*. and £5 7*s*.—a difference of 4*s*. 7*d*. only.

The six French Railway Obligations (Professor Rist's line *F*) in 1896 yielded £3 2*s*. 10*d*. per cent. as compared with the British yield of £2 11*s*. per cent. They now yield £4 8*s*. 6*d*. only, as compared with the British £5 2*s*. 5*d*. A higher yield of 11*s*. 10*d*. has become a lower one of 13*s*. 11*d*.—a very noteworthy difference.

[1] The previous articles appeared in the June numbers of the ECONOMIC JOURNAL of 1912, 1913, and 1914. This article was written in February, but too late for the March number.

TABLE I.—(Line A of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY DEBENTURE STOCKS.

——	1876.	1881.	1886.	1891.	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Caledonian	4 00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	104·00	107·5	116·2	126·6	156 9	135·2	121·2	108·00	102·1	78·00
2. Great Eastern ...	4·00	4·00	4·00	4·00	4 00	4·00	4·00	4·00	4·00	4 00
	102·5	112·2	117·0	127·5	154·2	131·0	119·1	106·2	99·5	74·00
3. Great Northern ...	4·00	4·00	4·00	3·00	3·00	3·00	3 00	3·00	3·00	3·00
	105·2	114 7	120·5	100·5	119·1	100·0	92·0	81·6	77·1	61 00
4. Great Western ...	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	105·2	114·7	121·0	131 9	157·7	134 0	123·4	109·5	103·5	82·00
5. Lanc. and York-shire	4·00	4·00	4 00	4·00	3·00	3 00	3·00	3·00	3·00	3·00
	105·2	114 7	118 0	128·0	119·7	100·5	91·8	81·2	75·6	59·00
6. L. and North Western	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3 00
	105 7	115·0	121 7	132·7	119·9	103·2	95·8	84·2	78·8	62·00
7. L. and South Western	4·00	4·00	4 00	3·00	3 00	3·00	3·00	3·00	3·00	3·00
	105·7	115·5	120·0	100·2	119·9	101·8	93·0	81·9	76·7	60·00
8. L. Brighton and South Coast ...	4·50	4·50	4·50	4·50	4·50	4 50	4 50	4 50	4·50	4 50
	114·0	124·0	130 5	143·0	173·7	147·4	133 0	120·2	112·4	86 00
9. (a) Manchester, Sheffield and Lincs. ... ... (b) L. Tilbury and Southend ... (c) Great Central ...	(a)4·50	(b)4·00	(b)4·00	(b)4·00	(b)4·00	(b)4·00	(b)4·00	(b)4·00	(c)4·50	(c)4·50
	113·0	107 5	116·0	123·0	154·1	130·5	117·0	106·1	110·0	83·00
10. North British ...	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	102·7	107·9	114·7	124·6	116·4	100·0	91·0	80·6	76·1	58·00
Average of the Ten: Dividend, % ...	4·10	4·05	4·05	3·85	3·55	3·55	3·55	3·55	3·60	3·60
Price, %	106·32	113·37	119·56	123·80	139·16	118·36	107·73	95·95	91·18	70·30
Yield, %	3.17.1	3.11.3	3 7.9	3.2 2	2.11.0	3.0.0	3.5.7	3.14.0	3 19.0	5.2.5
Years' Purchase &c.	25 9	28·0	29·5	32·2	39·2	33·3	30·3	26·8	25·3	19·5

The dividends are those paid during the year.

TABLE II.—(Line B of Diagram).

Dividends and Mean Prices. BRITISH MUNICIPAL SECURITIES.

	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Metropolitan Consolidated (1941) 3% Stock...	121·75	101·37	93·75	89·25	85·50	67·00
2. Birmingham Corporation (1947) 3% Stock	114·00	100·87	91·87	86·44	79·37	60·50
3. Bristol Irredeemable 3½% Stock	132·75	114·25	104·50	97·75	89·56	69·50
4. Cardiff (1935) 3½% Stock	122·31	106·75	101·37	97·00	90·56	75·50
5. Glasgow Irredeemable 3½% Stock	135·25	118·75	107·37	102·12	96·00	72·00
6. Liverpool Irredeemable 3½% Stock	136·75	117·75	108·12	100·50	93·62	72·00
7. Manchester Irredeemable 4% Stock	151·12	132·06	123·56	114·69	105·50	79·50
8. Newcastle (1936) 3½% Stock	121·37	106·50	101·25	97·37	94·12	75·00
9. Nottingham Irredeemable 3% Stock	117·12	100·37	90·44	87·87	79·75	61·50
10. Bradford (1945) 3½% Stock	123·25	109·31	101·75	97·75	93·19	76·00
Average of the Ten: Dividend, 3·4%. Price	127·567	110·798	102·398	97·074	90·717	70·850
Yield, per cent. ...	2.13.4	3.1.4	3.6.5	3.10.1	3.15.0	4.16.0
Years' Purchase ...	37·5	32·6	30·1	28·5	26·7	20·8

TABLE III.—(Line C of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY ORDINARY STOCKS.

	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Caledonian	5·25	3·62	4·00	3·37	3·37	3·37
	154·56	124·40	110·60	85·75	74·69	49·00
2. Great Eastern	2·75	2·62	3·37	3·37	2·25	2·50
	98·62	101·75	85·19	71·12	54·00	37·00
3. Great Western	5·87	4·00	5·37	6·00	6·12	5·75
	173·25	140·06	133·19	126·31	115·87	90·50
4. Lancashire&Yorkshire	5·12	3·62	4·12	4·62	4·25	4·50
	140·44	117·87	105·12	97·12	87·12	67·50
5. L. and North Western	6·87	5·50	6·37	6·87	7·00	6·00
	197·69	169·31	155·50	141·12	131·00	98·00
6. L. and South Western	6·37	5·50	6·00	6·12	5·87	5·50
	207·25	176·00	153·00	141·37	117·81	82·50
7. L. Brighton & So' Coast	6·50	4·75	5·62	5·62	5·25	5·00
	185·50	142·00	133·62	115·50	104·56	78·00
8. North East. "Consols"	6·12	5·75	5·75	6·25	6·50	6·50
	173·56	160·25	140·94	130·37	120·25	102·25
9. North Staffordshire ...	4·25	3·62	4·25	4·75	4·50	4·62
	130·25	107·75	101·19	94·44	84·56	66·00
10. Taff Vale	3·25	2·87	3·87	4·00	4·25	3·50
	86·50	71·50	79·62	76·00	73·62	54·00
Average of the Ten: Dividend, per cent.	5·235	4·185	4·872	5·097	4·936	4·724
Price ,,	154·762	131·089	119·797	107·910	96·348	72·475
Yield ,,	3.7.8	3.3.10	4.1.4	4.14.6	5.2.6	6.10.4
Years' purchase	29·6	31·3	24·6	21·2	19·5	15·3

The dividends are those paid during the year.

TABLE IV.—(Line D of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY OBLIGATIONS.

	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Northern of France 3% Obligations	95·0	91·1	91·1	84·1	3·0 80·6	3·0 57·5
2. Grand Russian (Nicolai) 4% Bonds	99·0	97·1	76·5	89·1	4·0 85·4	4·0 65·5
3. (*a*) Pennsylvania 4½% Gold Bonds ... ... (*b*) Pennsylvania 4% Con. Mort. Bonds	(*a*) 113·0	(*a*) 111·6	(*a*) 104·8	(*a*) 104·1	(*b*) 4·0 97·6	(*b*) 4·0 105·0
4. Chic. Mil. and St. Paul 4% Gen. Mort. Bonds	95·2	115·0	111·9	104·1	4·0 98·1	4·0 98·0
5. Buenos Ayres Gt. Southn. 4% Deb. Stock	119·5	111·0	106·2	102·2	4·0 97·4	4·0 75·0
6. Central Argentine 4% Deb. Stock	110·1	102·9	105·5	101·4	4·0 96·6	4·0 74·0
7. Mexican Railway 6% Perp. Deb. Stock ...	131·1	132·7	144·0	139·6	6·0 126·5	6·0 59·5
8. Nitrate Railways 5% 1st Mort. Bonds	88·6	97·7	105·2	105·2	5·0 105·7	5·0 102·5
9. Canadian Pacific 4% Con. Deb. Stock	105·2	110·1	110·9	104·4	4·0 98·0	4·0 79·0
10. Atlantic and St. Lawrence 6% Shares	152·5	160·5	157·7	150·1	6·0 138·0	6·0 106·5
Average of the Ten: Dividend, 4·45%. Price	110·92	112·97	111·38	108·43	4·40 102·39	4·40 82·25
Yield, per cent. ...	4.0.3	3.18.9	3.19.11	4.2.1	4.5.11	5.7.0
Years' Purchase ...	24·9	25·4	25·0	24·4	23·2	18·7

TABLE V.—(Line E of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY ORDINARY STOCKS AND SHARES.

	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Canadian Pacific ...	2·00 58·06	5·00 104·50	6·50 184·94	10·00 227·69	10·00 233·00	10·00 174·00
2. Chicago, Milwaukee and St. Paul	4·00 72·37	6·00 71·31	7·00 178·50	7·00 122·94	5·00 109·62	5·00 96·00
3. Illinois Central	5·00 93·69	6·00 143·81	7·00 179·81	7·00 143·44	6·00 119·50	6·00 111·00
4. New York Central ...	4·00 96·06	5·00 160·50	5·25 145·12	5·00 111·50	5·00 103·00	5·00 108·00
5. Pennsylvania	5·00 116·12	6·00 154·25	6·50 139·12	6·00 128·37	6·00 118·37	6·00 119·00
6. Buenos Ayres Great Southern...	5·50 130·12	7·00 137·75	7·00 133·69	7·00 121·37	7·00 119·50	4·50 79·00
7. Buenos Ayres Western	6·00 120·62	6·00 104·69	7·00 131·12	7·50 128·37	7·00 119·00	5·00 80·00
8. Central Argentine ...	2·50 64·25	3·75 65·87	6·00 115·87	6·00 107·44	6·00 106·19	4·00 66·00
9. (*a*) Rio Claro Sao Paulo ... ... (*b*) Great Western of Brazil	14·00 (*a*) 231·87	14·00 (*a*) 244·68	14·00 (*a*) 262·50	13·50 (*a*) 257·50	6·00 (*b*) 99·06	0·00 (*b*) 47·50
10. San Paulo (Brazilian)	14·00 195·62	10·00 151·50	12·00 207·19	13·00 209·56	14·00 248·00	13·33[1] 174·00
Average of the Ten: Dividend, per cent.	6·200	6·875	7·825	8·200	7·200	5·88
Average of the Ten: Price ,,	117·878	143·886	167·786	155·818	137·524	105·45
Average of the Ten: Yield ,,	5.5.2	4.15.6	4.13.3	5.5.3	5.4.8	5.11.7
Average of the Ten: Years' Purchase ..	19·0	20·9	21·4	19·0	19·1	17·9

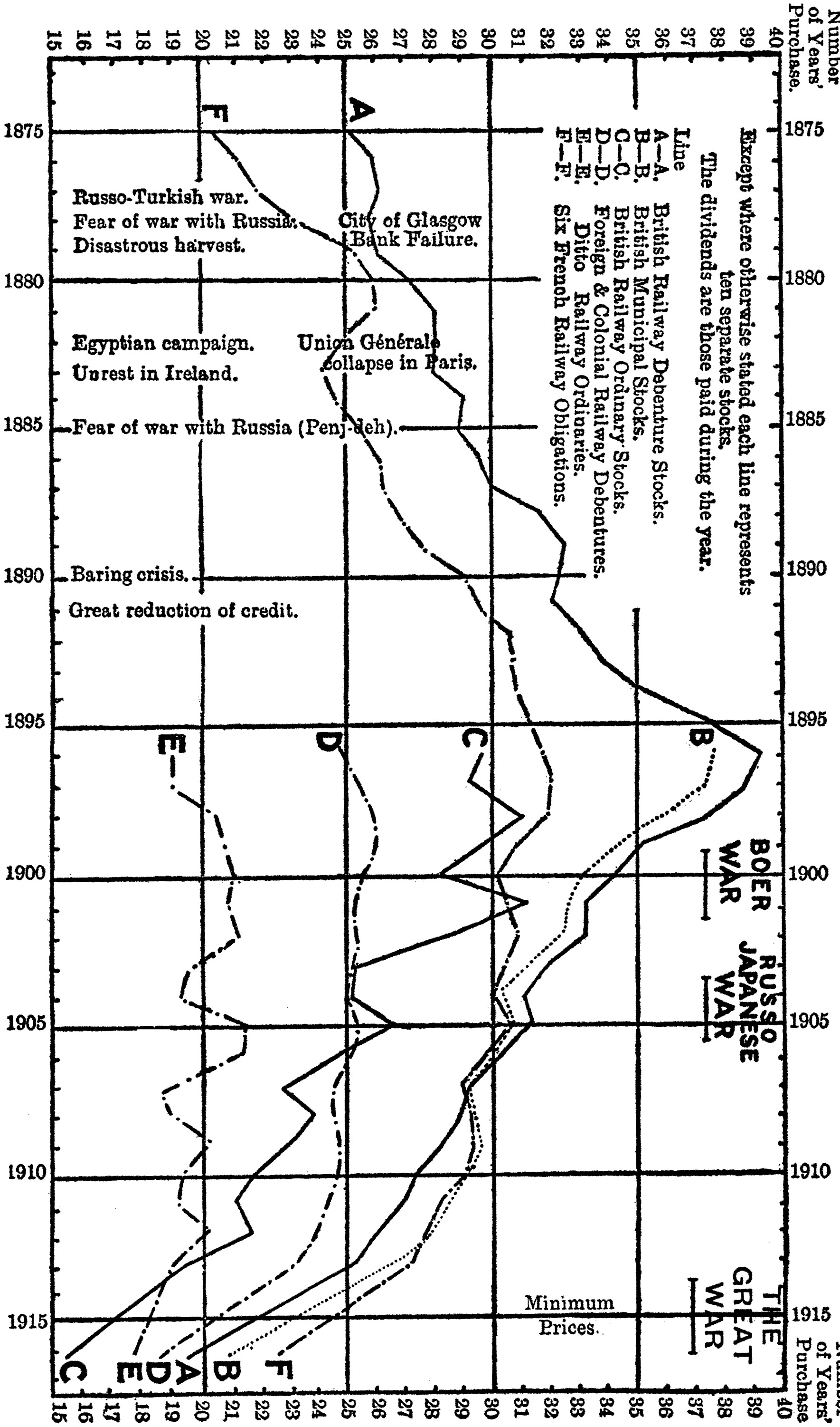
The dividends are those paid in the year.

[1] 10 per cent. free of income tax.

The depreciation, therefore, of British railway *debenture* stocks since 1896 is much greater than that of the corresponding foreign and colonial investments, and the gradients continue steeper. When, however, the yield of British railway *ordinary* stocks (line *C*) is compared with that of similar foreign and colonial ordinary stocks (line *E*) the changes are even more remarkable; for whereas in 1896 the respective yields were £3 7*s*. 8*d*. and £5 5*s*. 2*d*., they are now £6 10*s*. 4*d*. and £5 11*s*. 7*d*., showing that the preference, formerly very great, for British railway ordinaries has entirely disappeared, and that the positions are reversed. During the past three years the dividends of the British stocks have been steadier than those of the foreign and colonial stocks. The latter have fallen from 7·2 per cent. to 5·88 per cent., against a fall of the former from 4·936 per cent. to 4·724 per cent. only. Thus the depreciation of the British stocks, measured in years' purchase of dividends, is far greater than, while that of the

SOME BRITISH HOME INVESTMENTS COMPARED WITH SOME SIMILAR FOREIGN AND COLONIAL INVESTMENTS.

Average Mean Annual Prices (reduced to number of years' purchase of Dividends); see tables on pp. 188–190.



corresponding foreign and colonial stocks is not so great as, the diminution of the dividends. The prices are those of the London Stock Exchange, so that a high Bank-rate and heavier income-tax affect both sets of securities in the same way.

Why, then, are all the British home investments so much more seriously depressed than the others?

This is the same problem as the writer had to deal with in his previous articles, and it remains the same to-day as it was before the war. We have not only to deal with a very large adverse movement of standard British home investments, such as an investor in 1896, who aimed at security rather than high yield, would have been likely to buy, but with a movement in which, generally speaking, similar foreign and colonial investments do not equally share.

As it stands, the picture has become still more alarming to all present and prospective investors, and particularly disconcerting to the actual holders of these and similar British investments who acquired them at the prices of twenty, or even ten, years back.

While the war has not altered the problem, it has, however, brought into great prominence facts which not only help to explain the depreciation, but also hold out promise of a better state of things. An article in the *Times Financial Supplement* of January 5th, 1914, compares the pre-war national output of the United Kingdom with that of the United States, and reports Mr. A. W. Flux, M.A., F.S.S., the Director of the Census of Production, as having shown that, on the broadest statistical basis, "the production per head in the United States was roughly double that shown by the census for the United Kingdom." This statement, the accuracy of which cannot be doubted, has an all-important bearing upon the problem, and has not received from the present writer in his former articles the attention which it merits.

The first of these articles presented a *primâ facie* case for holding that our industries were exposed to exceptional competition, and that the exceptional decline in the value of our home investments (demonstrated by the accompanying diagram) might be very largely due to that competition. The second article, after examining what other writers had to say about the first without finding any valid reason for altering it, adduced fresh evidence in support of the existence of exceptional competition. The third article found another cause at work, which was depressing alike home, foreign, and colonial stock markets, but which did not in any way weaken the evidence that exceptional competition existed in this country. Indeed, the argument was strengthened by following up that evidence.

The effect of Mr. Flux's statement upon this argument has now to be considered. He tells us that before the war the output per head of those employed in our industries was only half (roughly) that of the United States in theirs. To enable us to grasp the effect of this state of things upon the exceptional competition in this country, which has been regarded as a main cause of the depreciation for which an explanation is sought, very little consideration is needed. A low output increases cost of production in more ways than one. It entails larger premises, more machinery, and more supervision, in addition to greater numbers of workers. The larger premises and more machinery require more capital and involve higher rates and taxes. More supervision and greater numbers of workpeople involve extra wages. Raw materials and fuel, too, may be made more costly, in the same way, in proportion to the restrictions upon output affecting them, and the larger premises and more machinery likewise cost more if the industries producing them are in the same toils. All this additional burden—interest, wear and tear, rates and taxes, wages, and cost of raw materials and fuel—enhances cost of production. The selling price of the product must be increased correspondingly. The industry concerned is thus handicapped when in open competition with other similar enterprises, however geographically distant, which enjoy better conditions.

When, therefore, the Director of the Census of Production tells us that on the broadest statistical basis our pre-war production per head of those employed in our industries was only half that of the United States, it surely follows that our industries were hopelessly handicapped, and that our standing as regards competition was exceptionally bad. The argument of the previous articles based upon competition is thus immeasurably strengthened. Protective duties, subsidies, and bounties abroad may have borne heavily upon our home industries, but the self-inflicted policy of restriction of output was probably an even heavier burden for them to carry.

At this distance of time a word may be needed to establish the connection between burdened industries and depreciation of investments. In the previous articles all the causes to which that depreciation has been attributed were carefully examined and the conclusion was reached that "exceptional industrial competition, the growth of taxation, increased cost of living, and the withdrawal of capital from once-favoured home markets make a combination of adverse influences which seem adequate to account for the exceptional depreciation of British home investments." Space does not permit a repetition of the reasons for rejecting other alleged causes; it must suffice to say here that, on the one hand, no one has controverted those reasons, and, on the other, that their soundness has been recognised in very competent quarters. Mr. Flux having helped us to see more clearly why our industries could not compete effectively with rival industries, and the war having demonstrated the effect of a low level of output upon the nation's military power and the paramount necessity of raising it to render victory in the field possible, it should now be easy to see how impossible it was, before the war, to expect our investments to maintain their values. Value depends on supply and demand, and when (as was the case before the war) the main source of demand for investments—industrial profit—was in many quarters so grievously burdened; when taxation and cost of living were rising at home and higher yields were obtainable abroad on securities which were maintaining their values, no one need wonder at the pre-war decline of our home investments. The war has revived our industries, but its cost has drained the stock markets of money, and high-yielding Government securities have come into competition with all other forms of investment and driven most of them down still further.

If the war had not told us more, the outlook would have been dark indeed. But by the splendid response of the nation to the call for more and ever more munitions of war, it has been proved that our former low output can be raised, and very quickly raised too.

Our output of munitions is increasing so rapidly that we may hope soon to do without outside help. Indeed, we appear to be nearing the enviable position of being able (with Canada's assistance) to supply the munition needs of our Allies, as well as our own, without the other help hitherto required. If we can do this while we are maintaining an Army of 5,000,000 men drawn from the industries of the Empire—most of whom are from Great Britain and Ireland—we are certainly increasing our output per head, and can see that we need never fall short of that of our industrial rivals if we do our best.

The war has thus brought us an illuminating and encouraging demonstration—illuminating because it shows that in wartime danger and disaster attend the mistaken policy of a restricted output; encouraging because it proves the remedy to be in our own hands.

The remedy for our pre-war industrial difficulties, therefore, lies ready to our hand, and its successful application awaits only the mutual confidence, goodwill, and effort of British employers and employees. They are dependent upon one another. Their real interests are identical, but false doctrines and unsound policies have hitherto tended to keep them apart, with the not surprising result that legislative effort has failed to bring them together. If they will only come together in a spirit of mutual confidence and understanding, they have it in their power to organise the future industry of the country on the basis of an unrestricted output with due and proper wages, and to command such legislation as shall secure them access to the markets of the world. The resources of the Empire are ample and the after-war needs of the world will be great. Industrial prosperity will attend a wise industrial peace at home, for, with an abundant demand for what we produce, our competitors, who were already working at full power before the war, will not be able to increase their peace output as we shall.

Our home investment markets, mainly dependent as they are on a supply of surplus capital which industry alone is capable of maintaining, will respond to any increase of industrial prosperity; and as those markets recover from the depression of the past twenty years they will, in their turn, enable industry to obtain, on less onerous terms, the capital without which it cannot live.

We are thus led to the conclusion that the exceptional depreciation of British home investments, with which these articles have been dealing, has been traced to its causes, the chief of which is exceptional industrial restriction of output. Industry cannot thrive while output is restricted as it has been in this country. The census of production explains the comparative decline of British industry, of which, before the war, the statistician was always telling us. The remedy, too, has become plain.

Mr. Lloyd George, the Premier of Great Britain and Ireland, has summed up the position very ably. Speaking at the Guildhall on January 11th he said :—

> "Before the war we had a good many shortcomings in our business, our commerce, and our industry. The war is setting them all right in the most marvellous way. You ask great business men like my friend Lord Pirrie, whom I see there in the corner, what is going on in the factories throughout Great Britain and Ireland. Old machinery scrapped, the newest and best set up; slipshod, wasteful methods also scrapped, hampering customs discontinued; millions brought into the labour market to help to produce who before were mere consumers. . . . We are a different people."

On February 23rd, however, in the House of Commons, when dealing with the shortage of tonnage of our mercantile marine and the urgent need of shipbuilding, he said :—

"I am convinced, after a great deal of examination of the problem, and hearing what has been said by both employers and working men, that the output can be very considerably increased by an alteration of methods."

So that restriction of output of what is of vital importance and of urgent need, though reduced and we may hope dying, has not ceased to exist even in this hour of the Empire's greatest danger.

Is further evidence as to the nature and solution of our problem needed? I hardly think so. Though my diagram is both alarming and disconcerting, and the industrial position not free from anxiety, signs, as we have seen, are not wanting of a kind calculated not only to reduce alarm, but to inspire hope. The facts shortly dealt with in this article show that if our industries adopt, and continue, the unselfish policy of the highest possible output per head—which, we may believe, will bring us the reward of ultimate victory in this awful war—we may confidently look forward to a time of prosperity after the war in which every person in the Empire will share, however high or low his lot. The lines in this diagram which, mainly under the malign influence of restricted output, have been falling so ominously since 1896, will then begin to rise again, and, as industrial prosperity increases, helped as it will be by lower rates of interest, we may reasonably expect to see them regain much of the ground lost during the past twenty years.

A STOCKBROKER

February, 1917.