

## Some Aspects of the Industrial Capital Market in Ireland

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Industry in Ireland is financed in a variety of ways—by public issues, retained profits and depreciation allowances, trade credit, loans from commercial banks, the Industrial Credit Company Ltd. and hire-purchase concerns, government grants, etc. This paper is not concerned with the broader aspects of investment in Irish industry. There is need for such a review but it is not attempted in the present paper, which has the more limited objective of bringing together some facts relating to investment by the public in Irish industry, and of indicating—largely by reference to experience elsewhere—what might be done to improve the institutional and other facilities for this investment. This means that a large part of the remarks which follow will relate to the Stock Exchanges and to their functions and potentialities in channelling Irish savings into Irish industry. I use the plural though my remarks will be confined to the Dublin Stock Exchange. There is little published information available in connection with the Cork Exchange which in recent years has a membership of about 10, as compared with Dublin's 70-80. There are some stockbrokers—about a dozen or so—in Limerick, Galway, Waterford and Wexford who are members of the British Provincial Brokers Stock Exchange but there is no published record of their activities.

In giving evidence to the Fulbright Committee on Banking, Mr. William McC. Martin, Chairman of the Board of Governors of the United States Federal Reserve System, is quoted as saying :

“A major distinction between highly developed and industrialised economies and under-developed economies is the lack in the latter of effective markets for mobilising the individual savings of their people.” (Federal Reserve Bulletin, March, 1955.)

It has often been remarked that, as an under-developed country, Ireland is in the paradoxical position of possessing many of the institutions of a developed country. It is not surprising, then, to find that her Stock Exchange, issuing, and underwriting facilities are advanced by reference to those in many under-developed countries. In fact, the Stock Exchange in Dublin is the second oldest in the world and is, perhaps, unique in that, under 18th century legislation, its Rules require the approval of the Minister for Finance and its members have in effect to be licensed by the

Minister. Its venerable age—over 160 years—has not saved it from criticism. It has, for example, been accused of impeding economic development by its failure to inculcate and encourage the investing habit in persons of moderate means. All this seems rather a heavy dose of original sin to lay on the shoulders of the Stock Exchange. It would be well, however, if the case for the prosecution were not overstated. Many of the criticisms seem to be based, in part at least, on a misconception of the Exchange's functions. There is a danger that vague talk of reform and improvement may give rise to unsustainable hopes.

Viewed narrowly, the Stock Exchange provides the machinery for bringing together buyers and sellers of marketable securities; from a broader view-point, it enables savings to be canalised into capital for industry and government, but the second purpose is quite definitely a function of the first since the effectiveness of the Stock Exchange is determined by the extent to which it can provide marketability for investments. While many factors determine the individual's inducement to invest his savings, via the Stock Exchange, in a new issue a dominant consideration in most cases is the extent to which a free market is expected to develop for the new securities. It is true that marketability may not always be regarded as essential by institutions such as insurance companies, investment trusts, pension funds, etc., but the individual investor is rarely prepared to lock up his money indefinitely or for a long period—though it may well be that in this as I suggest later, Ireland is an exception to the general rule; he requires an assurance that, should the necessity for realising the investment arise, he will have a reasonable prospect of finding a willing purchaser at short notice and at a reasonable price. This assurance will not be forthcoming unless markets are active.

It is obvious, however, that the emergence of a free and broad market does not entirely depend on the mechanism of the Stock Exchange. While a Stock Exchange with archaic rules and out-of-date procedures could prevent the development of a free market, it is equally obvious that not even the most streamlined and progressive Stock Exchange could develop an active market for its country's industrial securities if other factors were missing. These factors include :

- (a) an adequate flow of savings,
- (b) a willingness to investment in marketable securities,
- (c) an adequate and diversified supply of marketable domestic securities,
- (d) a reasonably widespread distribution of marketable industrial securities.

It is true that these factors are in part—but only in part—a function of the adequacy or otherwise of the Stock Exchange machinery. Thus the absence of a Stock Exchange, or the presence of an inadequate Stock Exchange, will obviously react on the public's willingness to invest their savings in domestic securities. It will also reduce the number of industrial issues and will react against the widespread holding of domestic securities. But while

the Stock Exchange has a part to play in the creation and development of a domestic capital market, it is clear that it cannot play its part if these other factors are missing.

Reverting to the factors mentioned above :

- (a) While it is doubtful if improvements in the Stock Exchange will lead to any *significant* increase in the flow of savings—though they should promote the investment of savings in marketable securities—it can hardly be contended that, on average, the level of savings in this country does not provide sufficient raw material for a Stock Exchange.
- (b) The Irish public is well accustomed to investment in quoted securities. We are more fortunate in this respect than many under-developed countries. Admittedly, this willingness to invest was for many years directed towards British rather than Irish securities, but considerable progress has been made in weaning the investor away from his traditional preferences.
- (c) This is really the kernel of the problem and the sphere where—particularly in regard to industrial issues—it is difficult to distinguish cause from effect. To what extent is the existing volume of industrial, commercial, etc., securities sufficient to enable a free, broad and active market to develop? I shall have more to say later regarding the statistics of quoted industrial capital. Here it is sufficient to voice the opinion—admittedly theoretical—that, even allowing for the fact that many of the companies in question are small, the present volume of quoted industrial securities should be sufficient to ensure marketability.
- (d) There is, as far as is known, no information readily available regarding the distribution of non-governmental securities, i.e., the extent to which ownership is concentrated or is widely diffused. No one in this country has carried out an investigation on the lines of those carried out in England by Hargreaves Parkinson in *Ownership of Industry* and, more recently, by the University College of Swansea. It is known that, in recent years at any rate, external subscriptions to public issues by companies have been comparatively small, judging by the figures compiled for the purposes of Balance of International Payments, the total for the years 1947 to 1958 was £2·343 million (including an exceptional figure of £1·161 million for the year 1955) or about  $\frac{1}{3}$  of the total issues in those years. In the case of most post-1922 companies, it is probable that many of the shares are fairly tightly held by a limited number of Irish and external promoters. Here again it may be difficult to distinguish cause from effect—are markets sluggish because shares are tightly held, or are shares tightly held because markets are sluggish?

It is against this background that the criticisms of the Dublin Stock Exchange must be considered. The very fact that such criticisms are voiced is an indication that the Stock Exchange is regarded as a national institution with an important part to play

in the fulfilment of national economic objectives. The standards by which it is measured are naturally higher than those which would apply if its sole purpose was merely the private profits of its members. It is legitimate, therefore, to ask whether the Stock Exchange is playing the important rôle now thrust on it of promoting investment in Irish industry. This question is all the more pertinent since, unlike most other Stock Exchanges (other than London) in Great Britain and Ireland, the Dublin Stock Exchange was not established to deal with securities of a purely local interest. In many instances these local interests have declined, but there is still a good deal of specialised trade done in some provincial Exchanges, e.g., cotton in Oldham, insurance and shipping in Liverpool, motors and engineering in Birmingham, tobacco in Bristol and textiles in Manchester. Since the establishment of the State—or more precisely since about 1933—local interests have become more prominent in Dublin but, in the absence of statistics of business done, it is not possible to state whether they predominate or not. The following figures extracted from the Balance of International Payments suggest that commissions on dealings in British securities must constitute a very substantial part of total income:

Dealings (through Irish Stockbrokers and banks) in securities between private holders resident in the State and holders resident abroad.

Year		Purchases	Sales
		£m.	£m.
1948	...	5·8	10·8
1949	...	6·7	13·2
1950	...	6·6	6·3
1951	...	6·3	9·7
1952	...	4·3	7·7
1953	...	5·1	8·6
1954	...	8·4	9·2
1955	...	10·6	9·8
1956	...	8·3	7·8
1957	...	12·0	11·0
1958	...	11·0	10·6

This Table covers dealings in Irish, British and other securities; most of the dealings are in British securities and, of these, the greater part relate to industrial stocks and shares. The figures disprove the contention that the smallness of the Irish industrial capital market is due to the net *continuing* attraction of the British market. Approximately two-thirds to three-fourths of these dealings are done through Irish stockbrokers who receive two-thirds the London commission on so much of the business as is effected through London. A rough calculation, based on Stamp Duty revenue, suggests that, in the financial year 1957-58, purchases of Irish commercial and industrial securities, and of British securities on Irish Branch Registers, were of the order of £6 million; it is possible that dealings in British securities on Irish Branch Registers may have accounted for one-third, if not more, of this figure. It

is likely, therefore, that by far the greater proportion of the business transacted in industrial and commercial securities on the Dublin Stock Exchange relates to British companies.

Mention may be made of two criticisms which have been levelled against the London Stock Exchange, viz. that it has too many members and that its regulations do not ensure that only suitably qualified men can become members. To what extent are these criticisms valid in Ireland? The first criticism is based on estimates of business done by members, computed by comparing bargains marked and membership. It is not possible to make this calculation in this country since we lack even such a simple statistic as bargains marked. The point involved in the criticism is not an academic one since, as long as charges are determined by the Council of the Exchange, there is a possibility that, if there are too many members, charges may be too high. It is of interest to note that members admitted subsequent to 1st May, 1913 must hold 150 Shares of £1 each, fully paid, of the Dublin Stock Exchange, Ltd; as there are only 12,000 issued shares in the Company, this requirement appears to contemplate, ultimately, a limitation of the number of members to eighty.

As regards the second point, the critics are careful to stress the outstanding record for probity of the members of the London Stock Exchange but question whether members are selected on the basis of knowledge and fitness for their job. The question at issue here is important, since it bears on the quality of the services which the broker can offer his client; it is particularly relevant in this country where the quality and quantity of these services has been criticised. The critics of the London Stock Exchange point out that the British Provincial Brokers Stock Exchange, which is the governing body for brokers operating in British towns without an organized Stock Exchange, has instituted examinations as a condition of entry. In his *Book of the Stock Exchange*, F. E. Armstrong, himself a member of the London Stock Exchange, states that closer attention is being given by the authorities to the matter of Stock Exchange education as a means of entrance to the profession. He adds "It would seem to be only a matter of time before entrance to clerkships and ultimately to membership will be obtainable only by passing preliminary and graded examinations such as are necessary for Chartered Accountants, the Civil Service, and the Banking, Medical, Teaching and Legal professions." Membership of some Continental Exchanges—e.g. Norway, Belgium and Sweden—is by way of examination. In a survey of the rules of the more important Stock Exchanges, Armstrong states that

"a review of the qualifications required in a candidate for membership will show that the Dublin Stock Exchange is probably the most difficult of all to enter."

It is clear from the context that the "qualifications" are mainly financial but it should be noted that Dublin is apparently one of the few Stock Exchanges in Great Britain and Ireland which makes special provision for the admission to membership of persons who have served a period of apprenticeship—as distinct from the admission of clerks which is common to most Exchanges.

At this stage it may be useful to summarise some of the more important of the statistics bearing on the industrial capital market :

	Date	No.	£ million
1. Nominal issued Share Capital (Ordinary and Preference) of Public Industrial Companies ... ..	Dec. 1958	190	34.820
2. Nominal issued Share and Debenture Capital of Public Industrial Companies quoted on the Dublin Stock Exchange ... ..	Dec. 1959	97	27.574
3. Nominal issued Share Capital of quoted Industrial Companies in which there had been dealings in (approximately) the previous twelve months ...	Sept. 1959	60	22.805
4. Nominal issued Share Capital of Public Industrial Companies whose shares were quoted continuously on the Dublin Stock Exchange between 1938 and 1952 ... ..	Dec. 1959	30	9.951

*Sources :*

- (1) 37th General Annual Report on Companies, 1958. (Department of Industry and Commerce.)
- (2) Stock Exchange Daily List, 31 December, 1959.
- (3) Central Statistics Office.
- (4) Based on *The Inadequacy of Irish Commercial Profits* by F. G. Hall (Dublin Chamber of Commerce and Federated Union of Employers) 1954, but excluding the non-industrial companies referred to in Appendix A thereof.

For a number of reasons these figures are not fully comparable; thus they have not been compiled on the same basis, and they do not relate to the same dates. While they are subject to a number of reservations, they suggest that the industrial company capital which is actively quoted is only one-third of total quoted industrial capital and one-fourth of total share capital of public industrial companies. This conclusion is, broadly speaking, reinforced by a study of the Daily List of the Dublin Stock Exchange which indicates that in many instances quotations take place at infrequent intervals. Thus the Daily List for the 31st December, 1959, shows that, while 97 industrial companies were included in the List, business took place in only 34 cases.

*Public issues of Industrial Share Capital*

- (i) In 1933 there were only 24 public industrial companies quoted on the Dublin Stock Exchange, with a total issued capital of £4.8 million. In the ten preceding years there had been only one public issue by an industrial company, the amount involved being £15,000.
- (ii) The establishment of the Industrial Credit Company in 1933 and the active programme of industrialisation introduced about that time brought a radical change. The Minister for Industry and Commerce stated, in a reply to a Parliamen-

tary Question on the 28th May, 1957, that capital issues since 1932 by Irish concerns, which were quoted on Irish Stock Exchanges, amounted to £21,636,083; the number of concerns involved was 90. If non-industrial concerns are excluded the total becomes £19·506 million relating to 80 companies. The Industrial Credit Company sponsored fifty-six capital flotations in this period, including public flotations, accounting for 56% of the total capital raised by all such flotations since 1933.

- (iii) In recent years the volume of new industrial issues has fallen off sharply. It is difficult to say with any certainty what caused this reduction but it is hardly a coincidence that it took place at a time when industrial output was stagnant or falling; other factors which were present were the rise in interest rates, the availability of other sources of funds and the competing attractions of Governmental and Governmental-guaranteed loans.

It should not be thought that Ireland is unique in the demands which its public sector makes as the capital market. The O.E.E.C. study on "The Supply of Capital Funds for Industrial Development in Europe" (1957) drew attention to the predominance of Governmental issues in the nine European countries surveyed. Figures published in the Reports of the Central Bank show that, in the years 1947 to 1958 inclusive, total new capital raised by marketable securities amounted to £234 million distributed amongst the various categories as follows:—

	£ million
Governmental Loans ... ..	158·7
Dublin and Cork Corporations ....	31·4
Industrial Credit Company and Agricultural Credit Corporation ....	2·4
C.I.E. ....	9·9
E.S.B. ....	15·0
Other Issues ... ..	16·9
Total	£234·3

"Other Issues" cover industrial, commercial, etc., securities. 80% of the figures under this heading in the period in question relate to the years 1947 to 1953 inclusive; the annual figures in recent years has averaged little more than £½m. Details available for the years 1950/53 show that of the total "Other Issues" in those years—£8·27 million—as much as £6·17 million was issued exclusively or preferentially to existing shareholders. Not alone, therefore, have industrial issues been small in post-war years, but the amount raised by normal issues to the public has been much smaller.

It is obvious that in post-war years, and more particularly in recent years, Irish industry has largely by-passed the capital market. Gross fixed asset formation (i.e., excluding stocks) in

industries producing transportable goods has recently been of the order of £12 million a year while the net figure, after allowing for depreciation, might be put at £8-£9 million. No statistics are available to show how this investment was financed but it is obvious that a substantial proportion of the funds came from retained profits. The Report of the Committee of Inquiry into Taxation on Industry shows that new capital raised by public manufacturing companies in the period from 1946 to 1953 came to £6.3 million (which compares with the Central Bank figure of £13.6 million for "Other Issues" in the period 1947 to 1953). The same source shows that profits of Irish manufacturing companies before tax came to £14.9 million in 1953, and net undistributed profits after tax and dividends amounted to £6.2 million; these figures relate to public and private manufacturing companies whereas the capital formation figures quoted earlier relate to all enterprises, corporate and unincorporated, engaged in the production of transportable goods. It is not possible from published sources to compare net capital formation of public industrial companies with their net undistributed profits but the indications are that retained profits and depreciation allowances have been sufficient to finance net growth with only marginal recourse to public issues. This does not mean that the adequacy or otherwise of the industrial capital market is a matter of indifference. Firms with the greatest amount of retained profits may be the least progressive; the most progressive firms may not be able to finance themselves from their retained profits. Furthermore, industrial capital formation is much too low and a more satisfactory rate of capital formation will involve an increasing recourse to public issues.

It may be of interest to compare Irish experience with that in Britain. The basis for such a comparison is available in an article entitled "Comments on Company Finance" by R. F. Henderson in *Lloyds Bank Review*, January 1959. Henderson's article was based on a study of the accounts, for the years 1949/53, of all companies with share capital quoted on Stock Exchanges in the U.K., whose main activity was manufacturing, building, or distribution in the U.K. In these years nearly one quoted company in three had resort to a market issue. Henderson found that, in the case of companies covered by the survey, the gross sources of capital funds in this period were:—

Retained net income	...	....	....	35%
Depreciation	....	....	....	24%
Capital Issues	...	....	....	15%
Trade Credit	....	....	....	11%
Taxation Reserves, bank loans and accruals	....	....	....	15%

An alternative calculation, based on—

- (a) the omission of depreciation and replacement expenditure,
- (b) subtracting the increase in trade credit *received* from the increase in trade credit *given*, and



(c) the adjustment of liquid assets to take account of increase in loans from banks, accruals of dividends and taxation gives the sources of capital funds as :

Retained net income	....	....	63%
Additions to future tax reserves	....	....	9%
Capital Issues	....	....	27%
Other	....	....	1%

The extent (27%) to which British public industrial companies relied on the capital market to finance net growth is obviously very much greater than in Ireland.

#### *Index of Ordinary Stocks and Shares*

The Central Statistics Office publishes a monthly and annual price index of ordinary stocks and shares quoted on the Dublin and Cork Stock Exchanges. The annual index is an average of the monthly indices; these in turn are based on the values shown in the Stock Exchange Daily List on the first Monday of each month. Since March 1957, the index has been revised every January so as to include only those securities in which there had been dealings *at any time* during the preceding year. Although it is issued monthly, the index does not purport to reflect only quotations in the preceding month. A security could be included in the index for, say, December 1959, although it was last quoted in, say, January 1958, i.e., almost two years previously. Some idea of the extent to which dealings in quoted issues are dormant for twelve monthly periods may be gauged from the reduction in the number of companies covered by the index at January 1958 as compared with January 1957.

January	1955	....	121
„	1956	....	119
„	1957	....	118
„	1958	....	101
„	1959	....	98
„	1960	....	98

In the period 1955-1959 the number of public companies (not all of which are quoted) increased by 7, but the number of companies covered by the index fell by 23. In September 1959 the nominal value of the ordinary share capital of the companies in question was £28 million; if non-industrial companies are excluded, this figure is reduced to £16·092 million.

The index of ordinary stocks and shares in recent years has moved as follows :—

1953	....	100
1954	....	108·8
1955	....	115·3
1956	....	104·3
1957	....	94·8
1958	....	94·5
1959	....	125·5

In recent years, it reached a peak in mid-1955 and fell thereafter more or less continuously until the beginning of 1958 when it reached a low point of 89.3. Recovery since then has been continuous and the index at December 1959 (145.5) was some 60% above the figure at its lowest point in 1958.

In the following table a comparison is made between the index issued by the Central Statistics Office and the Actuaries Investment Index of ordinary stocks and shares:—

Year	Irish Index 1953-100	Actuaries' Investment Index 29 Dec. 1950-100
1953 ...	100	104.1
1954 ...	108.8	135.8
1955 ...	115.3	154.7
1956 ...	104.3	143.5
1957 ...	94.8	151.3
1958 ...	94.5	110.6*
1959 ...	125.5	151.1*

\*31 Dec. 1957=100.

The 1958 and 1959 British indices on the old basis would be approximately 150 and 206. The range of movement in the Irish index is much narrower than in the British index; falls are less extreme and increases are more limited. The table illustrates the extent to which British equities have, in the past, been superior to Irish in their "capital growth" prospects. The British index is now three times what it was at the beginning of 1950, more than four times as high as before the war and has more than doubled in the last two years. A number of factors—such as the removal of "voluntary" dividend limitations, political changes, greater sensitivity to changes in interest rates, etc.—which have influenced the British index have not operated in this country. Though the Irish index is barely 40% above its pre-war level, the increase in the last year or so has been much closer than in earlier periods to the increase recorded by the British index.

The differing "growth" prospects of Irish and British investments is not to be explained by reference to the higher yields of British investments. There is no published index of yields on Irish industrial securities but calculations made by the Central Statistics Office enable the following comparisons with British yields to be made:

Yield on ordinary shares in industrial companies

Year	Irish Index (Average of four quarters)	British Index Actuaries Investment Index
1954 ...	6.33	5.40
1955 ...	5.93	5.43
1956 ...	6.56	6.25
1957 ...	7.61	6.27
1958 ...	8.40	6.23*
1959 ...	6.61	4.83*

\*Basis of calculation changed, not strictly comparable with other figures.

The yield on Ordinary Shares in public industrial companies is lower in Britain, not alone than in the 26 Counties, but also than in the Six Counties; according to the Cuthbert-Isles Economic Survey, the yield on Ordinary Shares in the Six Counties was 5.85% at the end of 1950 compared with 5.28% in the United Kingdom as a whole.

Yield is, of course, a function of price. To assess the extent to which yield influences price, it would be necessary to ascertain the average rate of return on nominal paid-up capital. According to calculations made by the London Stock Exchange some years ago, the average rate of dividend return on the *nominal* value of paid-up issued ordinary capital of British public companies was 16.3%, while the average return on the *market* value of such capital was 6% (this is in reasonable concord with the Actuaries Investment Index). Comparable Irish figures are not available but it is possible to make some estimates from the Report of the Committee of Inquiry into the Taxation of Industrial Profits. In 1953 profits before tax as a percentage of nominal paid-up ordinary capital of all companies (*public and private*) engaged in manufacture was not less than 33%, while gross dividends paid on nominal paid-up ordinary capital might be put at about 7½%. From information submitted to the Committee by the Federation of Irish Industries in relation to 83 *public and private* manufacturing companies it appeared that gross ordinary dividends as a percentage of nominal paid-up ordinary capital were 8.7% in 1951, 8.3% in 1952 and 9.0% in 1953.

As a percentage of nominal issued ordinary share capital, dividends paid by Irish public and private manufacturing companies are little more than one-half of the dividends paid by British public companies, manufacturing and non-manufacturing. The difference is hardly due to the different coverage of the two sets of figures nor can it be accounted for in terms of a more conservative attitude adopted by Irish companies in relation to the distribution of profits. According to the Committee of Inquiry into the Taxation of Industrial Profits, dividends paid by public and private manufacturing companies in the period 1949 to 1953 amounted to 27.7% of net profits, after tax. Net dividends paid by British companies (manufacturing and non-manufacturing) amounted to about 36% of net profits, after tax, in the same period (Company Profits and their Distribution since the War, F. W. Paish, District Bank Review, June 1955). The difference in dividend distributions reflects a difference in profits earned, expressed as a percentage of nominal paid-up capital. Despite the lower return on nominal issued share capital, Irish ordinary shares are so priced as to yield a higher return than British. This may in part be due to more extensive bonus issues in Britain and the consequent attractions which British shares possess in terms of capital appreciation. But can it be taken that the difference in yields is entirely due to a difference in growth prospects? It is curious, for example, that the well-known difficulty of acquiring sizeable blocks of sound Irish equities has not forced Irish prices up and reduced the gap between Irish and British yields. Is the comparatively high Irish yield, and the relatively low level of Irish prices,

a reflection of the extent to which Irish shares are tightly held ?

In post-war years, large-scale institutional purchases of British equities have probably helped to keep up their price. In 1955 institutions (investment trusts, insurance companies, pension funds, special financial institutions and charities) held 27% of the market value of debenture, preference and ordinary capital of non-financial public companies in Britain. According to the Radcliffe Committee, the amount of securities in public companies (excluding those in the banking, insurance and finance sector) taken up in 1957 by United Kingdom life insurance and pension funds was greater than the total capital issues in that year by the public companies in question. The fact that institutional demand is not nearly so marked in Ireland may account in part for the difference between the rate of increase in the British and Irish ordinary share indices. The recent decision by the British and Commonwealth life insurance companies transacting business in Ireland to invest in Ireland, over a period of ten years, two-thirds of their funds attributable to Irish business may, directly or indirectly, help to provide a wider market for Irish securities and to facilitate new issues.

It is hoped that this factual background will serve as a backdrop to an examination of what has been, or can be, done to improve the machinery of the Stock Exchange and to increase the flow of private investment in industry. It will be convenient to distinguish between improvements and developments (a) within and (b) outside the Stock Exchange.

#### *Improvement within the Stock Exchange*

*Jobbers.* The suggestion that jobbing houses should be established in Ireland was much in vogue some years ago but little has been heard of it recently. It is unlikely that we will ever see jobbers in the Dublin Exchange. The distinction between jobbers and brokers is apparently found nowhere else but in London, though the "specialist" buyer in New York—who functions both as commission broker and as floor trader on his own account, but confines his dealing to a limited number of stocks—is said to perform some of the functions of a jobber: it is of interest to recall that prior to the enactment of the American Securities Exchange Act, 1934, the possibility of segregating the dealing and brokerage functions was examined but was rejected as disruptive of the existing machinery of the New York Stock Exchange. Whatever the historical reason for the division of functions in London, it is clear that the huge London Market, involving over £30,000 million worth of securities and covering an extensive and complex range of domestic and external issues, offers ample scope for the jobbing function—though it should be added that even in London the distinction between jobber and broker has been criticised. It is, however, significant that most modern observers are unanimous in agreeing that, at present levels of taxation, the jobber cannot build up the capital necessary for the discharge of his functions and that he is now tending to act as a mere go-between or middleman rather than an independent force in the market. This steady erosion of the jobbing system has led to an agitation for the introduction of non-member's capital to supplement the jobbers' depleted funds.

Much of the pressure for the establishment of a jobber in Ireland seems to have been based on an exaggerated idea of what he could perform. If the market for industrial securities is sluggish, the presence of a jobber would not in itself improve matters significantly as he could not work against the long term trend, or permanently ensure activity in the market. Admittedly when markets are sluggish it is convenient if somebody will "make" prices, but obviously the "turn" would have to reflect the price-maker's estimate of likely market trends, and in the case of industrials may have to be so wide as to be prohibitive; incidentally this "turn" will be an added cost of investment, i.e., additional to stockbroker's commission, stamp duty, etc. The essential point, however, is that the jobber is a specialist, and in the limited markets serviced by the Dublin Stock Exchange there is no room for him.

In Ireland the scope for a "price stabiliser" is obviously greater in the case of Government securities, and in fact there has been a significant development in this respect within the last few years. With the object of creating a more active market for Governmental, Dublin Corporation and Transport Stocks, arrangements were made some years ago whereby the Government Stockbroker stands ready to deal, either way, in such stocks up to a fixed limit and within stated margins. The Central Bank is prepared to cooperate with the Department of Finance in assisting the Government Stockbroker to carry out these transactions.

*Broker's Register.* Some of the benefits of the jobbing system might be obtained by alternative arrangements. Over 80 years ago the Royal Commission on the London Stock Exchange recommended the introduction of Brokers' Registers in which would be inscribed particulars of securities in which there was little activity. This would have the added advantage of eliminating the jobber's turn in the case of securities where there is in effect no jobbing. The Commission recommended that "a book or register should be kept on the Stock Exchange, in which brokers should be invited to enter from time to time the names and quantities of any securities of the character we have been considering which they may have instructions to buy or sell, with or without a price at which they are willing to deal . . . . In whatever form such a scheme be carried out, it cannot fail, we think, to possess the great advantage of bringing the buyers' or sellers' brokers into immediate contact, and by the exclusion of the middleman, for whose services there is no need, of saving to the parties the profits sometimes unreasonably large which he secures for himself."

This proposal has received support in recent years in Britain and it seems to merit examination in this country. A somewhat similar scheme, but with a much larger coverage, is in operation in the United States. In that country purchases and sales of bonds and certain stocks are mainly effected in bond houses, banks and brokers' offices. These "over the counter" transactions do not pass through an organised Exchange; bids and offers are recorded and published daily in a National Daily Quotation Service which is published by an independent National Quotation Bureau.

*Publicity.* Members of the Dublin Stock Exchange are not allowed to advertise even to the extent of publishing their names and addresses in the daily press or in reputable financial journals. There is no such ban on the Stock Exchange as such, but in fact it has done virtually no advertising. It is true that some years ago it declared its intention of seeking a better-informed public opinion on matters relating to stocks, shares and Exchange activities. Referring to the lack of knowledge and to the positive misunderstanding about the Exchange, Mr. J. C. Millard, then President of the Exchange, said in 1954 :

“ We have come to realise in recent years that we have been at fault in allowing such ignorance to continue and in permitting such misunderstanding.”

As an earnest of its change of mind the Exchange issued a booklet for the information of the public entitled “ How and Why to Invest ”. It also proposed to maintain an information service for the members and for the public, and to engage the services of a public relations consultant. These steps, while welcome as an indication of the Exchange’s willingness to play its part in expanding the capital market, have apparently not been followed up.

The Dublin Stock Exchange has had a visitors’ gallery for over 60 years; it was only recently, and after much debate, that a gallery was provided at the London Stock Exchange. Even making all allowances for differences of scale, London has made more use of its gallery than Dublin in bringing to the notice of the public the facilities and functions of the Stock Exchange.

It is obvious that the question of publicity will have to be tackled more energetically. In their evidence before the Banking Commission, 1938, the representatives of the Dublin Stock Exchange said that more publicity would be desirable—but little has been done since then. In Britain, where a similar ban on publicity exists, the prohibition has been strongly criticised. Unfavourable comparisons have been drawn with New York where, subject to control by the Governors of the Exchange, advertising is permitted. It is argued that the ban on publicity is an anachronism in the twentieth century, has lost the Stock Exchange some of its most enterprising members and is partly responsible for the British practice of sharing commissions. Because of the wall of silence which the Exchange has built around itself, the idea of investment has become (to quote one critic) “ associated to the man in the street with the aroma of cigars and the flash of gold cuff links ”. Effective communication between the Stock Exchange and the public will not be established until the ban on advertising is relaxed. It is significant that the London Stock Exchange has recently consented to some relaxations, and is to look further into the question.

*Charges.* A reduction in the costs of buying industrial securities would help to attract the small investor; the present scale of charges on low-priced shares is, in fact, regressive. Costs consist primarily of

- (a) Stamp duty and
- (b) Brokers’ Commission

As regards (a) a small duty is payable on the contract note, and a stamp duty of 1% is charged on the purchase price. This is particularly onerous in the case of industrial and commercial securities since Government securities are exempt from the charge, while local authority stocks generally do not bear the charge directly—the local authorities themselves pay a composition duty in lieu direct to the Exchequer. The duty yields about £200,000 annually.\* The fact that purchases of British securities (other than those on an Irish Branch Register) bear a stamp duty of 2% gives Irish industrials a slight margin of advantage. In Britain, where the duty is 2%, there has been considerable pressure on the Chancellor of the Exchequer to abolish or reduce it in the interests of spreading the investment habit.

As regards brokers' commission, representatives of the Dublin Stock Exchange who gave evidence before the Banking Commission gave the general impression that, while commissions in the case of British Government securities were the same here as in London, in other cases the commission charged by Dublin was never less, and was sometimes more, than that charged by the English broker; this was confirmed by the Commission (Question 3106 *et seq.* and paragraph 338 of the Report). An examination of the latest scale of charges indicates that this is still the position. Even a favourable comparison with London may not be satisfactory since the London Stock Exchange has frequently been criticised because the relatively high level of its charges makes London a more expensive centre to deal in than, say, New York or Paris; one explanation of this is—or was—that almost 70 per cent. of the volume of business was subject to division of commission. The Dublin broker has not to split his commission, except in dealings with members of other Stock Exchanges, and this fact should be taken into account in comparing the Dublin and London charges. The Dublin Stock Exchange proposed to the Banking Commission that the commercial banks should be prohibited from carrying out the purchase and sale of securities on behalf of their customers on Exchanges outside the State, the point being that, if the banks did business through the London Stock Exchange, they received one-half (now reduced to one-quarter) of the commission while they received nothing if they did business with Dublin. The Banking Commission did not recommend this proposal.

In Britain it has been estimated (Stock Exchange Journal, volume 4, no. 3) that it costs about 15s. in purely cash items—paper, telephones, postage—to transact a single bargain. If account is taken of other expenses such as rent, salaries, wages, light, heating etc. the cost is £3. Since, on a rough calculation, £1 is produced from every £100 worth of business carried out in London, any transaction worth less than £300 does not cover all expenses and anything less than £75 puts the stockbroker definitely out of pocket.

What can be done to reduce costs? The issue of the Stock Exchange Journal referred to makes the suggestions that the absurd amount of paper work involved should be reduced by, e.g. providing

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\*The yield in 1959/60 reached the exceptionally high figure of £403,000.

a register of ownership which would replace transfer forms; the involved British and Irish procedure for effecting share transfers compares unfavourably with the streamlined transfer machinery in the U.S.A. The Chairman of the London Stock Exchange has called for a revision of the "archaic" system of transferring shares. Other suggestions made in the Journal include :

- (a) A system of central book-keeping within the Stock Exchange to cut the costs of Settlement, which probably account for more than one half of the total costs of the London Stock Exchange. London has recently decided to mechanise the Settlement Department's procedure for dealing with registered stocks; this will relieve the present complicated procedure and will speed up the settlement of the Fortnightly Account;
- (b) charging commissions in all cases on the actual purchase price. This would achieve a more equitable basis of charge as compared with the present practice of charging commissions on industrial shares at rates *per share* which vary inversely with the prices paid for the share until— at the unusually high purchase of £15 or over per share—the charge flattens off at  $\frac{3}{4}$  per cent. of the consideration money; this compares with an effective charge of almost 4 per cent on a share valued at 1/1.

#### *Improvements Outside the Stock Exchange*

Mention should be made of three recent steps which, directly or indirectly, have improved the marketability of industrial capital :—

*Redeemable Preference Shares.* The Companies Act, 1959, implemented a recommendation of the Committee on Company Law Reform that companies should be empowered to issue redeemable preference shares. The rise in interest rates in recent years and the consequential fall in market values of preference shares have made these shares unattractive to investors. An assurance of redemption at par within a stated period should help to promote greater activity in preference shares and should, in particular, facilitate small and medium-sized concerns which are debarred for various reasons from raising capital by an issue of Ordinary shares.

*Trustee Status.* The Trustee (Authorised Investments) Act, 1958, conferred trustee status on

"debentures or debenture stock, quoted on a Stock Exchange, of any industrial or commercial company registered in the State, provided that the total of the debentures, debenture stock or debentures and debenture stock of the company does not exceed the paid-up share capital (including payments in respect of share premiums) and that a dividend of not less than five per cent, has been paid on the ordinary shares of the company in each of the five years last past before the date of investment;"

It might be argued that, subject to certain safeguards, trustee status should be conferred on ordinary and preference shares in



quoted industrial and commercial companies. There has been little public pressure in this country for such an extension of the trustee list. The British Government recently announced its intention of sponsoring legislation to widen the range of authorised trustee investments so as to include, *inter alia*, fixed interest and convertible debentures, and ordinary and preference shares. Such shares and debentures must be in a United Kingdom company quoted on a Stock Exchange, and be fully paid-up; the company must have a paid-up capital of not less than £1 million and have paid a dividend on all its issued share capital in each of the five years preceding the investment. Investment in convertible debentures, shares and certain other securities must not absorb more than one-half the trust funds. A further limitation is that not more than one-tenth of the fund, or £250, whichever is the greater, may be invested in any one company.

*Extension of Taxation Relief under Section 7 of the Finance Act, 1932.* This Section provided a 20 per cent. tax remission on dividends received by Irish residents from investments in Irish industrial public companies. Experience showed that the relief had the unforeseen effect of reducing the marketability of Irish industrial securities in cases where companies had to divide the shares into two categories (one eligible and the other ineligible for relief) and neither category was large enough to provide a basis for active dealings. By amending legislation in 1956 and 1957 the relief was extended to all securities (including rights and bonus issues) issued to the public by Irish manufacturing concerns since 1932.

These measures will help to make markets more active but other improvements are clearly necessary. Some proposals which have been suggested in the past are considered in the rest of this paper.

### *Investment Trust Companies*

An investment trust is not a trust in the usually accepted meaning of the term; it is a joint-stock company which deals in investments. A basic feature of an investment trust is that it places expert advice at the disposal of the small investor and enables him to spread his risks without a multiplicity of small holdings or a large investment. A small investor might hesitate to put his savings or any portion of them into one or two or more equities but he might be prepared to place them with an investment trust in which he had confidence. It has been suggested that the formation of an Irish investment trust company, which confined its activities mainly to Irish securities, might broaden the market for Irish industrial securities. The representatives of the Stock Exchange who gave evidence to the Banking Commission in 1935 recommended the establishment of such a trust (Question 2951). The Commission on Vocational Organisation which made a similar recommendation (Paragraph 423) thought that stockbrokers should establish such a trust but as against this it might be argued that the assumption of the risks involved should not be laid entirely, if at all, on stockbrokers, whose functions are more limited. The initial difficulty in the formation of an investment trust is the same as that which militates against an active market in industrial

securities—namely, the relatively small number and volume of equity securities in which there is an active market. This of course is not the whole story. If an investment trust were to deal merely in securities which at present enjoy an active market it could make very little contribution to the widening of the market. The function of an investment trust would be to create a market for those reputable quoted securities which are not at present actively traded; in addition it might induce reputable public companies with unquoted share capital to seek a quotation, e.g. when looking for additional capital, and ultimately it might act as an issuing house or an underwriter. In this way the formation of an investment trust would tend to broaden the market. As these trusts are usually firm holders of securities, they are a stabilising influence in weak markets. Many of them are also prepared to hold unquoted investments, or to take up a block of shares in a very small but sound company.

### *Unit Trusts*

In post-war years there has been less talk of investment trusts and more talk of unit trusts. A unit trust is an association of investors who have pooled their resources to buy stocks of shares through the medium of a professional management company. The trust is constituted by a trust deed between the management company and a trustee (usually a bank, insurance or finance company) which holds the investments in trust for the unit holders. Each unit in the trust represents a definite proportion of the trust's investment portfolio. The trust is operated by the selling of units to the public and the purchase of securities with the proceeds. An attractive feature for small investors is that the minimum initial investment in most unit trusts is quite low—in some cases £5, though the more usual figure is £25—£35. Following the removal of restrictions on capital issues in Britain, unit trusts experienced a renewed growth in that country and the movement has now attained the hallmark of financial respectability—a representative Association. Under the contemplated British legislation, unit trusts will be added to the trustee list. The total British investment in these trusts—now about £200 million—is however far short of the American figure of \$13,000 million.

Unit trusts share with investment trusts the advantage of

- (1) offering expert advice to the small investor in spreading the risks inherent in equity investment, and
- (2) reducing the cost of investment (by economising in brokers' commissions) and simplifying the work of investment (one dividend warrant). Certain off-setting cost disadvantages are noted below.

They have, however, certain advantages over investment trusts:

- (a) as long as the unit trust is "open", its units are always on "tap" and the investor can buy units at any time at a price corresponding to the prices of the underlying securities; shares in Investment Trust companies may not be available when the investor wishes to buy:

- (b) expert knowledge is required to form even an approximate idea of the relation between the price that should be paid for investment trust shares and the value of the securities in which interest is thereby acquired :
- (c) most investment trust companies are “geared”, i.e. have Ordinary, Preference and Debenture Capital; fluctuations in their income result, therefore, in a more than proportionate variation in the earnings available for the ordinary shareholder. This is an advantage when profits are rising but the Ordinary shareholders will feel the breeze all the colder in a slump :
- (d) the proportion of earnings of an investment trust that will be distributed in dividends is determined by the Directors and, historically, investment trust companies have been noted for their conservative dividend policies—though there are indications that they are now becoming more liberal. In contrast, the full income of unit trusts, less management charges, is normally distributed to unit-holders :
- (e) only three unit trusts are quoted on the London Stock Exchange but under Board of Trade Regulations the managing companies are compelled to buy back their units at a price closely related to the value of the underlying securities prevailing at the time. The maintenance of a free market in units was regarded by the Radcliffe Committee as “the most important responsibility of the managers.” This almost-guaranteed marketability of units contrasts with the tight and limited markets in the shares of Investment Trust Companies.

Unit trusts, like investment trusts, have certain disadvantages :

- (i) the initial costs of establishment are usually high and running cost can be expensive—expert advice and management cannot be bought cheaply ;
- (ii) management may not always be expert and, in any event, cannot beat long-term trends; neither unit nor investment trusts represent investment without tears and fears; money can go down the drain in them as well as in “direct” investments ;
- (iii) both must keep earnings assets, and cannot go liquid—or very liquid—in times of investment uncertainty ;
- (iv) it is easiest to induce investment both in unit trusts and investment trust companies at the peak of a boom—but this is the most difficult time in which to invest if growth is to be maintained.

As regards (i), the “loading” charges (initial and current expenses) of British unit trusts are restricted by the Board of Trade to 13½ per cent. over 20 years but it is contended that these are inadequate to cover expenses unless the trust’s assets reach a

break-even point, variously estimated at £½ million, £5 million and £10 million, but probably nearer the middle figure. It is significant that in an attempt to obtain economies of scale most management companies operate a number of trusts. In American trusts, "loading" charges come to 18-19 per cent. and it is said that, at this level, an American unit trust will not break even if assets are below \$10 million. A typical Continental figure for "loading" charges is 16 per cent.

The inherent difficulty, in limited capital markets, of obtaining a sufficiency of first-class domestic industrial investments faces a unit trust as well as an investment trust. By its very nature, however, a unit trust might be faced with the additional disadvantage of having to sell, at short notice, underlying securities on surrender of units—unless its liquid reserves would enable it to retain the surrendered unit until it had been taken off its hands by a subsequent purchaser.

An examination of the prospects of establishing a unit trust is outside the scope of this paper. It may suffice to point out that *Economic Development* suggested that there is now a favourable climate amongst workers for this type of development and hinted that the Industrial Credit Company Ltd. might take the lead in establishing a unit trust. The Company has a corpus of Irish investments—valued at £3·25 million in October 1959—some of which could form the nucleus of a trust. It is true that the market value of the quoted securities was £300,000 less than their book value—but provided public support is forthcoming, there are obvious advantages in floating the trust when values are not at their peak. In Britain many investment trusts and unit trusts aim at an international spread of investment; there seems no good reason why their Irish counterparts should—initially at least—confine their investment to Irish securities. Success would require vigorous and sustained publicity but, at the same time, costs would have to be kept below British levels since it is unlikely that the assets of the trust would reach the minimum level required for profitable operation at the British level of charges. Since unit trusts are well designed to meet the needs of the small investor, an Irish unit trust should endeavour to tap the savings of the wage earner. One way of doing this would be to persuade some of the larger companies to establish a selling organisation in their factories; two of the more successful British trusts have adopted this course while another is developing the American system of direct sales to investors through its own salesmen and agents. A vigorous, widespread and aggressive sales policy would be essential.

The difficulties involved in establishing an Irish unit trust would be formidable but they must be faced—and faced soon; at least one British trust has established a selling agency for its units in this country and it is likely that more will follow. Finally, it should be recorded that more than one commentator in Britain has suggested that the London Stock Exchange should establish a unit trust. While this may be outside the functions and capabilities of the Dublin Stock Exchange, it would be encouraging if the Exchange showed its willingness to co-operate in such a venture.

### *Investment Clubs*

Investment Clubs consist of individuals who pool their savings to buy such securities as are agreed upon by the group from time to time. They have become popular in the United States of America and in Canada and are attracting increasing attention in Britain. The movement has, in fact, become so widespread in Britain that special companies have been formed to carry out trustee and administrative work on behalf of the clubs—all of which increases the cost of investment. Membership is small—usually 25 to 30—and so are initial subscriptions (about £5 to £30) and monthly subscriptions (about £2 to £5). These clubs have some of the advantages of investment and unit trusts, though naturally on a much smaller scale; they secure a spread of risk and some savings in commission. They normally save the management fees charged by the trusts but they lack the expert management which the trusts provide. As *The Economist* has remarked:

“Whether a committee of uninstructed investors can choose better than one uninstructed investor has still to be proved”.

A further question mark which hangs over British Investment Clubs is the uncertainty about their taxation position. If, as appears possible, they are liable to tax on any profits they make, their future would be very uncertain indeed. It is doubtful in any event whether they will have much future in this country.

### *Banks*

Of all the agencies which “collect” business for the Stock Exchange, the commercial banks are easily the most important, the best placed to encourage small business and the best equipped to deal with the purely mechanical aspects of payments and deliveries. In England the question of utilising the banking mechanism as a means of extending interest in quoted securities has been raised from time to time but nothing tangible has emerged. Some years ago the then President of the Institute of Bankers suggested that banks might consider the sub-underwriting of industrial issues. Many European banks engage in this business and, indeed, in other business which in Ireland is regarded as the prerogative of the Stock Exchange. The O.E.E.C. report on the “Supply of Capital Funds for Industrial Development in Europe” (1957) states that, in several European countries, banks, commercial banks and banques d'affaires play a large and in some cases a predominant part in the issue and distribution of industrial securities. In Sweden, banks issue and underwrite bonds and maintain Stock Exchange Departments which act as brokers on the Stock Exchange—handling in fact three-fourths of all Stock Exchange business. In the Netherlands, the banks are members of the Stock Exchange, buy and sell securities on their own account and carry on an extensive business as issuing houses. In Germany, short-term loans issued by the banks are often extinguished by issues floated by them; German banks also place and sell bonds to depositors. Continental banks have been particularly active in the formation and sale of unit trusts. The Scottish banks have been associated with the unit trust movement since the early stages; they sell “Scotbits” in their branches both in Scotland and in England.

One of "Big Five" is facilitating the "thrift plan" of another unit trust by allowing instalments to be paid through its branches. In the case of the "thrift plan" operated by the Bank Insurance Group of unit trusts, payment of instalments can be made through any bank including the Post Office and Trustee Savings Banks. In view of the activity in unit trusts in the past year or so, it would not be surprising if there were further developments in this field. There is room here for innovation by Irish banks, not alone in relation to a unit trust if such were formed, but also in relation to quoted securities.

What is at issue here is not the question of whether the commercial banks should take a more active and direct part in the financing of industry, though it should be noted in passing that their recent provision of £1.8 million by way of long-term loan capital to the Industrial Credit Company Ltd. was a welcome step in this direction. Nor is it suggested that Irish banks should emulate continental banks in the provision of Stock Exchange facilities; in this small country we are not deficient in facilities—what we require is a greater use of existing facilities. Greater co-operation between the banks and the Stock Exchange would help to spread the investing habit and might lead to a "shares across the counter" scheme aimed at bringing low-cost investment within the reach of the small investor. The fact that the Dublin Stock Exchange does not share commissions on business introduced by outsiders (other than members of other recognised Exchanges) is a difficulty that would have to be faced and overcome.

#### *Cost of Issuing Securities*

The costs of issuing securities include advertising, legal, accountancy, printing and banking costs and, more fundamentally, the difference between the amounts paid by the public and the amounts received by the Company. These costs differ according to the type of security issued, the asset size of the Company and the manner in which the money is raised, e.g., by prospectus, offer for sale, placings etc. As they do not increase in proportion to the amount issued they can act as a deterrent to the raising of small sums by public issues. Any reduction in costs could, therefore, contribute to a greater flow of issues and to a broadening of the capital market. There are, unfortunately, no published Irish statistics in this field and it is not possible to indicate the range of costs involved. Henderson has calculated (*The New Issue Market and the Finance of Industry*) that for small British issues—£200,000 or less—costs relating to issues by way of prospectus or offer for sale varied from 9 per cent. to 11 per cent. These figures are based on issues made in the years 1945-1947; apparently there has been some reduction since then, for in a later work (*Comments on Company Finance—Lloyds Bank Review, January 1959*) Henderson has stated that an examination of 29 issues of less than £80,000 each showed that in only one case did the costs of issue of ordinary shares exceed 6 per cent.; these issues were mostly made by companies with operating assets of under one half million pounds—in some cases under £200,000. Macrae (*The London*

*Capital Market*, 1955) has advanced the view that any company with net assets below about £150,000 must find a new issue on a Stock Exchange exorbitantly expensive, though Henderson suggests that, because of the lower costs involved in issues through provincial Stock Exchanges, it might be economic to make issues of as low as £50,000 through such Exchanges.

The Radcliffe Report noted that the smaller British issues—of under £250,000—are normally placed privately, for example with one or more insurance companies, and involve the offer of a high yield. It found that an issue, by prospectus, of less than £250,000 was likely to encounter difficulty, although issues down to £100,000 were not unknown. The Report also quotes Lord Piercy, Chairman of the Industrial and Commercial Financial Corporation, as saying that “the bar of size is rising, not falling . . . the machinery of public issue is tending to become less and less available to the smaller industrial undertaking”.

Turning to the Irish capital market, it is of interest to recall that the Committee of Inquiry into the Taxation of Industry 1956, reported that “professional advice does not favour issues of less than £100,000”. In fact one-third of issues have been under this figure, as is shown by the following analysis of *all* issues on Irish Stock Exchanges between 1932 and 1957.

Issues of	No. of Companies	Total amount of Issues Involved
Under £20,000 . . . . .	8	£100,500
£20,000 and less than £50,000 . . . . .	11	£328,932
£50,000 “ “ “ £100,000 . . . . .	11	£769,687
£100,000 “ “ “ £250,000 . . . . .	32	£5,122,666
£250,000 “ “ “ £500,000 . . . . .	19	£5,961,384
£500,000 “ “ “ £1,000,000 . . . . .	4	£2,436,507
£1,000,000 and over . . . . .	5	£6,916,407
	90 Total	£21,636,083

The smallest issue was £8,000; the largest £2,113,000. The Table was compiled on the basis that each company named made only one issue; in fact this was not the case but it has not been found possible to make the appropriate adjustment. One-third of the issues, but only 6 per cent. of the amount issued, were for amounts less than the minimum economic figure of £100,000. It should be noted, however, that the Table covers a period of twenty-five years and that the minimum economic issue was probably lower than £100,000 in the early part of the period.

#### *Other Developments*

Time does not permit me to refer in any detail to other developments elsewhere or to their implications for this country. These include—

- (i) the various “shares by instalment” plans introduced some years ago by the New York Stock Exchange and now operated by British unit trusts, finance companies and insurance concerns;

- (ii) the arrangements recently introduced by some British companies for selling shares in their own and other companies to factory workers;
- (iii) the British suggestion that an "industrial development certificate"—a cross between a unit trust and a Savings Certificate—should be introduced.

#### CONCLUSION

There are obvious limitations to the benefits which may be expected to follow from any improvement in the institutional arrangements for channelling private savings into industry. Experience here and elsewhere has shown that the Stock Exchange machinery is rarely designed to finance entirely *new* concerns. The essence of Stock Exchange transactions is that buyer and seller are placed on a common basis in so far as information is concerned; this common basis is lacking in the case of issues by new concerns. Nor is the Stock Exchange geared to finance small concerns, at any rate with equity capital (though the definition of a "small" concern will naturally vary from one country to another). Continuing marketability for small issues is illusory, though initial marketability may be purchased at a price which may, at times, be prohibitive. No matter what improvements in machinery are effected, it may be necessary to provide special facilities to finance new and small concerns, i.e. to bridge what has been called the Macmillan Gap. We have one such specialist institution in this country—the Industrial Credit Company Ltd.—which has been allotted a prominent role in the Government's Programme for Economic Expansion. The Programme provides £20 million for the expansion of industrial credit through the Industrial Credit Company Ltd; it is assumed that the banks and other financial institutions will contribute substantial amounts towards this sum. The more effective the machinery of the Stock Exchange can be made, the less will be the demands on the Industrial Credit Company and the more will it be able to cater for those types of concerns which the Stock Exchange is not equipped to finance. This, in a nutshell, is the case for pressing ahead with an examination of the possibilities of improving the industrial capital market.

#### DISCUSSION

*Mr J. J. Davy*: I have the privilege to propose a vote of thanks to Mr. Murray for the paper which he has just read. From the Stock Exchange point of view it is admirable—it shows that the speaker undertook a great amount of research in the preparation of the paper and it is clear that he has gone a long way towards understanding Stock Exchange practice.

Mr. Murray was not too critical but brought forward criticism that has been made by other commentators—speaking for the Stock Exchange I welcome criticism and whilst there may be answers for some of it I have no doubt that something can be done by the Stock Exchange to improve its practice in certain directions.



I would like at this stage to refer to some points raised by Mr. Murray in order to remove misconceptions.

To start off, the Dublin Stock Exchange is in competition with the great British market to which the Irish public has as easy access as to our own market. There is no gainsaying that the growth element in British industries is so much greater than in ours. Allowing for that it is remarkable that we have succeeded in maintaining relatively speaking, a fairly satisfactory market in local securities. In fact the Dublin Stock Exchange has a better market in its securities than any of the English provincial Exchanges maintain in their own local securities.

A second type of competition in Dublin has come from Mr. Whitaker, whom I see here, in the various Government Loans that have been raised so regularly and on terms as high as 6 per cent.

The speaker referred to the lack of simple statistics even to the extent of bargains marked. In that connection I must remind you that the London Stock Exchange provides no figures indicating the amount of business transacted. The number of bargains marked is published but that figure is no criterion whatever. Not alone does London publish no useful figures but in fact no record of business transacted is kept in any way. In New York, in sharp contrast, the actual number of Shares dealt in each day is published both in total and for each separate security. However, it is possible that the Central Statistics Office could devise an elaboration of the present returns made by Stock Exchange Firms so as to provide useful material for Statistics of business as between Irish and British Securities.

Reference was made to the paucity of quotations in Irish Stocks but if the London Stock Exchange Official list were to be examined it would be found that quotations in companies of similar small size as in Dublin are as few and far between—often months without a dealing being marked.

A suggestion was made that there should be a Broker's Register kept to provide particulars of securities which brokers have on their books to buy or sell. In answer to that I would like it understood that brokers in fact go to endless trouble to inform other brokers of Shares that they may have on their hands to sell—they literally hawk them around and try to induce other firms to get in touch with their clients in order to complete their business.

Mr. Murray referred to the jobbing System and admitted that it would be difficult to introduce it in Dublin—it is however a criticism that has been frequently levelled against us and accordingly I would like to refer to the system and explain the matter in simple terms.

*London Jobbing System*: Under this system all transactions must go through a jobber—brokers do not deal with brokers. The difficulties here, however, may not be apparent. The amount of business passing through in local securities would not suffice to make a living for jobbing firms, the small size of so many of our companies would make it impossible to make a market in their Shares—so often the jobbers would find themselves stale bulls or bears with no chance of closing their books. From time to time individual firms here tried to make a book in particular Stocks but

sooner or later they had to give up as they were unable to close their positions even over long periods. It would not be feasible to introduce the London system of jobbing by which all transactions would have to go through jobbers and at the same time to permit a firm of jobbers also to do business as brokers. The two businesses are incompatible as within the same firm for obvious reasons. I would like it to be known that the London system runs up against the same difficulty as we do in the case of small companies and frequently the jobbers have to say that they are buyers only and not sellers at any price.

Mr. Murray has commented on the way in which the Government broker, acting under the Minister of Finance, makes a market in Irish Government Stocks. I cannot exaggerate how successful this arrangement has proved—I would go so far as to say that it is this arrangement that is accountable for the present position where our Irish Government Stocks are standing date for date at relatively higher prices than British Government Stocks. The Minister of Finance does not make a market in Government Guaranteed Stocks possibly for the reason that sufficient business does not pass through in those Stocks to make it practicable.

At one time it had been thought and hoped that the Industrial Credit Co. would make a market in the Stocks of the Companies which they helped to float but circumstances were such that we came to understand the difficulties that it would come up against if they endeavoured to do so.

The formation of Unit Trusts for Irish securities has constantly been discussed by members of the Dublin Stock Exchange but the unpracticability of it has proved itself—a Unit Trust to pay its own functioning would have to be half million—how to gather together a portfolio of that size appeared to be out of the question.

Finally I would like to refer to the present improved conditions of the Dublin Stock Exchange and in doing so give credit to the great support given to the Irish market by the two Irish Life Insurance Companies. Now, in addition, we have the foreign Life Companies taking an interest in Irish equities and also we have quite an amount of pension funds and a number of private and public institutions in the market. The mere fact that these kinds of investors are known to be interesting themselves in Irish Securities gives in itself a great encouragement to the private investor, he need no longer feel that as a buyer and subsequently a holder of Irish Stocks that he is a holder of an unmarketable asset. I am happy to say that never has there been so much interest and confidence in Irish Securities as is manifest to-day. We feel that this happy situation will help to inspire confidence in industry because there is nothing so infectious as confidence except the contrary attitude of fear and anxiety. Unfortunately the latter was so much in evidence and for so long that the growth and expansion of Irish Companies was discouraged and frustrated. A new spirit is now apparent and any worthwhile Irish Company that wants capital through the medium of Stock Exchange will find a ready welcome amongst both the Stock Exchange members and the investing public.

*Mr. F. Casey*: Mr. President, Ladies and Gentlemen: I would like to add to the unanimous hymn of praise which Mr. Murray's paper has evoked: the ease with which it read must have been in sharp contrast to the time and trouble taken by Mr. Murray in dealing with such a difficult subject so comprehensively. Mr. Murray covered a very wide canvas and cunningly left enough unsaid under various headings to embolden others to ride their own particular hobby-horses. I would certainly not have the temerity to comment in general on Mr. Murray's excellent paper but, with your permission, I would like to make a few remarks arising from the section of Mr. Murray's paper that deals with Unit Trusts.

Firstly, may I say that I agree wholeheartedly with Mr. Murray that the establishment of a Unit Trust in Ireland is a very desirable objective. For my own part, I would like to see such a Trust sponsored by private enterprise because then its own economic soundness, apart from any other merits which it might confer on the economy, would be put to a severe test before the establishment of the Trust. Mr. Murray mentions that the break-even point for a Trust's operations has been variously estimated at asset values of £½ million, £5 million and £10 million. It is difficult to obtain adequate figures on this point but, if the grumbings of many of the Trust Managers in England are genuine, then it seems that a Trust needs very substantial resources in order to be profitable. One group which managed a Trust of £15·8 million last year showed a profit of only £5,800 and it has been suggested by some observers that assets of £50 million are necessary for any sort of worthwhile profit.

Typical advertisements for Unit Trusts seek to attract the would-be investor with catch-cries like :

- “ a wider spread of investment ”,
- “ capital appreciation ”,
- “ resale facilities ”,
- “ reasonable charges ”,
- “ simplicity ”,
- “ protection ”.

Actually none of these claims is untrue though Unit Trusts are undoubtedly an expensive form of investment and, as compared with an investment in a few carefully-selected sound equities, they probably offer little advantage to the skilled investor. I think it is clear from all that has been said tonight that, while one might look to the small investor for some of the capital for an Irish Unit Trust, such a Trust could not succeed unless institutional investors are also prepared to back it heavily. Apart from other considerations, a preponderance of small holdings would lead to excessive administration costs. On the other hand, however, these institutional investors may be more reluctant to participate than would the small investors because many institutions have already skilled investment staff and are able to act as their own investment trust. If the new Irish Trust were to hope to attract most of its capital from institutions, it would do well to make intensive advance enquiries

so as to ensure that these institutions would not withhold their support because of the possibility of having to duplicate management charges.

On the prospects for an Irish Trust, Mr. Murray rightly says that costs would have to be kept below British levels since it is unlikely that the assets of the Trust would reach the minimum level of profitable operation at the British "level of charge". He goes on, however, to advocate a vigorous, widespread and aggressive sales policy and hints that the American system of direct sales to workers through agents might be desirable. I have some difficulty in seeing how both these desirable objectives can be fully reconciled. Those who are familiar with American procedure have pointed out that the running of successful Trusts is expensive. A full-time staff of experts carrying out investment research and portfolio reviews is required: it is not a mere matter of monthly Board Meetings. In America, continuous advertisement is found necessary in order, among other things, to give the small investor the benefit of averaging his purchases. For continuous investment of this kind, continuous advertising would be necessary. Mere block issues, from time to time, though helpful in their own way, would be insufficient.

In connection with the suggestion that the Industrial Credit Company might take the lead in establishing a Unit Trust, there are of course certain obvious difficulties about direct participation—not the least of which might be a possible fear in the minds of investors that the Trust's assets would include investments which, because of the nature of the Credit Company's other activities, might not have a great degree of marketability. As Mr. Murray points out, the market value of the quoted securities in the Credit Company's portfolio at October, 1959, was £300,000 less than their book value and, if part of these securities were to be included in the assets of the Trust, then the Credit Company would either have to take a heavy loss or the members of the Trust pay too much for the underlying securities in relation to current market values.

I have one final thought arising from the need for administrative economies. In another context Mr. Murray referred to the onerous impact of stamp duty on transfers of industrial and commercial securities. The abolition or reduction of the stamp duty on transfers of shares would help to diminish the overhead expenses of a Unit Trust.

*Mr. M. M. Connor, A.C.A., M. Comm.*, Secretary of The Industrial Credit Company, Limited, made some remarks relating to a couple of points in the speaker's paper. Firstly, he referred to the section entitled: "Cost of Issuing Securities". He said that the speaker had indicated that there were no published Irish statistics and hence it was not possible to indicate the range of cost involved in issuing securities. While this was correct in a general sense it would probably be helpful to indicate that the experience in Ireland was, very roughly speaking, about the same as in England: indeed, an organisation like the Stock Exchange could, with not a great deal of effort, have interesting figures com-

piled in this regard. Other people could, by reference to files of Prospectuses for public issues or offers for sale also arrive at quite interesting conclusions. An important aspect to have in mind was the existence of what might loosely be referred to as 'fixed overheads'. These would be printing, advertising and various fees which could easily amount to £3,500 and this amount would be involved irrespective of the size of the issue. In addition, however, there were varying elements. The main two items here would be *Brokerage* and, almost certainly, *underwriting commission*, which would be the underwriters' reasonable charge for covering a heavy risk. (Brokerage is modestly regarded by Stock-brokers as their pittance for their heroic efforts in securing public support for capital flotations.) Between these two items the previously-mentioned figure of £3,500 might easily be stepped up to £10,000 for (say) £100,000 capital. At this stage on the analogy of an industrial concern it could easily be seen that, if the Issue was reduced to £60,000, the *pro rata* cost would rise out of proportion. Conversely, if the amount of the Issue was £300,000, the charge would be considerably reduced—as a percentage at any rate. Another important point to have in mind was that it would sometimes be possible to reap the reward of a good trading record and a sound Balance Sheet by obtaining a premium on the new issue of shares: such a premium might be nominal or, as has happened in the past, could be enough to reduce substantially—if not to wipe out entirely—the flotation costs referred to above.

A final point was that the minimum economic issue in early days was, of course, much lower than £100,000 quoted by the speaker. Even the expression, "economic issue" would need some careful study as, in some cases, what would appear to be an abnormal charge for raising money might be the only alternative to not being able to raise it at all. In at least some of these cases it might be that special prospects of various sorts would justify the going ahead with the issue, even at the initial heavy cost.

Another item dealt with by the speaker, in connection with which he gave a special table, is the relationship between Irish investors and the British market. It was not immediately clear as to the exact object of the table and, in the paragraph following it, there appeared to be a nonsequitur and, regarding the claim that there is no continuing attraction of the British market for Irish investors, even a contradiction. Admittedly, the number of shareholders in Irish Companies might not be publicised but it was interesting to be able to say that, on a check of 13 prominent Companies with a total of approximately 19,000 shareholders, the average holding was about £1,450 per person or organisation—ranging from £3,300 down to £450 each. Of 69 industrial companies quoted on the Stock Exchange the average share-holding might only be about £300. In view of what the speaker had said it would be as well that the audience should also realise that there was, in fact, a continuing British influence which was, perhaps, even increasing. Everybody in the financial world, and particularly Accountants, were aware of the early roots of this position, dating back to the old back-duty cases involving almost classical lists of British securities held by Irish investors. The Industrial Credit Company

mailing list, which stands at about 25,000 investors' names had its origin in the purchase from England of a register of Irish investors which, at that time (the early 1930s) was of course mainly related to English Companies. Even at present there is ample evidence of keen and continued interest in British securities. There are quite a number of amateur speculators who are watching this market with a view to capital appreciation. The whole cross-Channel picture is built on capital appreciation, where they ignore yields in the hope of capital profit. One has only to look at publications of yields, such as the Financial Times, where they are down to 3 per cent. and under for well-known industrial securities. It is, perhaps, a good thing that there is in this country a Stock Exchange where all the emphasis is not on capital appreciation, but rather on adequate dividends and reasonable yields for capital invested. It would probably be of interest to say that, of Irish industrial companies quoted on the Dublin Stock Exchange, the total capital for 69 companies taken was approximately £26 million; divided into Preference Capital, £9 million, Ordinary Capital, £15 million and Debenture Stock £2 million. Of the 69 concerns quoted, in only three cases had no dividend been paid. After that, the following figures present quite a good picture:—

Four Companies paid 5 per cent. or under; six paid 7 per cent. or under; 18 paid 10 per cent. or under; 20 paid 15 per cent. or under; 14 paid 20 per cent. or under and four paid over 20 per cent.

It was good to see that over 50 per cent. of the 69 companies involved paid over 10 per cent. In addition, it could be said, as a basis of a rough check, that 24 of the companies involved had some sort of bonus issue.

In conclusion, I would like to associate myself with the previous Votes of Thanks to Mr. Murray as, for a person who is not immediately involved in the day-to-day workings of the operations with which he was dealing, there must have been a considerable amount of thought, reference and work involved.

*Mr. D. McGuane* : There are many points in Mr. Murray's paper on which I would like to comment but time will not permit. If I may say so without being deprecatory, the Dublin Stock Exchange is an efficient mechanism. The trouble lies less in the quality than in the quantity of the "goods" it has for sale. To endeavour to buy a reasonable holding in an Irish industrial security is a frustrating experience. Mr. Davy has commented on the great support given to the Dublin market in Irish securities by the two Irish life offices. I am sure it will always be the policy of these offices to support the Dublin market to the full. Life offices, however, are not interested in minute purchases of securities. To make an investment worth-while they must buy in reasonable amounts and as I stated previously, to buy in such amounts is very difficult.

The reason would appear to lie in the nature of Irish industry, organised as it is into many small units, very often with control being maintained by the founder or his descendants. Whatever the social arguments for the retention of this industrial pattern,

a real market in Irish securities cannot be developed until it has been changed. For many reasons, apart altogether from the desire to create a freer market, it would be desirable for Irish industrial units in the same industry to amalgamate. In many industries there is only room for two or three really efficient firms instead of the many more that now exist. Fewer but larger firms could carry out worth-while research and utilise more efficiently their assets, thus establishing the base for increasing their export trade and improving their commercial performance in all aspects.

Mr. Murray has expressed the hope in his paper that the recent decision of the non-Irish life offices to invest in Ireland over the next decade a large part of the funds accruing from their Irish business will be a factor in widening the market in Irish industrial securities. I can state from experience that even if such offices would like to invest in such securities, under present circumstances they will not in fact be able to do so. The securities are just not there.

Mention has been made of the encouragement given to investors in Irish industrial securities by Section 7 of the Finance Act of 1932. The relief given by this section is confined to individuals. If the scope of relief could be widened to include companies, the extra yield that could then be obtained might induce the life offices to lower somewhat the very high standards they apply when considering new investments, thus broadening the market for Irish Securities.

The following contribution to the discussion by *Dr. J. P. Beddy* was read in his absence by the Honorary Secretary :

I wish to apologise for my absence from this evening's Meeting because of a heavy cold which confines me to my house. I would have liked very much to be present as, not only is the subject of the paper one in which I have a special interest, but also because Mr. Murray and I have known each other for many years.

I have much pleasure in associating myself with the vote of thanks. For many years the Council has been trying to get a paper of the type read here this evening but has not been successful in getting anyone inside or outside the industrial capital market to undertake the task. Mr. Murray deserves our thanks, therefore, for stepping into the breach. Mr. Murray, as a senior public administrator, is well placed to take an objective and independent view of a field in which he is not a daily participant. Our thanks are due to him not only for the service he has rendered to the Society in presenting a much-needed paper but also for bringing together into one comprehensive paper so much useful information and so many interesting considerations.

One could speak at considerable length on this paper but in the allotted time I can only select one of the items which interests me most—that is, the Stock Exchange. I feel that there is a great deal more to be known about the Stock Exchange which, if known, would enable the Exchange to be viewed in its proper perspective and might well enable many of the criticisms to which that organisation is exposed to be assessed at their proper value. The

Stock Exchange operates in the industrial sense in a restricted field and this should be recognised in assessing its potentialities. It deals only in the securities of public companies and from the figures for transportable goods industries in the Taxation Committee Report it is clear that public companies contribute less than private companies to net industrial output and to industrial employment. In relation to industry, therefore, the Stock Exchange operates only in relation to part of a large field. There are less than 200 public industrial companies engaged in manufacture and, since the Stock Exchange list at present covers approximately one-half of such companies and since only a proportion of public companies wish to have their shares listed and many public companies are too small to avail of the facilities of the Stock Exchange, it seems as if these facilities are being availed of by public companies to a very considerable extent. Furthermore, the figures in Mr. Murray's paper, together with other published information, show that the Stock Exchange list covers by far the greater part of the capital of public companies engaged in industry.

Indeed, when one looks over the field of Irish industry there are very few large industries whose shares are not quoted on the Stock Exchange and, in addition, there is no queue of industries waiting to avail of Stock Exchange facilities. On the contrary, the underwriting houses find, and have found for some years past, that their services are not being availed of. As in Great Britain, industrial expansion is not being financed by the issue of additional share capital, either privately or publicly, but by retained profits and the use of depreciation moneys. If, therefore, the Stock Exchange has been by-passed by industry in recent years it is because of a tendency that is found elsewhere—a tendency to which reference is made in the Radcliffe Report in Great Britain. It is true, however, as Mr. Murray has rightly pointed out, that there are proportionately more public flotations in Great Britain than here and it is interesting to consider the possible explanation of this, particularly as in a country in which so many new industries are being established one would expect greater recourse to public issues as a means of raising capital.

The fact is, however, that there are so many other facilities for raising capital that industry is availing of them in preference to seeking capital from the investing public. Industries which find that their capital requirements cannot be financed internally seek bank accommodation, long-term and medium-term loans, hire-purchase industrial finance and finance by way of direct investment by institutional investors. In the case of new industries, however, there is an additional consideration which explains why, despite the setting up of many new industries in recent years, not one has had recourse to a public issue. Many of these industries have received substantial Government grants which reduce net capital requirements to a figure which may be too low for a public flotation. Even where this is not so, the tendency has been for recipients of a grant to keep the equity, and hence the right to the entire grant, in their own hands and to seek any additional finance by way of long-term and medium-term loans, by way of bank overdraft or by private placing of securities such as Redeemable Preference Shares.



These are unwelcome tendencies. In the case of existing industries they are facing a period of freer trade which imposes on them obligations to modernise and extend. If they rely on retained profits and depreciation funds for future development their progress will be conditioned by the availability of such funds rather than by the industrial opportunities of which they could avail if they had adequate capital. As to new industries, there is a danger that they may overload themselves with debt in their initial stages and that repayment obligations may restrict future development. Whether, however, one is considering new industries or established industries, reluctance to avail of the facilities provided by underwriters and by the Stock Exchange has the undesirable result that capital must be provided by banks, institutional investors and others which could be obtained by way of public flotation. There is everything to be said, therefore, for getting back as rapidly as possible to the pre-War and immediate post-War position in which industrial public issues were a common feature of the capital market. To illustrate this point: The Industrial Credit Company, through underwriting public issues, was responsible for the provision of industrial capital amounting to many times its own share capital. This is by far the best way of raising industrial capital. It frees industry from the burden of heavy repayments of debt and of over-reliance on short-term funds; it allows the public to participate in industrial enterprise; and it relieves the underwriting and other financial organisations of the need for finding large amounts of capital which could be obtained from the public.

To sum up: The Stock Exchange has played a most important part in the financing of Irish industry over the past thirty years. It is subject to the various difficulties and disadvantages to which Mr. Murray has drawn attention. Fundamentally they are related to the fact that the market is small and many of them would have less significance if the market were larger. It is in everyone's interest, therefore, that the Stock Exchange should grow in size and the efforts of all those who are engaged in the industrial capital market should be directed towards this end. Primarily the solution lies in the hands of industrialists themselves since underwriters, issuing houses and the Stock Exchange itself are only too anxious that the facilities made available by them should be fully utilised. It is likely, however, that the march of events will present them with the opportunities of which they are only too willing to avail.

I congratulate Mr. Murray on his interesting and valuable paper and I thank Dr. McCarthy for his kindness in reading my contribution to the discussion.

Subsequent to the meeting the following written communication was received from *Mr. L. Heelan*.

Mr. President, Ladies and Gentlemen:

I would like very much to associate myself with the vote of thanks to Mr. Murray. His paper is of consuming interest, containing as it does an admirable survey of a field which in this country has up to this been but little explored. With your

indulgence, it might not be out of place to offer a few observations bearing on the demand side of the capital market equation which is of particular interest to us in the Industrial Credit Company.

We know that over the past two or three years a remarkable amount of effort and ingenuity has been employed in Britain in encouraging the small saver to invest in industry. In part, this activity reflects the attempts of Unit Trusts to attract the small rentier for whom, in conditions of inflation, gilt-edged securities no longer seem safe. Beyond this, however, it reflects a deliberate campaign supported by a Conservative Government that aims, not so much at providing the small saver with a hedge against inflation, as in giving him a stake in industry. It is argued that a more widespread ownership of industry would provide stronger incentives to work and save and lead to a more stable society.

Economically, the principal advantage of what might be described as "democratic" investment is that it can tap a new source of saving for industry. There are, of course, limits to the validity of this argument. The mere purchase of existing industrial securities through the Stock Exchange does not provide industry with new capital. It is a different story when the investment takes the form of a subscription for newly issued shares. Furthermore, there is a risk that the encouragement of private investment in industry may merely divert savings from other channels, many of which lead, albeit circuitously, to industry. A high proportion of the small savings effected through life assurance, for instance, is invested in industry. Thus, to some extent, the policy may involve an alteration in the form rather than in the amount of personal savings.

Who is the small investor? It is clear that he does not belong to a genus which is capable of being identified with scientific certainty. It is equally clear that he is a new factor in the market. Over the past twenty to thirty years, the redistribution of wealth and income has resulted in a diminution in the number and disposable resources of the individual private investors who formerly operated in the Stock Markets. The levelling-down by means of taxation on personal incomes, which has partly accounted for this, implies a certain levelling-up at the lower end of the scale, but experience in Britain suggests that this has not sufficed to maintain the former overall rate of personal savings or the former supply of market funds.

The total number of persons at work in this country in the main forms of economic activity amounts to some 1.1 million, of whom about 250,000 are employed in various forms of industrial activity, the average wage being upwards of £7 per week. A further 250,000 are engaged in commerce, insurance, finance, public utilities and the public services generally. The estimated number of individuals effectively liable to Income Tax was 170,000 in 1954-55, of whom 136,000 were liable under Schedule E. I understand, however, that only about 10,000 persons have incomes over £1,500 per year. The latter figure does not delimit the class in which we are interested but it is significant. Our experience in the Industrial Credit Company over the past ten years has been that the number

of individuals who apply for new industrial issues is comparatively small—in fact an average of 500 per issue, excluding one particular issue which was heavily over-subscribed and obviously attracted a large number of “stags”. The average amount applied for was £285. I mention these figures not to draw any conclusions from them but merely to suggest that the importance of the small investor could well be over-estimated. As against that, the success of the issues of Prize Bonds made in recent years (and on a different level of philatelic speculation) indicates the availability of private funds for investment and a certain readiness on the part of the public to respond to new methods of investment.

There is a good deal of room for argument about what sort of person is really likely to become a small investor but I suppose it is accepted that a man ought to have put a reasonable amount into “safe” investments—his own house, insurance, the Post Office, and so on—before turning to risk-bearing industrial investment, in other words, that he should have some sort of nest-egg before launching into industrial shares. The view has been expressed that it would be a mistake to make the very speculative type of share too readily available to the inexperienced investor. To what extent should he be protected? Is the small investor to be encouraged to put his capital at risk and how far should the Government provide him with incentives to change his saving habits. It is not only the immediate safety of the individual that is at stake. One has to consider whether, by increasing the proportion of small savers in industry—who in times of recession might be more easily forced to realise their savings—the stability of the national economy as a whole might be affected. The problem is a very real one but it is only one of many on which Mr. Murray's excellent paper provokes thought.

Taine, the eminent French historian and critic, was himself criticised for always finding in a document what he was looking for. It is comforting to find oneself in such exalted company.