

(VI.) BY FRANCIS L. LEET, LL.D.

I propose to confine my contribution to this discussion mainly to a consideration of the totals of Imports and Exports together with the excess of Imports shown in Table I. of Mr. Hooper's supplement to the December report. It has occurred to me that the Banking Returns for the years 1923 and 1924 might with advantage be consulted at the same time for the independent testimony they afford—firstly, as to the financial position of the country at the close of 1924, and, secondly, with

respect to the reconciliation of that position with the results disclosed by the aggregates of our foreign trade for the same period. Not only is banking an essential factor in industry and commerce and due therefore to be included in a critical survey of the country's trade, but it may be said advisedly that values of imports and exports, trade balances and other vital matters are inseparable from banking operations. The movements in the deposits, discounts and advances, note issues, cash and investments of the Irish joint stock banks, and the clearing returns of their bills, notes and cheques are relative facts and indispensable to a right understanding of Irish Free State trade statistics.

The expression "*Irish* joint stock banks" is used here intentionally to assert the fact that the banking system of Ireland is one and indivisible. Two out of the three Northern Ireland banks are operating throughout the Free State, and five out of six of the Free State banks are largely represented in the Six Counties area. It is therefore requisite to have the figures for the nine joint stock banks included in the statistical statements of Free State trade.

The particular matter in the Department's report to which I now ask your attention is the adverse balance of trade which is shown on page 5 of Mr. Hooper's review. The total imports for domestic consumption are valued at £67,586,473, and the total exports of Free State produce at £50,280,743, disclosing an adverse balance of £17,305,730. This statement is referred to in the daily press* as a fair measure of our financial losses, which, as will be shown later, is at least questionable. Nor can it be said *prima facie* that it does represent a loss at all. "The equivalence of imports and exports," says Professor Bastable,† "may or may not exist, but there is no advantage or disadvantage in an excess of either of these amounts. A country may, for a considerable period, have an excess of exports over imports and be prosperous or the reverse. And the same is the case with imports; but a country which has a balance of indebtedness against it will have to alter some of the items of the account or clear away the balance by a number of bankruptcies. The establishment of the equation of indebtedness is for every country simply the condition of her remaining a solvent nation." If then we are to address ourselves not exclusively to the equivalence of imports and exports, but comprehensively to the equation of indebtedness we must call for the banking returns.

It may be taken that our imports are all paid for through the medium of the banks, and therefore that the credit balances

**Irish Times*, 14th February.

†*Theory of International Trade*, p. 76.

of bank customers were drawn upon throughout the year to the extent of £67,586,473. On the other hand, our exports were paid for by foreign importers, also through the medium of the Irish banks, by drafts payable to bank customers, and drawn on or negotiable in London, thus replacing to the amount of £50,280,743 the credit balances depleted by the payments for imports. There is, however, an obvious hiatus of £17,305,730 between these two aggregates which represents what is called the adverse balance of trade. We should be able to reconcile these facts with the aggregated balance sheets of the Irish banks, allowance being made for certain sections of Northern Ireland trade, the figures for which are not at present available.

The following aggregates have been made up from the latest balance sheets of the year 1924 issued by nine joint stock banks :—

	1923 (000's omitted)	1924 (000's omitted)	Increase or Decrease (000's omitted)
Deposits	201,656	196,575	— 5,081
Note Circulation ...	16,703	16,240	— 463
Cash; and Credit Bal- ances in London ...	34,048	30,644	— 3,404
British Government Securities	82,572	91,418	+ 8,846
Other Investments ...	12,479	5,791	— 6,688
Bills Discounted and Loans	102,335	99,670	— 2,665
Total Assets	234,649	230,558	— 4,091

Comparing now the aggregated deposits of the banks for the years 1923 and 1924, we find that there is a decrease to the extent of £5,081,000 only, and this decrease must be accounted for largely in other ways before attributing any part of it to the adverse balance of trade. For instance, discounts and advances have been reduced by £2,665,000 in the same period which points to the cancellation of an equivalent sum of deposits. And, further, one of the banks has transferred a sum of £732,000 from an inner reserve fund which was included under the general heading of Deposits, to its published reserve fund. Taking these two instances together we have accounted for £3,396,476 of the total reduction in deposits, leaving only £1,684,706 to tally with the large balance represented by excess of imports over exports. We must infer therefore that extensive accretions came to the credit balances of customers of the banks from other than export sources, which have in effect produced almost an equation of indebtedness. These accretions

should be discoverable. We have no reason to suppose that Home trade, subject to the conditions climatic, industrial and fiscal, which characterised the year 1924, contributed anything material to the growth of bank deposits, but there is one conspicuous source of contribution which goes half way to bridge the adverse balance of trade and which augmented the resources of the Free State by in round numbers £8,000,000, viz., the dividends due to Free State owners of British and foreign investments. (*Estimate of Minister for Finance.*)

We have so far accounted for the payment of £9,684,000 out of the total £17,306,000 adverse balance, leaving £7,622,000 still to be cleared up. Remittances from America, as we all know, are annually recurrent, and were estimated some decades ago* at £1,000,000 per annum, but against this we may set off the premiums on life, fire, marine and other policies of insurance payable to Great Britain. Similarly, the expenditure of visitors in the Free State must be considered with reference to the expenditure of Free State citizens when travelling abroad.

The Dublin correspondent of the *Manchester Guardian*,† writing on this question, says: "The total adverse balance for the year must be met (to the extent of £11 to £12 millions) by the sale of Irish investments held abroad, and the balance sheets of the Irish banks are beginning to afford absolute proof that this process is in fact taking place at a rate more or less commensurate with the figures given above." Were this statement altogether correct the Free State would be in a parlous condition, but happily the case is far otherwise. The Irish banks have indeed been selling their investments, but not to meet their liabilities. They sold some £6½ millions of non-Government stocks and re-invested in £8,800,000 of Government securities. Judging from our bank reports it would almost appear as if the humorous suggestion of Mr. Hartley Withers, made in a different connection, had in our case been realised: "that other nations had been pouring goods into us and would take nothing in return."

To put the matter in Professor Bastable's way, our equation of indebtedness, as shown by the banking position, is almost established, which signifies that our imports have been paid for either by goods exported or by services, etc., but not with money. Now we are unable to trace in our Free State Trade Report more than has already been stated. There remains, however, one essential factor in the problem which has not been taken into account. From the circumstances of the case we

*Mulhall, 1886.

†Issue of 20th November, 1924.

have been obliged to recognise that all the Irish banks, save one, are involved in the trade of the Irish Free State; but while the trade between Northern and Southern Ireland has been fully included, we have not reckoned with the trade between Northern Ireland on the one side and Great Britain and other countries on the other side. Yet this trade has been financed by eight out of the nine Irish banks, including five out of the six Free State banks. If therefore this Trade Balance of Northern Ireland for the year 1924 has been of the "favourable" order, showing an excess of exports over imports, the solution of the problem of our equation of indebtedness may lie partly in that fact.

It will be important and interesting when the figures become available to determine this issue. In the meantime Mr. Hooper, the Director of Free State Statistics, has not overlooked this question, and he observes in his review: "Some countries publish official estimates explaining how their balance of indebtedness is cleared; corresponding estimates for the Free State are not yet available."

Summing up the main issues in question it may be said that the Trade Report for 1924 shows a deficit of £17 millions, due to excess of imports; that the deposits of the banks during the same period show a net decrease of £1,500,000 only; and the inference may be drawn that the credit balances in the banks have been augmented by in-comings from abroad to the extent of £15,500,000. The following items are contributories to this sum, viz. :—

(1) Dividends on foreign investments, estimated by Finance Minister	£8,000,000
(2) British pensions paid to residents in Free State, quoted by Mr. J. M. Eason at	2,436,000
(3) Payments by British Government as compensation for property losses. (From details of F. S. published estimates.)	1,730,000
(4) Interest on Irish Bank Loans to Money Market	250,000
(5) Export of Specie (net)	231,000
		£12,647,000

If further we take into account, as suggested by Professor Oldham, that the value of cattle exported appears to be largely understated, there will be little difficulty in establishing the proposition that the equation of indebtedness for the Free State with respect to the year 1924 has been fully attained.