

# The character and denomination of shares on the British equity market, 1825-70

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The seminal work of Jefferys highlights two distinct features of the nineteenth-century British capital market: the high denomination of shares and the presence of uncalled capital.<sup>1</sup> According to Jefferys, these two features existed to ensure good governance of publicly-traded corporations and to exclude unsuitable investors, such as the middle class rentiers, from company ownership. However, these two features may have made stocks illiquid, may have resulted in making portfolio diversification very costly, and, by restricting market participation, may have increased the equity risk premium. This ultimately could have hindered the development of the British capital market and Victorian economy. Indeed, it is interesting to note that the growth in the market for non-railway securities occurs after the early 1880s, which is when Jefferys dates the demise of high share denominations and uncalled capital.<sup>2</sup>

In this paper, we have two objectives. First, as Jefferys simply gives an impressionistic overview of the prevalence and extent of high share denomination and uncalled capital in the nineteenth-century stock market, we provide a comprehensive overview of the extent to which these features occurred over the period 1825 to 1870. Second, using monthly stock price data for the period 1825-70, the heyday of high share denominations and uncalled capital, we examine the impact of these features on stock returns to see whether investors were rewarded for investing in shares with these characteristics.

Our findings suggest that Jefferys was correct to identify 1885 as the watershed in the demise of the prevalence uncalled capital. Prior to this period, *circa* 50 per cent of companies listed on the London market had uncalled capital, but by 1913, this had fallen to only 16 per cent. Similarly, the same is true for the average portion of capital which was uncalled, with the average uncalled portion being above 33 per cent before 1865 and being about 10 per cent in 1913. However, Jefferys was incorrect in identifying 1885 as the watershed in the demise of high share denominations. We find that average share denominations trended downwards quite significantly over the period 1825-70.

Our analysis of how the above two features affects stock returns reveals that investors received a higher return if stocks had uncalled capital. We suggest that this return was simply a reward for the risk of calls on their personal assets that investors faced and not a reward for the supposed illiquidity of such stocks. Our results also suggest that stocks with high denomination did not earn a superior return. If anything, our evidence indicates that higher denominations results in lower returns. This suggests that even if high denominations hindered portfolio diversification, investors did not seem to demand a compensatory return. Indeed, our findings are more in line with the view that higher denominations results in fewer shareholders and better governance, resulting in investors demanding a lower risk premium.

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<sup>1</sup> Jefferys, J. B. "The denomination and character of shares, 1855-1885." *Economic History Review* 16 (1946): 45-55; Jefferys, J. B. *Business Organisation in Great Britain 1856-1914*. New York: Arno Press, 1977.

<sup>2</sup> See Michie, *London Stock Exchange*, p.89 for the growth of the equity market.