IRELAND'S EXTERNAL ASSETS.

By T K WHITAKER.

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The term "external assets" as applied to holdings by Irish people abroad would be misleading if it conveyed the impression of a diversity of holdings in different currencies In fact, over 97% of these external assets are in sterling The primary explanation for this is, of course, that Ireland's earnings abroad are virtually all sterling earnings About 90% of Irish exports are consigned to the United Kingdom and most of Ireland's invisible income—from tourism, pensions, remittances, etc , as well as investments—comes from the United Kingdom British goods form roughly 50% of Irish imports and normally all Ireland's payments abroad are made through the medium of sterling These facts and the tradition established in the pre-1922 era, when Ireland was joined to the United Kingdom, account for Ireland's external investments being confined to the United Kingdom and countries which obtained their capital requirements through London. The principal non-sterling assets are the small quantity of gold held by the Central Bank, some dollar securities held by private persons and the working balances of foreign exchange held by the commercial banks against their day-to-day commitments and by the Minister for Finance in the Foreign Exchange Account. All dollar balances of Irish residents were requisitioned for exchange control purposes in 1941, and it is no longer possible to add to one's holdings in foreign exchange other than sterling as all earnings in such currencies must be changed into Irish currency. Such is the preponderance of sterling assets that it does no violence to the facts to treat the expressions "external assets" and "sterling assets" as virtually synonymous.

In ordinary parlance it is usual to refer to "our" sterling assets. This use of the possessive is convenient and, as applied to investments worth hundreds of millions, decidedly comforting, but it should not be allowed to obscure the true position It sometimes induces a vague notion that the assets are owned by, or are under the control of, the State and can be repatriated at will by the State for schemes of national development. There is, of course, no public or collective ownership of these assets; they are held by, or on behalf of, private concerns and individuals who possess the ultimate power of disposal and the right of enjoyment of income and capital. But, although the direct income from the holdings accrues only to the owners, the assets yield a national dividend, in the form of a larger volume of imports, which has a beneficial effect on the general standard of living The possession of external resources also gives strength and stability to the national economy

Ireland owes her net creditor position—exceptional in the world today—mainly to two wars Experience in both war periods was similar in so far as the volume of imports contracted far more than the volume of exports. The resultant accumulation of sterling might, indeed, be regarded as a form of forced saving. The high prices obtainable for exports of agricultural produce during and immediately after the 1914-18 war, coupled with the shortage of imports in that period, resulted in a substantial accumulation of sterling balances. Securities acquired during this time of high interest rates appreciated considerably later as the level of interest rates fell. Prior to the establishment of the State in 1922, these sterling holdings represented internal rather than external assets. No measure is available of the total increase which took place around the period of the First World War, but that it was very great is indicated by the fact that between 1910 and 1920 the deposits of all the Irish banks increased from £62½ million to £200 million; they had, in fact, been increasing steadily since the passing of the Land Act of 1903. The early years of the new State (1922-1927) saw a fall in the sterling holdings of the banks. From 1927 to 1932 they remained fairly steady. There was again a fall from 1933 to 1939. These inter-war variations are, however, completely overshadowed by the wartime accumulations. During the period 1940 to 1945, inclusive, there was a nominal addition of almost £140 million to Ireland's total sterling holdings. This time the reduction in imports was particularly severe and the accumulation was due less to high prices for exports than simply to inability to spend on imports the moderate return obtained from exports of goods and services.

The Balance of Payments Statements from 1933 onwards—as published in the *Irish Trade Journal*—give particulars of the changes from year to year in the external assets held by the Government, the Central Bank (formerly the Currency Commission), the commercial banks, and private concerns and individuals. The figures are not absolutely comprehensive. They exclude, for instance, security transactions through external stockbrokers other than by banks on their own account or on behalf of customers. Part of the " balance unaccounted for " must, therefore, be assumed to be attributable to to unrecorded capital movements. The net movements recorded in the Statement are shown in the following table :—

TABLE I

Changes in External Assets as shown by the Balance of Payments Statements, 1933 to 1947

Year	£ millions	Year	£ millions
1933	−3·7	1940	+ 2·3
1934	−4·3	1941	+14·3
1935	+0·6	1942	+26·1
1936	+2·5	1943	+32·4
1937	−2·1	1944	+32·6
1938	+2·0	1945	+34·6
1939	−0·5	1946	+19·7
		1947	−29·7
1933 to 1939 inclusive	−5·5	1940 to 1947 inclusive	+132·3

Total 1933 to 1947, inclusive + £127 million

The "balance unaccounted for" on the credit side of the Balance of Payments aggregated £23 1 million net for the years 1933 to 1939 inclusive, and £15 4 million for the years 1940 to 1942 inclusive. The Balance of Payments Statement for 1947 allocates the "balance unaccounted for" for the years 1943 to 1947 as between capital and current items in accordance with the supposition that it represents mainly unrecorded current receipts If it be assumed that in the earlier years one-third of the "balance unaccounted for" was of a capital nature, the totals in Table I should be re-written as follows:—

	£ million
1933 to 1939 inclusive	− 13
1940 to 1945 inclusive	+ 137
1946 and 1947	− 10
Total 1933 to 1947 inclusive	+ £114 million

The figures in paragraphs 3 and 4 bring out quite clearly the fact that ordinarily there is no net investment abroad by Irish residents; on the contrary, apart from war periods, the course is set towards disinvestment.

The Balance of Payments figures merely indicate changes from year to year in our external holdings. They give no direct information as to their total value. No complete inventory of Ireland's sterling assets has been made, or, indeed, seems possible, and no official estimate of their value has ever been published Such private estimates as have appeared from time to time have been arrived at, in part at least, by capitalising the item "income from investments abroad, extern profits, etc." which appears in the annual Balance of Payments Statement The pre-war total was variously estimated at between £250 million and £300 million and the present total is generally assumed to be about £400 million, although higher figures have been mentioned. In a matter of such importance more definite information is desirable It is, therefore, worth while examining the possibility of arriving at a reasonably close estimate of our total sterling holdings

Let us see, in the first place, what can be done by the capitalisation of income method The hazards of this process would be great even if one had an exact figure of income from abroad, could divide it accurately into its different categories—income from gilt-edged securities, dividends on industrial stocks, income from land and houses, trading profits, etc , and could sub-divide these categories into homogeneous classes In fact, the available material does not exhibit this degree of perfection The figure of total income is itself an estimate and can be resolved only into broad categories composed of diverse elements For instance, the category "income from British joint stock companies" comprises not only dividends on the soundest of industrial securities but also haphazard receipts from investments in mining and other speculative enterprises Before any capital value can be arrived at it is necesssary to select appropriate average rates of yield. A considerable degree of difficulty and risk attaches to this task Where the income is large, the effect of a slight variation in the rate of yield is magnified in the capitalised value Market values and, consequently, rates of yield are constantly changing and the capitalised value of the same income may vary greatly even within a short period the year 1947, in fact, saw a considerable change in market values.

These rather formidable difficulties are to some extent lessened by the fact that much of our income from abroad comes from British gilt-edged securities which tend at any given time to have a uniform yield Moreover, the heterogeneous item " income from British joint stock companies " is known to consist to a substantial extent of dividends on the better-class industrial equities and the trading profits of Irish companies operating abroad are not so large that the choice of an incorrect basis of capitalisation would seriously affect the gross estimate of the capital value of our external assets

The credit entry for " income from investments abroad, extern profits, etc " in the Balance of Payments Statement for 1947 was £17 8 million The principal constituent of this figure is supplied by the Revenue Commissioners who, of course, are in a good position to assess the flow of income from abroad in the form of interest on gilt-edged securities, dividends on stocks, trading profits of foreign branches of Irish companies, etc The entry takes separate account of the external income of the Central Bank and also of the commercial banks so far as it is not covered by the Revenue Commissioners' return It includes, however, certain receipts which cannot properly be capitalised An item described as " double residents' remittances " must be excluded since income of this kind depends on human volition and has no direct connection with tangible assets An adjustment is also necessary in the separate entries for the banks which include salaries and expenses paid in Ireland by banks incorporated outside the State and, therefore, do not represent earnings only In view of the considerations already mentioned, the estimates of capital value presented in the following table must be treated with reserve

TABLE II

Gross Value of Ireland's Sterling Assets, 1947—Estimate A

Description	Estimated Income £000	Assumed Yield %	Capital Value (£ million)
1 Interest on certain British Government and India Stocks	2,123	3	71
2 Income from other gilt-edged sterling securities	3,482	3	116
3 Income from British joint stock companies and other miscellaneous income from Great Britain and the Six Counties	7,265	$4\frac{3}{4}$	153
4 Trade profits of branches of Irish companies (other than banks) operating abroad	453	12	4
5 Income from property (lands and houses) situated abroad	150	5	3
6 Certain income of commercial banks	—	—	60
7 Central Bank	—	—	40
		Total	£447 million

Notes on each item in the Table are given in the Appendix Some general observations would not, however, be out of place here It has already been noted that market values declined during 1947 By mid-year the $2\frac{1}{2}$% yield basis for British Government securities had moved up to the 3% level The yield of $2\frac{1}{2}$% Consols, which was $2\frac{1}{2}$% at the opening of the year had advanced to 3% by the month of

August and averaged 2 92% for the second half of the year, the yield on 3½% War Loan showed the same trend and the same average for the second half of the year Yields on industrial securities followed a parallel course The Actuaries Investment Index for 129 industrial ordinary shares (all classes) showed an average yield of 4·86% for the second half of 1947, the average for industrial preference shares was 4·13% The estimate of the market value of gilt-edged and other securities has been based on the higher rates of yield current in the second half of 1947 as time has shown these to have a more solid foundation than the ephemeral and largely artificial rates which obtained while the inflationary "cheap money" policy was being actively pursued in Great Britain A yield of 4¾% has been adopted for "income from British joint-stock companies" as ordinary shares form the bulk of Irish holdings in such companies The rate of 5% appears to be a reasonable choice for "income from property" The 12% chosen for extern trading profits of Irish companies is conjectural The companies with branches abroad cover a wide range of business, including transport, food, drink, tobacco, agricultural supplies, fertilisers, drapery, newspapers, books and stationery, sports goods and greyhound racing, and it appears reasonable when assessing the capital value to take account of the greater uncertainty of trading income as compared with income from investments As the amount of trading profits is not large in relation to total income from abroad, it makes little difference to the gross estimate of capital value whether the number of years' purchase be taken at 8⅓, as in the Table, or at 5, 10 or 15 The figure entered for the Central Bank is the amount of its sterling holdings as at the 31st March, 1947 It should be noted that the entry at item 6 of £60 million for the commercial banks represents only portion of the estimated capital value of the banks' income from abroad, the remainder being included in items 1 and 2 of the Table There is exceptional difficulty in valuing the banks' income, other than that from investments included in items 1 and 2, and the tentative character of the figure of £60 million will be clear from the explanation given in the Appendix

One may well feel that the capitalisation of income method is too hazardous and entails too wide a margin of error to justify any firm conclusion as to the probable amount of Ireland's sterling holdings Fortunately it is possible to proceed a considerable distance by an independent method of estimation which serves as a check on the estimate given in Table II Information is available as to the actual amount of sterling holdings by Government Departments, the Courts of Justice, the Central Bank and Irish insurance companies Certain other Irish holdings of British Government securities can also be identified Figures for the net external assets of the commercial banks are published quarterly An estimate can be made of the amount of sterling investments which may be regarded as being held by foreign insurance companies against their Irish Life Fund liabilities Only partial information as to the investments of private concerns and individuals is, however, available, for an estimate of industrial security holdings resort must be had to the capitalisation of income method adopted in Table II It is satisfactory, however, that at least £350 million can be independently identified The alternative estimate is given in Table III below which, like Table II, should be read in the light of the relevant notes in the Appendix to this paper The heading "1947" must be interpreted loosely as the particulars relate to different dates in that year —

TABLE III

Ireland's Gross Sterling Assets, 1947—*Estimate B*

		£ million
1	British Government securities held by Departmental Funds and the Courts of Justice	50
2	Sterling holdings of Central Bank	40
3	Net external assets of commercial banks	145
4	British Government securities held by Irish life assurance companies	2
5	Other known British Government security holdings of Irish residents	30
6	Investments held by foreign insurance companies against Irish Life Fund liabilities	28
7	Estimated capital value of income from property (lands and houses) situated abroad	3
8	Estimated capital value of income from British joint stock companies, etc	153
9	Estimated capital value of trading profits of branches of Irish companies (other than banks) operating abroad	4
	Total	455 million

The estimates of £447 and £455 million in Tables II and III, respectively, are largely independent and the degree of correspondence between them is, therefore, very gratifying Estimate A (Table II) is based entirely on the capitalisation of income except that, in the case of the Central Bank, the actual amount of sterling holdings has been included Estimate B (Table III) is based for the most part on known facts about the amount of sterling assets and, incidentally, reveals the preponderance of gilt-edged securities in the total since the holdings of Government Departments and the banking system are mainly in this form The estimates might be expected to differ for various reasons, and it is remarkable that they are not wider apart. In general, Estimate A shows market value whereas Estimate B represents, in the main, book value In Estimate B the Bank of England notes and liquid sterling assets of the commercial banks rank equally with their higher-yielding advances abroad On the other hand, the value of Irish savings in the form of life assurance with foreign companies finds no place in Estimate A On the whole, it seems reasonable to take a mean figure and ascribe a value of £450 million to Ireland's gross sterling holdings in the latter half of 1947 Since then two factors have operated to reduce the total—the general level of prices of sterling securities has fallen slightly and there has been a substantial realisation of Irish sterling to cover the deficit in the balance of payments The latter factor alone has probably reduced the total by £30 million, seeing that in the year 1947 there was a decline of £30 million in sterling assets and the process of realisation has continued ever since, though at a reduced rate. It appears to be a reasonable conclusion that the gross sterling assets of Ireland are now in the region of £400 million

As the estimate of holdings in British joint stock companies is such a large element in both Tables II and III, any information as to its composition is of value One constituent which can be identified is the value of Irish shareholdings in British companies maintaining a register in this country. These companies include Messrs A. Guinness, Son and Co, Ltd, the Imperial Tobacco Co, Ltd, the National Bank, Ltd, the Provincial Bank, Ltd, the Northern Bank, Ltd., F W Woolworth & Co, Ltd, Denny & Sons, Ltd, and a few others These companies have kindly made available particulars of the number and nominal value of the shares on their Irish registers, but, as some of them prefer that this information should be treated as confidential, only a global estimate of the value of the Irish shareholdings can be given On the basis of the average of the highest and lowest prices in 1947, the total value of the shares on the Irish registers of the various companies in that year was approximately £54 million, of which shares in Messrs A Guinness, Son and Co, were valued at £39·5 million and shares in the Imperial Tobacco Company, Ltd., at £9·5 million

So far we have been concerned only with the gross amount of sterling assets held by Irish residents It would, however, be wrong to think that Ireland is a net creditor nation to anything like the extent of £400 million The Balance of Payments Statement shows a substantial debit entry (£9·7 million in 1947) for investment income, profits, etc, representing the outgo from assets in Ireland owned by externs These assets are of a very varied character and it is not easy to assign a valuation to them An attempt to capitalise the items of income is even more hazardous than in the case of the external income received by Irish investors The assets consist of branches of foreign companies operating in Ireland, shares in companies registered in Ireland, land, houses, ground rents, Land Bonds and other property owned by outside interests, mainly British The estimates ventured in the following table must be regarded as extremely tentative —

TABLE V

Holdings by Externs in Ireland, 1947

Description	Income (£000's)	Assumed Yield %	Estimated Capital Value (£ million)
1 Trading profits of branches of foreign companies (excluding banks, insurance companies and one large industrial concern) operating in Ireland, *less* Corporation Profits Tax paid in Ireland by foreign companies	881	7	13
2 Income accruing to foreign residents from property and other investments in Ireland			
(a) Exempted by way of repayment or in assessment	2,562	4	64
(b) Interest on Irish National Loans	135	3	4
(c) Interest on Dublin Corporation stock on London register	25	3	1
3 Commercial Banks	—	—	35
4 Insurance Companies	—	—	4
5 Estimated value of Irish business of one large industrial concern registered in England	—	—	55
		Total	£176 million

The most significant items in the table are obviously 2(*a*), 3 and 5. Item 2(*a*) is a hotch potch of income from ground rents, Land Bonds, shares in Irish companies and other property in Ireland, and an average yield of 4% may, perhaps, be attributed to it without serious misgivings Items 3 and 5 require more detailed explanation for which reference should be made to the Appendix As the total in this table is built up from tentative estimates, some of them of considerable magnitude, and, unlike the total of Table II, cannot be checked by reference to a series of actual values, it must be regarded as liable to a considerable margin of error Nevertheless, it is believed that it does not overstate the value of Irish property in external ownership

With gross sterling assets at £400 million and extern holdings in Ireland of the order of £175 million, a figure of £225 million would roughly represent the extent of the net creditor position of Ireland at the present time This net figure does not show a great increase in money terms over the corresponding figure for 1938, which was probably of the order of £150 million, whereas the general rise in prices has caused a drastic fall in its real value The extent of the depreciation in the purchasing power of sterling since 1938 is indicated by the fact that import prices generally are now over two-and-a-half times those of 1938. The pre-war gross sterling holdings of about £250 million (see above) have suffered this depreciation in full but the war-time addition was made in a period of rising prices and has not lost nearly so much of its original purchasing power Nevertheless, the total of £400 million now held is worth, in terms of external purchasing power, only about £150 million of 1938 money

Ireland's war-time accumulation of sterling has been the subject of comment and controversy and deserves special attention in this paper There was criticism at home during the war years of the policy of building up " paper claims " in return for exports of goods and services, but since we began to realise our sterling assets on a large scale to pay for imports this criticism has died away The growth of British debt to sterling area countries was also regarded unfavourably in London and Washington It is questionable whether the suggestion of "scaling down " of war-time sterling balances which appeared in Clause 10 of the Washington Agreement of 6th December, 1945, between the United States of America and the United Kingdom, was ever applicable to this country In any event, it has presumably been decided that the repudiation of debt would destroy any hope of restoring London's position in international finance and that adequate protection against unduly heavy liquidation of sterling debt is provided by the limitation of drawing rights and convertibility (as in the case of India, Pakistan, Egypt, Iraq, etc) and by general export policy under which hard currency markets have a prior claim on British exports For coal and other raw materials the British export price is considerably in excess of the home market price and one might regard the export premium charged on these commodities as tantamount to a scaling down of the sterling balances of the purchasing countries

A figure of £137 million for the increase in Ireland's sterling holdings during the six years 1940 to 1945, inclusive, may be derived from the Balance of Payments Analysis shows that this £137 million was built up as follows —

TABLE VI

Sources of Ireland's Accumulation of Sterling, 1940 *to* 1945

	£ million
Trade Deficit	− 16·1
Remittances from the U K	+ 29 5
Remittances from other countries (mainly U S A)	+ 10 3
Pensions and allowances paid by the British Government to Irish residents	+ 19 9
Interest, extern profits and dividends (net)	+ 37 1
Miscellaneous items (including tourist expenditure)	+ 51 5
Portion of balance unaccounted for (1940 to 1942 inclusive)	+ 5 1
	+ £137 3 million

Ireland's merchandise imports are normally greatly in excess of her exports, the excess being covered by invisible earnings—investment income, emigrants' remittances, etc The trade deficit of only £16·1 million over a period of six years indicates the extent of the deprivation of supplies suffered during the war In the single year 1938 the Irish import surplus of goods was greater in value and, therefore, having regard to the war-time rise in the price of imports, very much greater in volume than it was for the whole six years period 1940 to 1945 The reduction in the volume of imports is shown in the following table, in which the quantities imported are shown at 1938 values·

TABLE VII

Volume of Imports, 1938 *to* 1945

	£ million (1938 values)	Percentage of 1938
1938	41 4	100
1939	43 5	105
1940	33 1	80
1941	16 9	41
1942	16 4	40
1943	12 2	29
1944	12 9	31
1945	18·5	45

Over the period 1940/45 as a whole the average annual volume of imports was less than half the 1938 figure There was a crippling reduction in various imports of prime importance in the national economy—coal, oil, cereals, fertilisers, machinery, yarns and raw materials of various kinds This reduction occurred not only in commodities for which Great Britain was our normal source of supply but also in vital supplies from other sources which came under regulation in the interests of the major belligerents

Although we had to rely more on home production to meet our food requirements and there was a serious shortage of animal feeding stuffs, farm equipment, fertilisers, etc, our staple exports of cattle and agricultural products to the United Kingdom were maintained at a comparatively high level The annual volume of exports over the six years period was kept at over 70% of 1938 If the volume of imports during the period 1940 to 1945 has been even 70% of 1938, the trade deficit would have been greater than it was by over £130 million and the credit items in the Balance of Payments would have been absorbed in meeting this deficit The growth of sterling assets during the war years is, therefore, attributable to the drastic reduction in supplies from Great Britain and other countries

Import prices rose more than export prices during the war years, making the terms of trade unfavourable, as the following table shows :—

TABLE VIII

Import and Export Prices, 1938 *to* 1945

Year	Import Prices	Export Prices
1938	100	100
1939	100	111
1940	142	143
1941	175	171
1942	211	191
1943	214	206
1944	219	212
1945	222	210

The central purchasing arrangements introduced by Britain on the outbreak of war enabled her to keep the prices for agricultural produce, which form the bulk of our exports, at levels which in some cases did not even cover costs of production Indeed, until we had no longer an exportable surplus of butter we were selling butter to the British Ministry of Food at a price which fell far short of the return guaranteed to producers, the difference being made good by domestic subsidy Lower prices were paid for our exports than for similar produce raised in the Six Counties and Britain itself. Cattle, the mainstay of our export trade, suffered particularly from this discrimination

After investment income the largest single item which contributed to the accumulation of sterling during the war years was remittances from the United Kingdom and other countries The remittances from the United Kingdom were payments for the upkeep of their families sent home by the great number of Irish men and women who went to work in Great Britain or joined the British armed forces during the war years The remittances from countries other than the United Kingdom represented gifts and legacies from Irish emigrants and came almost entirely from the United States The principal remaining items which contributed to the war-time accumulation of sterling were pensions and allowances and tourist expenditure The positive constituents of the Irish balance of payments for the years 1940 to 1945 were, therefore, entirely the outcome of normal, private transactions in goods and services They were not inflated by favourable trading conditions and were not the counterpart of British war expenditure

In point of size the sterling balances accumulated by Ireland during the war years rank amongst the largest after those of India and Egypt Substantial balances were also built up by other countries in the sterling area—Iraq, Palestine, Transjordan, Australia, New Zealand and Malaya, for instance—and by various European and South American countries including Norway, the Netherlands, Portugal, Greece, Belgium, Argentina and Brazil Of the total external liabilities of the United Kingdom at the 30th June, 1945 (£3,355 million) over one half (£1,732 million) was, however, owed to India, Burma and the Middle East and arose largely from heavy expenditure for war purposes by the British Government in that area.

The war-time accumulation of sterling has provided a partial offset to the depreciation in real value which has overtaken our pre-war holdings and we have been able to draw upon it during the past two years for the replenishment of stocks and other purposes So long as sterling assets yield a satisfactory income and can, if necessary, be realised to provide goods and services for domestic development, there can be no question about their value and importance to the national economy The war-time addition in a sense represented forced saving as there was no practical alternative to building up sterling balances during that period If it had been desired to control the growth of sterling balances this could have been achieved only by restriction of exports to the United Kingdom or by a ban on emigration, either of which courses would have presented obvious difficulties and risks In the event the saving which we were compelled to make has proved invaluable as a means of paying for the large import surplus of 1947 and the first half of 1948 The absence of free convertibility of sterling into dollars is not an unmixed evil in so far as it operates as a check on the spending of our external resources on non-essential purposes

It has already been mentioned that Ireland's total sterling balances fell by £30 million in 1947 They have, perhaps, been reduced by a further £15 million or so in 1948. Thus in two years nearly one-third of the war-time accumulation has been used up The Central Bank in its report for 1947/48 pointed out that this depletion of sterling holdings could not be attributed wholly or mainly to domestic capital investment which would relieve the Balance of Payments to the same extent as the realised sterling assets It is, therefore, a question of great importance whether the realisation of sterling balances is likely to continue and when it may be expected to cease This, of course, depends on the restoration of equilibrium in Ireland's current Balance of Payments For how long more are the deficits in the current Balance of Payments likely to continue and what is likely to be the total depletion of our sterling assets because of these deficits before equilibrium is restored?

Predictions about the Balance of Payments are particularly fallible The sharp reduction in the import surplus last summer must have taken most people by surprise and prophets may be confounded by similar unforeseen developments in the future Despite all the risks to which they are subject, forecasts of the Balance of Payments have had to be made in connection with Ireland's participation in the European Recovery Programme The White Paper on Ireland's 1949 to 1953 Programme published last December contains a forecast of the Balance of Payments for 1952/53 as well as for 1948/49 A forecast of the Balance of Payments for 1949/50 has also been submitted to the Organisation for European Economic Co-operation These forecasts show a diminishing deficit on current account as follows, it being assumed that the gap in visible trade will be progressively narrowed over the next few years —

TABLE IX

Forecasts of Current Deficits on Balance of Payments

	£ million
1947 (actual)	30
1948/49	13
1949/50	13
1952/53	3

If one may interpolate deficits of, say, £10 million and £5 million, respectively, for 1950/51 and 1951/52, these predictions indicate that over the years 1949 to 1953 an aggregate current deficit of some £45 million may be expected

Our deficit with the dollar area over the period to 1952 is likely to be of the same order, so that the receipt of dollar aid from the Government of the United States may obviate, for the time being, the realisation of sterling assets that would otherwise result at once from the current deficit on the Balance of Payments This aid has, however, been given so far in the form of a loan, rather than a grant, and the obligation of repaying the borrowings can be discharged, in our circumstances, only by drawing on our sterling resources The prospect is, therefore, that there will be a net depletion of external assets of, say, £45 million over the period to 1953 The loss is liable to be even greater if the assumptions as to earnings made in the Balance of Payments forecasts are not realised, in particular, the assumption that by 1952/53 the volume of exports will be double that of 1947

At this point we may usefully examine by whom and for what purposes the sterling assets are held If we assume that the present total is of the order of £400 million, it may be allocated between the major classes of owners as follows —

TABLE X

Holders of Sterling Assets, 1949

	£ million	%
Government	54	13
Central Bank	48	12
Commercial Banks	135	34
Others	163	41
	£400	100

A round figure of £250 million for the total of sterling holdings in 1939 would accord well with the net increase recorded in the Balance of Payments Statements since 1939 and with a valuation for that year on the lines of Table II The approximate distribution of this total of £250 million is as follows .—

TABLE XI

Holders of Sterling Assets, 1939

	£ million	%
Government	18	7
Central Bank	9	4
Commercial Banks	64	25
Others	159	64
	£250	100

The tables show that there has been a marked shift in the distribution of gross sterling holdings under the impact of war and post-war conditions Government holdings consist mainly of investments of the Post Office Savings Bank and various social insurance funds. The remarkable increase in Savings Bank deposits since 1939 is attributable to the scarcity and high price of goods during the war years and to the desire to keep the nest-eggs intact which has since supervened and has been facilitated by wage increases As domestic capital expenditure was slowed down by emergency conditions, there was no option but to invest Savings Bank deposits for the most part in British Government securities The increase in the sterling holdings of the Central Bank is the counterpart of the increased note circulation and no doubt a large part of the addition to the net sterling assets of the commercial banks represents increased deposits of farmers

There is a significant distinction between the different classes of holders The Government, the Central Bank and the commercial banks are less owners than trustees They hold sterling primarily as cover against their liabilities to private persons. The Government holds sterling securities against its liabilities to depositors in the Post Office Savings Bank, to insured workers, etc The Central Bank holds sterling to meet its statutory obligations to holders of currency The commercial banks also may be regarded as trustees for their depositors In the case of the banks incorporated outside Ireland the excess of their Irish liabilities over their Irish assets should, moreover, be viewed as a liability in Irish currency rather than in sterling, a point which would be significant if the present parity relationship between Irish currency and sterling were changed The trustee holders, as we may call them—and insurance companies may be included in this category—are interested primarily in the security and ready realisability of their holdings since they must keep in a position to discharge their liabilities as they arise in a form acceptable to their creditors Private investors, on the other hand, are primarily interested in yield and capital appreciation and can take precautionary measures against loss or depreciation of their investments which would not be suitable for the Government or the banking system In particular, if they so desire, they can change from gilt-edged securities to industrial equities or physical property

The classification of holdings also throws into relief the limited extent to which the pattern of external investment can be shaped by the Government Liquidity and security requirements virtually limit the investment of Government and banking funds to cash, short-term assets and gilt-edged securities, while the nature of our international payments dictates the choice of sterling as the currency of external investment Private investors were free for many years to select assets in any currency and they are still free to buy and sell sterling assets of any kind A negative control over investment in sterling assets by the commercial banks is contained in Section 50 of the Central Bank Act, 1942, but the immediate effect of requiring any of the commercial banks to make an interest-free deposit with the Central Bank under that section would be merely to transfer sterling securities from the commercial banks to the Central Bank and it would depend on a variety of circumstances whether this penal action would ultimately result in a net diminution of our sterling holdings as a whole

One of the major advantages of the possession of such considerable sterling holdings is that it provides a solid foundation for exchange stability between the Irish pound and sterling As a basis of free exchange between the two currencies, our sterling resources may, to borrow a phrase attributed to Lord Keynes, be described as useful " just as the possession of any kind of reserve is useful to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity " Whether or not parity be regarded as the right relationship between the two currencies, the benefit of the stable rate of exchange which our large sterling holdings guarantee is beyond question The extent of our dollar poverty has become widely known in recent years and it is unlikely that it will ever again be seriously suggested that the Irish pound should be linked to the dollar rather than to sterling The impossibility of maintaining an independent link with the dollar is shown by the state of our current balance of payments in 1947 when our expenditure in United States and Canadian dollars amounted to $141 million and our receipts in these currencies to only $27 million Advocacy of the depreciation of the Irish pound in relation to sterling as a means of assisting Irish agriculture is also in abeyance and has suffered a distinct reverse in the recent decision of New Zealand to return to parity with sterling A comparison between prices and wages here and in Great Britain affords no ground for belief that the Irish pound is worth more than the pound sterling, indeed, such a comparison, taken in conjunction with the deficit in our balance of payments, would ordinarily be regarded as evidence to the contrary A discussion of the question of parity is, however, outside the scope of this paper Before turning from the currency aspect of our sterling assets, it is of interest to note that the very size of these holdings of the commercial banks and private individuals, who are able to convert them at will into Irish currency, deprives the Central Bank of any direct control over the volume of credit in Ireland It must rely on its influence and authority rather than on any power of compulsion if it should consider it desirable to alter the trend of the credit policy of the commercial banks

The questions which seem to have more interest at the moment are —

(1) Could Ireland's present dollar shortage, which is due primarily to the inconvertibility of sterling into dollars, have been avoided or mitigated by a greater pre-war dispersion of external assets or by any action during the war?

(2) What is the prospect of our being able in the future to use our sterling assets, if necessary, not only to acquire goods from Great Britain and the sterling area but to make payments anywhere, including the dollar area—in other words, is the free convertibility of sterling into dollars likely to be restored?

(3) In what circumstances should we be prepared to face a further decline in our sterling assets?

These matters can only be touched upon briefly It is well to bear in mind that, whatever the apparent disadvantages of the present situation, the possession of external assets is a source of strength to the national economy, and Ireland shares with very few countries the enviable distinction of being a net creditor

Criticism of the pre-war preference for sterling rather than dollar holdings was a feature of the war years and was really inspired by pessimism about the future of sterling Before the war a sterling holding was as good as—in many respects better than—a holding in dollars or gold Sterling was freely convertible into other currencies, including dollars. Payments to anywhere abroad were easily arranged through London The yield on gilt-edged securities was higher in England than in the United States Dollar industrial stocks were subject to greater fluctuation and disturbance by speculation Balances in English banks were safer than in United States banks, thousands of which failed during the Great Depression Sterling was, in fact, so much in demand the world over that for many years it stood at a premium in relation even to the dollar despite all the gold that was pouring into the Fort Knox vaults Sterling was not only the almost inevitable choice of external asset in our circumstances, but it was the one that suited best the requirements of security and liquidity which were of paramount importance to the "trustee" holders—the Government and the banking system The higher yields on gilt-edged sterling investments had a beneficial influence on the deposit rates of the commercial banks With the Irish pound linked to sterling the holding of dollar securities would have involved a double exchange risk The Currency Commission, the body which preceded the Central Bank, was, in 1930, authorised by an amendment of the Currency Act, 1927, to hold dollar or other securities for the Legal Tender Note Fund, but the circumstances in which a switch to such securities might have seemed to offer permanent practical advantages did not appear until war became imminent It was then that the Currency Commission acquired its gold holding The purchase of gold or dollars became subject to exchange restrictions on the outbreak of war and the substitution of dollar for sterling securities was impossible during the war years

Private firms and individuals were, of course, at liberty for a long period before the war to acquire and hold assets in any foreign currency The inter-war years were, however, years of net disinvestment and any large acquisition of dollar assets would have involved disturbance of settled sterling investments affording good yields and enjoying comparative stability in value The limited extent to which private investors exercised their freedom to acquire dollar assets must be attributed to the factors mentioned in the preceding paragraphs and also, no doubt, to the absence of an arrangement for the relief from double taxation of income arising in the United States or Canada

Towards the end of 1938 various restrictions were put by the British authorities in the way of speculative or nervous transfers from sterling into dollars How little of our pre-war sterling holdings could, in any event, have been mobilised for transfer into dollars will be clear from the figures already given. Even if the extreme assumption be made that 50% of the sterling holdings of the Government, the Central Bank and the commercial banks could have been replaced by dollar holdings in 1938, the amount would be short of £50 million and would by now have been exhausted in covering the dollar deficit incurred since 1939 Our trade deficit with the United States and Canada over the nine years since 1939 has aggregated £100 million, and even a liberal allowance for invisible dollar earnings would leave the net deficit at £60 million A further relevant consideration is that defection from sterling in 1938 would have seriously depleted the resources of the Sterling Area Pool and might well have resulted in our forfeiting the benefits of membership of the Sterling Area, in particular, the advantage of being able to finance our deficits with European and other countries through the medium of sterling and within the framework of the Payments Agreements concluded by Great Britain with such countries. It must be recognised that whatever temporary facilities, such as Marshall Aid, may be available from time to time, Ireland's capacity to pay her way abroad depends permanently and fundamentally on her being able to use the surplus sterling arising from transactions with Britain to cover the deficits in her balance of payments with other countries The conclusion appears inevitable that, things being as they were, Ireland's present dollar shortage could not have been avoided by greater pre-war dispersion of external assets or by any action during the war It remains a good general principle not to have all one's eggs in one basket The disposition of Ireland's external assets could not, however, have been significantly altered without infringement of private property rights and, in fact, the assets have not suffered any exceptional depreciation through being held in sterling rather than in dollar or other currencies

Turning now to the second question posed on page 206—the future of sterling as an international medium of exchange—we might appropriately begin by considering some of the present advantages of being substantial shareholders in the Sterling Group We have benefited from the good management of the Group's reserves which has kept the value of the pound sterling—and of the Irish pound—so high in relation to other currencies, including the dollar We have been able to obtain overdraft facilities from the central reserves to tide us over the initial difficulties of adjustment to the system of financing dollar imports under the European Recovery Programme Above all, we have in sterling an international medium of payment—not universal tender as it once was, but acceptable over a very wide and increasing area Payment in sterling secures us necessary supplies, not only from Great Britain and the other countries in the Sterling Area, but from most of the countries of South America, including the Argentine, Brazil, Chile, Peru and Uruguay and, through the Intra-European Payments Scheme and special Payments Agreements concluded by Britain, from the countries of Europe and their vast overseas territories It may be said in general terms that sterling is, in differing degrees, an acceptable means of payment everywhere outside the North American Continent. What that means to us may be gauged from the fact that, in 1947, we were able to use sterling earned in transactions with Great Britain to finance a deficit of £6 1 million with the rest of the Sterling Area, a deficit of £13 7 million with countries participating in the European Recovery Programme, apart from Great Britain, a deficit of £6 8 million with countries of the Western Hemisphere other than the U S.A , Canada and Newfoundland, and a deficit of £5 3 million with other countries For many countries sterling is a scarce currency Its strength and its use for multilateral payments are likely to increase to the extent that the aims of the British Recovery Plan are realised and the disequilibrium in the British balance of payments rectified It is scarcely over-optimistic to expect that some degree of convertibility of sterling into dollars will be restored within a few years

The third and last question posed on page 206 is, in principle, easily answered We can afford to draw further on our external assets only in so far as the use we make of the proceeds at home compensates for the initial loss of external income and resources The Central Bank stated the principle as follows in its Report for 1947-48 (paragraph 15) .—

> " The loss of external (chiefly sterling) assets would not be serious if an adequate proportion of the imports consisted of capital goods for use in enterprises of which the output would give greater help to the balance of payments than the income of the surrendered assets."

It is essential that repatriated savings should be used for productive capital purposes, not dissipated on consumption goods Moreover, the capital brought home for investment should be additional to and not in substitution for an adequate volume of current savings Otherwise, even if imports to the amount of the deficit in the balance of payments could be identified as being for new and productive capital purposes, and not simply for replacement of existing capital or addition to current consumption, we would still be living beyond our means. The net long-term effect on the balance of payments is the ultimate test This test will be passed by any domestic use of external resources which, by increasing home production, reduces imports or expands exports to an average annual amount at least equivalent to the former income from the repatriated assets Security and availability in time of need have to be allowed for. The question whether it is desirable to repatriate cannot be decided by a mere comparison of yields on domestic and foreign investments The depreciation of our sterling assets and their limited availability during the war is a lesson that will not be forgotten If external assets are realised to finance productive work at home, thereby giving employment and raising the national income, and the balance of payments is not permanently upset, there can be no question of the desirability of repatriation It is obviously preferable in the interests of employment, security and economic development that past as well as current savings should be used for productive investment in Ireland rather than that our manpower should be following our capital abroad

The need for a careful assessment of the effects of policies involving realisation of sterling assets is, however, intensified by the deterioration in the real value of these assets to which reference has been made on page 199, and by the comparatively precarious character of the other items of invisible income from abroad, such as tourism, emigrants' remittances, sweepstake receipts, on which we rely to close the greatly enlarged deficit in visible trade In view of the probability of a reduction in these invisible receipts, it is essential that the import surplus should be reduced by an expansion of exports; we cannot afford imports on the scale of 1947 or 1948 unless we can double our exports A continuance of the process of consuming our external capital would inevitably lead to a lower standard of living This capital should be regarded as available only for purposes which will raise the national output and, in the long run, improve the balance of payments The reduction of external purchasing power through wasteful realisation of sterling assets would leave the economy more exposed to fluctuations in the price of exports It is salutary to recall that, at the depth of the agricultural depression in 1934, our investment income from abroad was equivalent to over 80% of receipts from visible exports, and paid for one-third of our imports The existence of external resources, which provide a substantial income and can be drawn upon from time to time to augment current earnings, strengthens and gives stability to the economy If we value these advantages we must take care that our sterling holdings will not be dissipated on unproductive projects

APPENDIX

Notes on Tables II, III and V

TABLE II

Item

1 The income figure is the Revenue Commissioners' estimate of income accruing to Irish residents in the year 1947 from British Government security holdings on the Dublin Register of the Bank of Ireland This income is capitalised at the rate of 3% as explained on page 196 The market value of £71 million thus arrived at accords satisfactorily with the nominal amount of Irish holdings on the Register in 1947

2 and 3 The income figures represent the Revenue Commissioners' estimates for 1947 and their capitalisation on the basis of yields of 3% and 4¾%, respectively, is explained on page 196

4 and 5 An arbitrary but, it is hoped, not unreasonable basis of capitalisation has been applied to the Revenue Commissioners' estimates of income from the sources specified in 1947

6 This excludes investment income covered by items 1 and 2 A distinction is drawn between the banks incorporated in the State and those incorporated elsewhere In the case of the former the corresponding income constituent of the Balance of Payments figure covers income from money at call and short notice, British Treasury bills, other external bills, loans and advances "elsewhere," 3½% War Loan registered "elsewhere," profit on realisation of investments, bad debts recovered and other miscellaneous income The actual income is probably about 2% of the book value of the assets which include low-yielding assets necessary to maintain the banks' liquidity as well as more profitable assets such as advances earning 4% and 5% The income as a whole has, however, been capitalised at the rate of 4%, on the assumption that income from the business of banking is virtually as constant and reliable as interest on gilt-edged investments In the case of the banks incorporated outside the State, the corresponding income constituent of the Balance of Payments figure consists of interest paid on deposits in Ireland, losses arising from Irish business and salaries and expenses paid in Ireland A rough deduction has been made for the salaries and expenses element and the balance has been capitalised at 4% The sum of the estimates of capital value of "certain income" for both classes of banks is £60 million

7 See note on item 2 of Table III

TABLE III

Item

1. British Government security holdings (at cost) reported by Government Departments and the Courts of Justice as at 31st March, 1947

2 Sterling held by the Legal Tender Note Fund plus an estimate of sterling holdings of the General Fund (Accounts of Central Bank for year ended 31st March, 1947).

3 Assets "elsewhere" less liabilities "elsewhere" of the eight associated banks under the Central Bank Act, 1942, and the National City Bank, Ltd, for the September quarter, 1947 (Quarterly Statistical Bulletin of Central Bank)

4 The British Government securities in the portfolios of The Irish Assurance Company, The Industrial and Life Assurance Amalgamation Company and the New Ireland Assurance Company amounted to almost £2 million on 30th June, 1947

5 According to information obtained from the Bank of Ireland all but £3 or £4 million of the British Government securities on the Dublin Register of the Bank are in Irish ownership Deducting the securities on the register held by categories 1 to 4, the balance in mid-1947 may be put at £30 million

6. The total life and annuity funds of foreign insurance companies operating in Ireland totalled £1,418,538,948 at the end of 1947 Of their total premium income of £163,462,760, £3,266,667 was derived from Ireland Dividing the total life annuity funds in the ratio of Irish premium income to total premium income, it may be assumed that the funds applicable to business in Ireland amounted to £28,350,000

7 See item 5 of Table II

8 See item 3 of Table II

9 See item 4 of Table II

TABLE V

Item

1 The income is the Revenue Commissioners' estimate for the calendar year 1947 As in the case of the corresponding item of Table II, it makes little difference to the gross estimate whether the number of years' purchase taken be 5, 10 or 15, but the fact that the concerns covered by this item are in the main long-established consumption goods businesses suggest that it would be advisable to value the capital on the basis of a larger number of years' purchase than the 8⅓ chosen for item 4 of Table II

2 The estimates for the various sub-items are those of the Revenue Commissioners for the calendar year 1947.

Sub-item (a) covers a wide range of sources of income, including land, houses, Land Bonds, shares in Irish companies, etc, and the 4% yield assumed, though arbitrary, is, perhaps, not unreasonable

For sub-item (b) the yield is taken at 3% because the yield on Irish National Loan stocks approximates to that on British Government obligations (see items 1 and 2 of Table II) Dublin Corporation stock follows close behind in credit rating, the actual amount of the London Register is just over £1 million

3 This item is the converse of item 6 of Table II Again a distinction is to be drawn between banks incorporated in the State and those incorporated elsewhere In the case of the former, the corresponding debit constituent of the Balance of Payment figure covers interest on deposits abroad, net loss on realisation of external investments and salaries and expenses paid outside the State A rough deduction having been made for the last-mentioned element, the balance has been capitalised at 4% In the case of banks incorporated abroad, the Balance of Payments material covers income from branches in Ireland, net profit from realisation of investments in Ireland and miscellaneous other income from Ireland This also has been capitalised at 4%, and the sum of the two estimates of capital value gives the figure of £35 million.

4 The net profit derived by external insurance companies from their Irish business is probably in the region of £150,000, which, capitalised at 4%, gives a figure of £4 million

5 The estimate here ventured is particularly tentative The firm's published figure of trading profit for the fifteen months ended 30/9/'48 is £6 3 million, equivalent to an annual rate of £5 million for 1947-48 There are indications that trading profit before taxation was probably about one-fifth higher (or, say, £6 million) in 1946-47 (see Economist, Records and Statistics, December 4, 1948) It scarcely puts it too high to assume that half, or nearly half—say £2¾ million—of this profit is derived from the Irish business Capitalising this at 5% (20 years' purchase does not seem excessive for a business with such valuable capital assets and stability of profits), one arrives at a capital value of £55 million.

An alternative approach from Census of Production data lends support to a figure of this order The net output of the brewing industry as a whole in 1947, exclusive of duty, was £6,652,609 Of this amount salaries and wages accounted for £1,423,299, leaving £5,229,310 for rates, rent, advertising and other expenses and gross trading profit The trading profit might perhaps be put at £4½ million The firm with which we are concerned probably accounts for at least three-fourths of the total output of the brewing industry in Ireland This proportion applied to the figure of £4½ million would indicat a trading profit from the Irish business of nearly £3½ million Even if this is valued at only 15 years' purchase, it would point to a capital value of over £50 million

DISCUSSION.

On the vote of thanks, MR EASON said I congratulate Mr Whitaker upon the form in which the paper was presented and the clarity with which he has given his conclusions and the reasons for them

While the paper as a whole interested me I do not feel competent to speak upon its main thesis I understand it sufficiently to appreciate, as I am sure we all do, the considerable amount of spade work which has been involved in breaking what is new ground, and it constitutes a valuable record of a matter which is of importance at all times

I was interested to see Mr Whitaker's qualification as regards the use of the possessive " our " in connection with sterling assets and to note that he had not found any alternative expression in the course of his paper

He points out the vagueness of the conception behind the use of this adjective, that the assets are definitely not wholly owned by the State, that they are not under the control of the State, and that they cannot be repatriated at will by the State

Having shown in the classification that the Commercial Bank and others hold 75 per cent of the estimated assets, he makes the statement that the classification of holdings also throws into relief the limited extent which the pattern of external investment can be shaped by the Government I think this point deserves some further investigation and I would make the following comments upon it with a hope of elucidating comments from others

The word " our " must mean the citizens of the country but they appear in three different capacities individual holders, business firms and electors who have an influence upon the Government as regards its general policy The private holder will draw upon his assets just in so far as he chooses to spend his savings, being a prudent person (otherwise he would not have saved) he will no doubt exercise discretion in his method of spending If his saving was forced by outward circumstances because he could not find any way of spending the money he can still exercise discretion, but if he does spend he is strictly limited by the extent of his savings and the probable refusal of controllers of credit to give him opportunities of doing anything more than that, one cannot count upon his being influenced in any degree by the general conditions which are stressed by Mr Whitaker as determining factors

If, on the other hand, you turn to the consideration of the business man his answer will be immediate and unqualified, he has no intention of doing anything but making a profitable use of his reserves, he may, of course, make mistakes but that will be accidental and due to the speculative character of all business It is upon his reserves he must fall back to replace the stocks, which, having fallen to a very low level, require to be again built up This is not a matter peculiar to one or two individuals, but it is the universal experience of business He may also point out that the enhanced price level at which he has to replace stocks obliges him to draw fully upon his resources even to the extent of borrowing (which means he is using other people's resources)

In addition to the matter of stock replacement, it will be found that business houses have been postponing repairs and replacements and frustrated as regards the installation of new machinery by the scarcity of material and goods Additions and extensions to buildings, or the putting up of new factories, etc, will make an even heavier demand upon available capital whether it is provided directly from the business reserves (or public savings) and here again the high price level is an important factor in determining the amount required

While normally there is a balance over a long term between spending and saving, and while some are spending others are saving, or while the same individual is saving or spending at different times the position now is that the saving movement which has taken place in the war years is reversed and the need for spending is universally spread throughout the business world

I said that there was a third aspect, namely, the outlook of the citizen and his influence upon the Government, and it is at this point that I disagree so completely with Mr. Whitaker as to the "limited extent" to which the Government can influence the use of reserves If there is any point in my comment it is that the country must look to the Government to determine the general use of capital and the demand made upon it as a result of the economic policy, whether industrial or agricultural, which the Government is persuing

The Government does not need to own sterling assets in order to influence their being saved or spent, and the real point of my comment is to question Mr Whitaker's moderation in throwing responsibility upon the Government and retorting on behalf of the business world and the private individual that the Government has a chief responsibility due to its position to educate public opinion and to use the resources of the country in such a manner as to prevent inflationary forces being set at work

The general conclusion is that the sterling assets will in fact be heavily drawn upon and whether they will be profitably used or not is unpredictable

Dr Beddy wished to be associated with the vote of thanks to Mr Whitaker on a paper which he hoped would receive the public attention it clearly deserved on account of its importance The point which occurred to him as most significant was the disimprovement in the external assets since 1938 Pre-war we had external assets of £250 millions, from which should be deducted approximately £100 millions in respect of assets held in Ireland by non-residents Our net external assets were, therefore, £150 millions in 1938 Mr Whitaker had shown that our present net sterling assets were £225 millions, this being the difference between our holdings of £400 millions and the £175 millions Irish assets held by non-residents He had also shown that by 1953 these net assets would be reduced by a further £45 millions and hence in that year our net external assets would be £180 millions which, making allowance for the substantial increase in prices, represents a substantial disimprovement on the 1938 position There was also the fact that a much higher percentage of our assets are now in low-yielding Government securities

Tables 10 and 11 in Mr Whitaker's paper showed the manner in which sterling assets had increased between 1939 and 1949 and it was significant that there was only a relatively trifling increase in the sterling assets held by organisations and persons other than the Government, the Central Bank and the commercial banks. This was an important matter from the standpoint of the possibility of repatriation of external assets The increased external assets had their origin in increased Post Office Savings Bank deposits, Bank deposits and also in the increase in the legal tender circulation, and it was reasonable to assume that the external assets originating in this way were of a much more temporary character than external assets directly acquired by individuals If this view was correct our external assets had less permanence than might be commonly supposed. We had already seen how in one year—1947—external assets of £30 millions had been realised to finance part of the very substantial import surplus of that year One could not look with equanimity on a continued drain of this charatcer, particularly if it arose through the financing of imports of consumption goods

Mr Arnold Marsh asked the lecturer how he had treated the Irish deposits in banks with headquarters outside the State, including the Ulster, Northern, National and Provincial These deposits must, he supposed, be regarded as claims on British institutions and, therefore, counted as external assets, but they did not seem to be included in any of the categories in Table III

Referring to the ownership and use of what had been described as "our" external assets, and to the possibility of repatriating them, he pointed out that in Table X the Government and the Central Bank were shown as holding £102 million out of the estimated total of £400 million of external assets, and the commercial banks as holding £135 million more In the case of the first two, "we", through the State, had an obvious right to control their disposition, and to repatriate them if we desired, and he did not think it could be considered too much of an excursion into revolutionary socialism if the commercial banks also, including all that operated within the State, were required to invest a proportion of their funds in Irish securities—a proportion that might be expected to increase with time

With regard to the comparative national value of past investments made inside and outside the country he supposed that if the £62½ million in the banks in 1910 had been safely invested abroad they might now be bringing 3 per cent, or about £2 million, into the national income, but if they had been invested in capital development at home the return, in terms of national income, might have been about 30 per cent. originally, and might now, in view of the great rise in prices and values, if the capital goods created in 1910 had been properly looked after and continued to be productive, have been not far short of 100 per cent of the original sum invested

MR HONOHAN said that there was at least one item of our external assets which could not be repatriated even if it were desired to do so, namely, No 6 in Table III—" Investments held by foreign insurance companies against Irish Life Fund Liabilities—£28 millions " Some return could, of course, be obtained from surrender values but nothing like the value mentioned

It also appeared that item 4 in Table II (Trade profits) could hardly be related to a tangible asset which could be repatriated. The item appeared to result from an attempt to place a value on goodwill and so constituted an asset of a different kind from the ' holdings " with which the paper was mainly concerned. It was, however, a small item, although the corresponding item in the reverse direction (item 1 in Table V) was somewhat larger, but it seemed to raise the somewhat important question whether consistency was being observed by including such items—which related only to business conducted through companies—while business otherwise conducted, such as agricultural exports was ignored The goodwill value to Irish farmers of the agricultural export trade must be considerable

MR PATRICK BOURKE said that he wished to endorse the vote of thanks which had been proposed to Mr Whitaker for the very able paper which he had written

The establishment of Éire as a separate State had rendered desirable the ascertainment of facts and figures in numerous instances where they had not previously been available. One of the most important of these facts was the gross and net external worth of this country, and this was the first time that an estimate of these had been made with a reasonable degree of accuracy It might be that as time went on improvements could be made in the estimates of some of the constituent figures This would be all to the good, but the spade work had been done He thought that Mr Whitaker was to be congratulated upon his results, which the various tests which Mr Whitaker had applied showed to be reasonably accurate The paper was an original and valuable one The net figure of £225 millions was more moderate than was commonly believed to be the case and when allowance was made for the decline which had taken place in terms of external purchasing power, did not represent quite as strong a net creditor position as was generally thought to exist Apart from the estimate of our net worth, Mr Whitaker had also indicated certain important conclusions One of the most important appeared to be that ordinarily, there is no net investment abroad by Irish residents but on the contrary, apart from the two war periods, the tendency was to disinvest It, therefore, followed that in the normal course there was a steady repatriation of external assets This is what one would have expected to see in view of the tendency since we had become a separate State for increased industrialisation and investment in agricultural production. There was no doubt that there was still great scope for additional capitalisation in both agriculture and industry and it would, therefore, be expected that the process of repatriation would continue This was a welcome development, and to repatriate the money and with it the men who were emigrating, provided the output of the increased capital development at home gave by and large as good a yield as the surrendered assets There seemed to be no reason why this should not be so, if the development was on wise and well-thought-out lines. It would be a pity to fritter away these assets wastefully, as properly husbanded and utilised they could be a source of strength and progress.

Mr Whitaker had also shown that whether or not parity be the right relationship between the Éire currency and sterling, the stability of a rate of exchange which our large sterling balances guaranteed was beyond question. This stability was of the utmost importance in business, by eliminating the uncertainty attaching to the outcome of business transactions where exchange rates were subject to considerable fluctuations The restoration of the convertibility of the sterling assets was of course a matter of the utmost importance to us and there was no doubt that the British Finance Authorities had put very high on their list the attainment of this object. As stated by Mr. Whitaker, the absence of free convertibility into dollars in the immediate post-war period had not been an unmixed evil, as it had operated as a check on the spending of our external assets on non-essential purposes

The President (Dr Geary) I congratulate Mr Whitaker on his masterly paper Mr Whitaker recognises that the capitalisation of income is hazardous in so far as small differences in the rate of interest introduce large errors into the estimates of capital The check constituted by Tables II and III is impressive As I have already pointed out to Mr Whitaker, I disagree, however, with his omitting item 6 of Table III from Table II . if the item is admissible as an external capital item it should be included in both tables which are captioned "Ireland's gross sterling assets 1947 " with no indication that there is any difference of definition between the two tables

As regards the estimates of £450 million and the contra item £170 million with a balance giving a net figure of £280 million, from the statistical point of view it is satisfactory to note that this balance is the sum of an independently estimated pre-war figure of about £150 million plus a net war-time accrual of £130 million (as shown by the Balance of Payments)

I am not sure, however, that I quite agree with the concept of " net " external assets With certain modifications the word " net " has objective validity, e g, " net emigration " which it is not clear that it possesses in the external asset context What we really require is an annual statement of national capital in as much detail as possible, in particular showing, of course, capital held outside the State and internal capital In turn the change in the national capital from year to year should be shown as part of the national income system In the matter of external assets, there is the danger which is always present in greater or lesser degree in connection with statistics that we tend to concentrate on aspects for which statistics are available and forget that there are other aspects The increase or decrease in external assets, net or gross, may be a good, bad or indifferent thing but it is quite impossible to say until we possess a full statistical statement of capital.

Some years ago the Statistics Office, with the collaboration of the Revenue Commissioners, made an experiment in establishing the true rate of interest applicable to the income from stocks to determine the current capital value. Needless to say the names had been removed from the sample of returns furnished which showed in full detail the income from the different shares From the average price of the shares throughout the year in question, it was possible to ascertain the current selling value The experiment showed that it would be quite possible to estimate on a sample basis the capital value of private holdings of stocks and shares in Ireland As Mr Whitaker has shown, it is a great advantage that a considerable part of external holdings were owned by the Central Bank, the commercial banks and the Government for such holdings can be valued exactly