

The Evolution of a Capital Market: The Case of Ireland

W. A. Thomas
University of Liverpool

An organised market in securities, the engine room of the long term capital market, confers several benefits. It provides marketability for a large range of financial assets, without which lenders would be reluctant to make savings available for long term investment. By adopting specialisation of function it allows the exchange of assets to take place speedily and at low transaction costs. Finally, it permits the price of an asset to be determined by supply and demand, while the requirements of the market dictate that all participants should trade with each other on the basis of equal knowledge.

The emergence of an organised market can only take place if certain conditions are fulfilled. Before a group of specialist dealers appear, to serve and maintain a market, there must be a reasonable number of stocks with a substantial volume of turnover to sustain them. On the demand side, individuals need to hold financial claims as part of their assets, and such holdings have to be sufficiently numerous to ensure an adequate volume of buying and selling activity. Finally, the legal system should provide an easy and effective means of transferring title, the financial system should allow a simple and secure method of payment and the market's own arrangements should ensure rapid settlement of transactions. Such requirements cannot be met overnight. They are satisfied by more gradual developments.

The Supply of Securities

The permanent debt of Ireland began in 1716 with a modest loan of IR£50,000 (£46,153 sterling: £1=IR£1 1s. 8d), and by a

series of irregular loans it reached IR£378,000 by 1749. However, within a few years the entire debt had been redeemed following a number of budget surpluses.¹ But relief from the burden did not last long. The lively pace of later borrowing soon ran up the total debt to IR£640,000, mostly in the form of loan debentures. During the 1770s borrowing by the issue of debentures was augmented by three loans on tontine life annuities, for a total of IR£740,000. With the appearance of two lottery loans in 1780-81 the total debt of Ireland in March 1782 was IR£1,267,000.

In the period from the commencement of Grattan's Parliament in 1782 to the outbreak of the Napoleonic Wars, the total debt outstanding, in the form of debenture stock, fell. In part this was due to the conversion, in 1783, of IR£600,000 of 4% debentures into Bank of Ireland stock. Subscriptions to the capital of the newly established bank took the form of government stock, which was accepted at par value at a time when the market price stood at 80. In return for effectively lending its capital to the government the Bank received an annual annuity of IR£24,000. But Grattan's Parliament, besides bringing greater legislative and financial independence from Whitehall, also indulged in a little deficit financing. Such prudent finance thus left the funded debt of Ireland in 1792 at IR£1.1mn, together with IR£600,000 due to the Bank of Ireland. The burden of the debt was also reduced by the successful conversion operation of 1787 when outstanding 4% debentures were converted to a 3½% basis.²

The borrowing done during the pre-war years had some interesting features. The bulk of it took the form of loan debentures, a particularly popular form of security in Ireland. Dating from 1731, they had a nominal value of £100, they were written on parchment, transferred by endorsement, and the interest was paid

¹ For full details of these changes see "The Debt of Ireland - Funded in Ireland (Irish Currency)," Report of the Commissioners of the National Debt from 1786 to March 1890, British Parliamentary Papers, 1890-91, Vol. XLV111.

² W. A. THOMAS, *The Stock Exchanges of Ireland* (1986), pp. 6-7.

half yearly at the Treasury. So popular was it that when the government offered conversion to inscribed stock in 1797, the response was quite lethargic. Investors were reluctant to lose the ease of transfer, and the banks had always accepted them readily as collateral; the Bank of Ireland was inclined not to accept inscribed stock when the transfer books were shut. Claims that inscribed stock was safer, and could be transferred in any size, failed to convince debenture holders.

While the bulk of government borrowing was done on debentures, the administration periodically tried to tap a wider and more speculative market by resorting to inducements other than an attractive rate of interest.

One of the most cumbersome, but successful devices, was the use of three tontine loans in the 1770s. Although they were popular on the continent, probably because a tontine annuity was worth more than one on a separate life, and they held out the prospect of the "liberation of the public revenue", they never proved successful when offered in London. The last try by Whitehall in 1789 was rescued from total failure by using civil servants as nominees. In contrast, the three Irish tontines of 1773, 1775 and 1777 were all carried out successfully.

Tontines worked on the principle that the total interest was divided (in proportion to the subscription) among the surviving nominees, which could be the investor or someone else. As the nominees died the return to the survivors increased, with the last one doing very well; the last beneficiary of the 1770 tontine died in 1870 having enjoyed a half yearly dividend of £15,839. To collect the dividend the nominee had to appear at the tontine office, or provide testimony from a local clergyman.

Several factors account for the success of the three Irish tontines. First, they were comparatively small, ranging from IR£175,000 to IR£300,000; the English failure of 1789 was for £1m. Second, to attract English investors an office was opened in London to pay out dividends. As a result English interest in the

first two tontines was quite considerable. English subscribers took up 79% of the first and 74% of the second. The third and last tontine, and the largest, attracted considerable European interest. The earlier ones had not gone unnoticed with 7% of the money coming from Europe, but the third involved IR£123,000 (40% of the total), most of it from Geneva.

The explanation for the Genevese interest lay in the attractive 7% yield and the presence of investment clubs in the City which were assisted by the local banking houses, such as Theiluson & Co. and Pasavant & Co. Equally important was the willingness of the Irish Treasury to accept from the investment clubs a "collective certificate" on the lives of the nominees — the "Grand Certificate" had 91 lives on it. Most of the nominees were young ladies nominated by local investors in the hope of fulfilling the boast that the "Genevese never die". There was no difficulty in attracting a full subscription list but as the young ladies married, moved away or died, the local pastor happily went on signing the "Grand Certificate" as if they were all regularly attending his church. For several years, up to 1811, when there was an inquiry into the working of the tontine, some investors were receiving dividends to which they were not entitled. The inquiry was prompted by growing disquiet that the annual dividend was not increasing by as much as prevailing mortality rates indicated that it should.³

A few years later, in 1780, the Castle authorities turned to a less cumbersome but far more speculative means of raising revenue. Whitehall had used lotteries for short term fund raising, with cash prizes, since 1768, and from 1780 until the Act of Union of Britain and Ireland in 1801 the Irish Treasury organised its own lottery,

³ A very complete account of the workings of the tontines is given in the Report of the Committee on Irish Tontine Annuities 1811. See also C. Gautier, "Un Investissement Genevois: La Tontine d'Irlande de 1777", *Bulletin de la Société d'histoire et d'archéologie de Genève*, tome X, 1951; R. M. JENNINGS and A. P. TROUT, "The Irish Tontine (1777) and Fifty Genevans...", *Journal of European Economic History*, Vol. 12, 1983.

sometimes two a year, all modelled on the well-tried London practice.

The first two lotteries, 1780 and 1781, were lottery loans with prizes in the form of 4% lottery debentures. Fortunate winners could sell them but all subsequent lotteries had cash prizes. Up until 1789 they were offered as "bribes" alongside issues of long term debt but from then on they were conducted simply as revenue raising operations. The profit (about IR£70,000 in the 1790s) to the Treasury came from the sale of lottery tickets to contractors who paid a premium over the nominal value of £5. The successful contractor then sold the tickets at a higher price to the public or to the licensed lottery office keepers. The other advantage to the Treasury was that effectively they were interest free short term loans since several months elapsed between the receipt of money for the tickets and the payment of the prize money.

Apart from the sizeable prizes the public's appetite for a speculative fling was greatly encouraged by the practice of dividing tickets into fractions, the minimum allowed being $\frac{1}{16}$. By splitting the tickets the licensed lottery office keepers not only widened the demand for them, but they could also charge prices "which represented a considerable advance on the price paid for whole tickets".

The success of the contractor system in generating profits, and the undoubted popularity of the lottery, pleased the Commissioners of the Treasury greatly. However, what caused them considerable anxiety was the widespread practice of "insurances". This involved paying a small wager for the promise of a large sum of money if any given number was drawn on a certain day, whether a blank or a prize ticket. The Treasury greatly disapproved of this "nefarious appendage" since it diverted funds from the lottery and all sorts of means were tried in order to stamp it out. Like all illegal species of gambling it simply took to the back streets. Others, less concerned with financial success and more with the "morals of the people", pleaded with the Irish Chancellor of the Exchequer to curtail and eventually end the practice since for the six weeks of the

lottery draw the "labouring classes" in Dublin were irresistably drawn by the relatively cheap "opportunity of gaming".⁴

Such a genteel device as the tontine, or the vulgar but popular lottery, were of little use when really large sums were needed once war broke out in 1793. Between 1793 and 1801 the country's military expenditure rose from IR£600,000 to IR£4.6m., while the overall annual deficit increased from IR£400,000 to IR£3.6m. Leisurely methods of borrowing quickly gave way to heavy short term borrowing from the Bank of Ireland, a succession of long term loans on the home market, and when that proved inadequate resort was made to loans outside the country on the London market.

Up until the war the issue of long-term stocks, loan debentures, was done on the basis of open subscription at the Treasury. The terms of the loans were generally fixed after consultation with the Bank of Ireland, and subscriptions were then invited, payable in full at the time of issue. However, once war was declared, it became increasingly difficult to fix terms in such uncertain conditions, and in addition, the Treasury was anxious to transfer the administrative burden of handling subscriptions elsewhere. Also, the government needed large sums of money quickly and with greater certainty. The solution was to turn to the contractor system, much on the lines that William Pitt had developed in London. Indeed, most of the contractors for Irish loans came from the City but there were a few local bankers and financiers who took a hand in matters, among them the banking houses of J.C. Beresford & Co. and La Touche, the stockbrokers Gibbons & Williams, and such prominent local financiers as Luke White and Robert Shaw.

Luke White reputedly obtained his initial capital from a fortuitous win in the national lottery and then went out to be a contractor for several government loans. However, while he was successful in the bidding for the 1800 loan the Bank of Ireland on

⁴ State Paper Office, Dublin, O.P. 79/1. A useful account of Irish lotteries appears in C.L. Estrate Ewen, *Lotteries and Sweepstakes*, (1932).

this occasion would not oblige with an advance to cover the instalments on the loan, despite enthusiastic support from the Lord Lieutenant. Since he failed to complete the payments he had to forfeit the deposit money. Robert Shaw's experience with an earlier loan in 1796 illustrates the sort of risks which contractors had to face if market conditions proved volatile. In April he successfully contracted for a loan of IR£800,000 at 89. By June he had paid IR£320,000, covering the deposit and the first instalment. Shortly after he died, leaving his son to carry on as best he could. Unfortunately the market drifted downwards, its pace quickened at the end of the year when the French fleet appeared off the Irish coast. Neither did it help Robert Shaw, junior, when the Treasury announced another loan in October, thereby breaking the long standing convention of not embarrassing an existing contractor with new competition before he had sold his stock. Added to which Irish stock in London was trading 10% below Dublin levels which caused "a large and constant drain of funds to London". In the end Robert Shaw, junior, was relieved of the obligation to complete the loan.⁵

A greater problem for the Treasury was that the size of the deficit was increasing faster than the capacity of the local market to absorb loans. Despite the "heavy discounts" forced on the Treasury it was felt that negotiations for loans in London would be helped if some money was raised on the home market. Thus, between 1794-97 several issues for the Irish government were made on the London market. In the main the interest was payable in London and the stock transferable at the Bank of England. Without such facilities the response of English investors would probably have been muted. Indeed, it was one of these Irish loans in London which contributed to the suspension of specie payments in February 1797. The loan for IR£500,000 produced only IR£300,000 when the Governor and Deputy Governor of the

⁵ Petition of Luke White to the Irish House of Commons, *Irish Commons Journals*, Vol. XIX, Part. I, 1800, pp. 277-80; State Paper Office, O.P. 22/19/1, O.P. 22/23.

Bank of England objected to the transmission of any more specie to Ireland complaining that "loans to Ireland diminish the quantity of gold in the London market" and "that they must take care of their own interest in that respect in preference to the interest of Ireland."⁶

A month later the Bank of Ireland suspended convertibility in Ireland. From the standpoint of the capital market two interesting consequences followed. First, the Irish Treasury, facing considerable problems in borrowing at home and rebuffed in London as far as direct borrowing was concerned, arranged to borrow through the offices of the British Treasury. Ireland's needs were simply incorporated into English loan issues. Not only did this ease the financing problems of the Irish Treasury, it also produced the funds at a lower rate of interest. The second consequence was that in the wake of suspension the Irish money supply grew at a rapid rate. Withdrawal of the "natural and true control" led to a crop of new banks and an expansion of note issues by established ones. In conditions of monetary ease the price of loan debentures climbed steadily from 65 in 1797 to 90 in 1799.

The Demand for Securities

At the end of the eighteenth century those with money to invest had limited choice. Funds could be used to buy land, put out on mortgage, or be "laid out in securities", either Irish or British. Money tended to go into securities if the land market was depressed, or if mortgage rates were low, while money would move out of securities if land values and mortgage rate rose. When it came to investing in securities investors could put money into British or Irish funds.⁷ Acquisition of the former involved the risks of crossing the exchanges and British yields tended to be about 1% lower

⁶ F. W. FETTER, *The Irish Pound 1797-1826*, (1955), pp. 12-13.

⁷ In addition there were the stocks of the Bank of Ireland, the two great canal companies, and some local city securities, but the market in these was limited.

than those prevailing in Dublin, but of course, London offered a much larger and more liquid market. While the yield differential may have tempted some English investors, the main attraction for such money was the land market with government debt as a short term retreat.

Very little is known about the ownership of the outstanding debt, or the subscribers to newly issued securities. The notable exceptions are the tontine loans of the 1770s. However, for the three tontines only about 15% was subscribed for in Ireland and over half of that came from Dublin. The bulk of the subscriptions to the first two tontines came from Britain, 79% in 1773 and 73% in 1775, while the third found considerable favour with European investors, particularly those in Geneva.

Most of the debt consisted of loan debentures, a bearer stock, transferable by endorsement. It is reasonable to assume that they were widely held within Ireland by the landed aristocracy, while commercial interests would also hold them for income and particularly for collateral purposes. Local banks held them as a reserve. This tentative picture is supported by an examination of the subscription list for the "open loan" of 1797, which attracted just over 500 subscribers, with 70% of the subscriptions being for IR£200 or less.⁸ The large subscriptions, over IR£5,000, came from financiers, banks in Dublin, the ranks of the landed aristocracy (the Anglo-Irish Ascendancy), the church, and from the self-made commercial men of Dublin. In addition, there was also a demand from various official bodies which received annual grants from parliament and who had surplus balances to invest. From 1797 onwards the government added its own demand for debt following the setting up of the Sinking Fund for the Redemption of the National Debt. The Commissioners bought stock from the market when the price was below par, their purchases being carried out by Robert Deey, broker to the National Debt Commissioners.

⁸ A list of subscribers is given in *Irish Commons Journals*, 1797, Vol. XVII, Part. 2, Appendix Dliv - Dlxvi.

Formation of the Stock Exchange

As the closing year of the eighteenth century approached the developments outlined above had produced sufficient stock, holders and turnover, to encourage the emergence of specialist intermediaries to service the needs of investors. The class of professional most suited to this role was the public notaries since for many years they had been involved in financial dealings, particularly with bills of exchange and the need to protest those in default.

Some years earlier, in 1793, the rising bond market had induced several persons "acting in a broking capacity" to form a "Voluntary Association", among them Robert Deey, broker to the Castle authorities, and James Gibbons, public notary to the Bank of Ireland. The motive behind this move was probably that of convenience for dealing purposes, rather than any restrictive intent as to membership or commissions. However, the "Voluntary Association" only had a short life largely due to the persistent downward trend in the price of loan debentures.

The market in debentures recovered towards the close of the decade. Apart from the attractions of a rising market investors may have been increasingly drawn to stocks by the uncertainties of war and the difficulties associated with the internal Rebellion of 1798. In such conditions the land market or lending long term on mortgages lost its appeal. With rising bond prices and greater turnover, the number of specialist intermediaries increased.

At this juncture the Castle authorities and some local bankers took a hand in matters. In April 1799, the Chancellor of the Irish Exchequer, Isaac Cory, and J.C. Bereford, a banker, introduced a bill into the Irish House of Commons entitled "For the Better Regulation of Stock Brokers". After a few amendments the act (39 Geo. 3, c. 60) received the Royal Assent in June. Briefly, it decreed that a Stock Exchange should be established in Dublin and its rules and regulations approved by the Treasury. The clauses of the act contained some interesting provisions; dealing in government

securities required a licence from the Lords of the Treasury; brokers were to act only in a single capacity (as agents) when dealing for a client - they could not sell their own stock to, or buy stock from, a client; they were required to keep detailed records of all transactions which were open to public inspection; and commissions were fixed for dealings in government securities with a maximum rate of $\frac{1}{8}\%$ (25/6d). Armed with such controls the Treasury duly announced the setting up of a market (at the old Exchange Coffee House) and licences were issued to thirteen brokers.⁹

Such precise official involvement in the formation and regulation of the market probably had two motives. First, the Lords of the Treasury may have felt that an orderly structure would be more conducive for absorbing the issues it had planned. Second, the bankers and others may have been aggrieved at the level of commissions, and suspected that they had been victims of "jobbing" on the part of brokers. A prescribed scale of charges and the imposition of single capacity would serve to keep the newly licensed brokers on a more virtuous path.

The organisation of the market developed gradually during the century. The first Rule Book of 1820 was later replaced by a more elaborate code, which was periodically revised, frequently drawing on well tried London practices. Dealing on the floor was done by calling out bid and offer prices, while a formal call-over probably came into operation in the second half of the century. An official Daily List was put out from the early years but an account system for the settlement of bargains was only adopted following the growth of a substantial volume of business during the railway share boom of the 1840s. Securities were admitted to the Official List at the discretion of the Committee for General Purposes, while the rules were made more stringent as the number of companies increased. Essentially, they were designed to exclude small

⁹ *Dublin Gazette*, 3 September, November 1, 1799.

companies where there was little prospect of a viable market in the shares, and to ensure that share transfers could take place without impediment. By the end of the century the quotation requirements resembled those in force in London. By this time the membership of the Dublin Exchange had reached 85. Following a lengthy official enquiry into the working of the Exchange in 1849 the procedure for admission to membership had been agreed with the Castle authorities.¹⁰

Gilt Edged Dealings

At the time of the Union of Great Britain and Ireland on January 1, 1801, the debt of the former stood at £420m. and that of the latter at £27m. While the Irish debt had risen sharply during wartime it was felt that amalgamation of the debts on the Union would have been unfair to Ireland. Therefore, it was decided to keep the two separate and the financial provisions of the Act of Union (39 & 40 Geo.111, c.67) laid down that both countries should contribute towards the expenditure of the United Kingdom in the proportion of 15 to 2, a level arrived at by taking the value of trade and the consumption of dutiable goods. Should the ratio of the debts to one another reach 15 to 2 then they would be merged. The English view, as expressed by Lord Castlereagh and William Pitt, was that this would come about due to a reduction in the British debt. Irish interests, notably John Foster and Henry Grattan, agreed that it would take place but because the Irish debt would rise sharply and along with it the burden of taxation. Experience vindicated Irish fears.¹¹

¹⁰ Report of the Commission of Enquiry into the Management of the Dublin Stock Exchange, 1849 (1870). The minutes appeared in *Freeman's Journal*, July 6-9, 1849.

¹¹ Memorandum on the Financial Relations Between Great Britain and Ireland, Royal Commission on the Financial Relations Between Great Britain and Ireland, Appendix J, British Parliamentary Papers, 1896, Vol. XXXIII.

By 1811 heavy wartime borrowing both in Dublin and London brought the two debts to the set proportion of 15 to 2. However, nothing was done until the end of the war by which time the ratio was well in excess of that prescribed by legislation. Accordingly, in 1816 parliament agreed to abolish the separate Irish Exchequer and amalgamate the two debts. By this time the British debt stood at £693m. and Ireland's at £107m.

Shortly after the consolidation of the debts stockholders were provided with facilities to enable them to transfer holdings from the transfer books at the Bank of England into certain other stocks transferable at the Bank of Ireland. Initially, in 1817, the arrangements covered transfers of four stocks from London to Dublin; for example, £100 in 3% Consols could be transferred into IR£92 17s.2d. of 3½% Irish stock. In the next few years some £5m. of stock was transferred to Dublin in this way. The large inflow was partly due to the desire of Irish holders of London stocks to transfer them onto the Dublin register for convenience, but the bulk of the transfers were probably induced by the higher prices ruling in Dublin which provided profitable arbitrage opportunities. In 1821 holders of certain stocks in Ireland were given facilities to transfer them to London and two way transfers were consolidated in 1824. After the assimilation of the currency in 1826 all transfers took place in sterling.¹²

The dual register provided several benefits for the financial system. One immediate use was for transmitting money from London to Dublin. Stock could be bought in London, transferred to the Dublin register and then sold. More significant was that it provided means for maintaining the relative stability of the monetary positions of Ireland and Britain. If there was an excess money supply in Ireland, interest rates would fall and stock prices would rise above those in London. Funds would leave Ireland to buy

¹² "Transfers of Stock Between Great Britain and Ireland", Report of the Proceedings of the Commissioners of the National Debt..., op cit., pp. 254-56.

stock in London for transfer and sale in Dublin. In effect stock would be substituted for cash in Ireland. On the other hand, if money was tight in Ireland, interest rates would rise giving lower stock prices. Funds would come in to buy cheaper stock for transmission to London for sale there. In this case there was a substitution of cash for stock.

Other benefits accrued by way of giving greater stability to the exchanges. If the balance of payments was in favour of Ireland, the pound in Ireland would go to a premium, interest rates would fall and stock prices rise. As a result stock would be imported, paid for by an outflow of funds. That is, the surplus of exports over imports would be matched by an import of stock and an outflow of funds thereby restoring the exchange rate to its former level. A balance of payments deficit would lead to the exchanges turning against Ireland, interest rates would rise, and the fall in stock prices due to the decrease in the monetary circulation would lead to an inflow of funds to buy stock for transfer to London. The import of capital would lead to an appreciation of the exchange; the export of stock representing the counterpart of the deficit on the balance of payments.¹³

Over the period 1818-63 some £62m. of stock was imported against an export of £39m. In the 1820s there was a considerable surge in imports, as investors took advantage of the new facility, while the Bank of Ireland was also a sizeable importer. In the ensuing years a large body of stock moved between the two centres in response to changing price differentials. When Dublin prices were above those in London stock moved to Dublin for sale there, and as prices fell in Dublin relative to London, stock was transferred to London. Such arbitrage was profitable if price differences covered dealing costs, which were quite modest. In the case of stock bought for export or sold on import, the Dublin market only charged $\frac{1}{16}\%$, half the usual commission. A problem arose in the

¹³ G. L. BARROW, *The Emergence of the Irish Banking System 1820-45*, (1975), pp. 47-50.

early years from the slowness of communications. In the 1820s it frequently took five to six days to pass messages between the two capitals and during that time prices could move significantly. By the 1860s the time had been reduced to one day. On occasions price differences were as great as 1%, usually due to large forced sales on the relatively thin Dublin market. Normally, they were far less than this.

The amount of stock held in Ireland in 1863 was £38m., the high point of Irish ownership. By 1890 the figure had fallen to £24m., and to £18m. in 1905.¹⁴ Such disinvestment from gilt edged was probably prompted by the low yield during most of these years, coupled with the attraction of high returns on foreign bonds and the appeal of the rapidly expanding home share market.

The Railway Boom

Before the 1840s dealings on the Dublin market were dominated by government stocks. Alongside there was the stock of the Bank of Ireland, yielding handsome dividends, and a few large public utilities such as the Grand Canal and its rival the Royal Canal. The railway share boom changed the picture greatly, and Irish investors put their money and their hearts into a substantial speculative fling.

Irish interest in railways started in 1834 with the completion and successful operation of the Dublin & Kingstown line, ably managed by James Pim, junior, a member of the Stock Exchange. Some speculative schemes appeared in 1836 but the great leap forward came with the 1840s boom when £20m. of capital was authorized. Thus, by the 1860s some two thousand miles of rail-

¹⁴ Following the partition of the country in 1922 the London Treasury proposed closing the Bank of Ireland Transfer Office in Dublin, and providing transfer facilities in Belfast. After considerable lobbying in London the Treasury eventually agreed to retain the Dublin register. Just over £6.5m. was transferred to the new Belfast register, representing some 12,000 accounts.

way was in place, mileage which probably exceeded the country's transport needs but which had been fashioned by the speculative surge. This was reflected in the fifty four railway companies quoted in the Dublin list in January 1846. Railway share dealings dominated the market and they continued to do so for several years.

Shares reached the investing public through two channels. The surest way of completing the subscription list was by a private placing of shares. Early promotions found favour with some commercial interests in Dublin and significantly amongst Lancashire subscribers. In the case of promotions during 1844-46 London money displaced that of Lancashire as the main external contributor, much of it coming from business interests with close Irish trading links. The other channel was to seek a "wider constituency" of shareholders through extensive advertising in local and national newspapers. Generally speaking this method worked well when investors knew that influential interests had already pledged support for the project, or when the euphoria for shares was so great that investors, large and small, threw all caution to the wind and subscribed for anything put before them.¹⁵ Such speculation was aided by the practice of only calling up a fraction, some 10%, of the nominal amount of a share, thus supplying to the market a wide array of £1 and £2 shares, the so called "light stocks".

When the boom got under way speculation took place largely in the investment stocks, that is, lines with some sort of dividend record. But by April 1845 attention had shifted to the new lines with hectic dealing in the shares. Most of the "light" stocks doubled in price, some trebled. The reaction, when it came, was both severe and prolonged. The collapse occurred in the autumn, although prices had started to drift back from the July peak some weeks before. Persistent railway calls, seasonal demands for funds, and higher interest rates in November, all served to dampen ex-

¹⁵ J. LEE, "The Provision of Capital for Early Irish Railways. 1830-53", *Irish Historical Studies*, Vol. XVI, 1968-69, pp. 42-43.

pectations, and once sellers appeared to take their profits the downward trend was soon fuelled by general loss cutting. The tide of speculation turned away from scrip shares, leaving many schemes languishing with purely nominal quotations. As the end of the year approached most of the attractive premiums had gone and many shares stood at par or at a small discount.

Such was the extent of share dealing in 1845 that three rival markets appeared to compete with the long established Dublin Stock Exchange. On a smaller scale local markets were set up in Belfast and Cork. The appearance of rival markets in Dublin was not an unique feature since they also appeared alongside established markets in several provincial English cities, such as Liverpool, Manchester and Leeds.

Three factors probably account for the appearance of Dublin's crop of rivals. First, the volume of business may have been too great to be serviced effectively by the existing institutional arrangements. Second, the established brokers may have charged too much for their services, and third, there may have been dissatisfaction with the conduct of some brokers suspected of indulging in share manipulation and acting as principals in dealings with clients. While the rival markets may have alleviated some or all of these deficiencies, they only enjoyed a short life and disappeared in the long bear market which followed the boom.¹⁶

Analysis of several railway share subscription lists for 1845 revealed that local interest in them was at first muted but as the lines began to consolidate and prosper, and share prices rose, local investors bought into the companies. This sort of pattern of later buying in prompted the view that Irish investors held back at the outset, leaving English investors to bear the initial risk. The *Irish Railway Gazette*, in 1847, canvassed the view that Ireland had adequate money to "sustain our own legitimate enterprises", but noted "that we lack self reliance - we are too timid about investing capital... and... all our great companies have been sustained in their

¹⁶ For a full account of the rival concerns see Thomas, *op. cit.*, pp. 105-108.

early stages by English capitalists; yet afterwards, when they have proved remunerative, and their shares have commanded premiums, Irishmen have become purchasers".¹⁷ But perhaps this is too harsh a view of the Irish investors of the time. In the 1845 speculative fling local investors, in Dublin and elsewhere, were by no means "timid". Like investors everywhere they could not altogether resist the prospect of capital gains. However, some hesitancy in investing was understandable. By their nature railways involved very large initial capital outlays and for the local market to have supplied the bulk of this at the outset would have involved a very major shift in asset holdings. Assuming that those with funds to invest held such assets as land, mortgages, and government securities, for them to take on a major component of equity would have been too radical a substitution, and a swift departure from well tried practices. Once the dividend record of companies was proven a gradual shift in the composition of investment holdings followed.

The railway share market constituted an important part of the Dublin list until the First World War. Railway stocks were looked on as fair investments, yielding stable dividends. The leading companies regularly paid 4-5% which compared very favourably with the prevailing yield on gilt edged.

Joint Stock Companies

The view was often expressed that the backward condition of Ireland in the middle of the nineteenth century was due mainly to "the want of capital". In the 1850s a legislative framework was rapidly put in place to smooth the path of investment. The Joint Stock Companies Act of 1856 (19 & 20 Vict. c. 47), in particular, conferred the benefits of incorporation on seven or more persons,

¹⁷ *Irish Railway Gazette*, February 1, 1847, p. 222. The issue is discussed in the authoritative work of J. Lee, "An Economic History of Early Irish Railways", M.A. Thesis, University College, Dublin, 1965.

along with the important protection of limited liability. Under its provisions some 2,850 companies were registered in Ireland over the next fifty years. In total they had a nominal capital of £109.6mn, £55mn called up. Not all survived and at various dates half of the formations had gone out of existence through insolvency, voluntary liquidations or merger. While this seems quite a high rate of loss it was quite reasonable compared to the English experience. Comparable figures for England indicate a loss rate of some 60%.¹⁸ Ireland's superior record was probably due to the local origin and acceptability of companies, since many were conversions of existing private businesses. Also, relatively fewer Irish promotions were in such volatile activities as finance, land and mining, to say nothing of foreign railways. A preponderance of Irish companies were involved with consumption goods, the distributive trades and the service industries.

At the outset the impact of limited company formation on the Dublin Stock Exchange list was relatively small. In 1862 the paid up value of the 32 securities listed amounted to just over £4.0mn; the long established City of Dublin Steam Packet Co. and the Grand Canal accounted for £1.25mn. By 1881 the number of quoted securities had risen to 36, with a paid up capital of £5.3mn. It was the sharp increase in company formation in the mid-nineties boom which brought a substantial enlargement to the list, with 78 companies (129 securities) and a paid up capital of £17.2mn in 1897. Roughly, this represented nearly half the paid up capital of all companies registered, but only 8% by number. It meant that most of the large companies were quoted in Dublin, while several were also quoted on the stock exchanges newly formed in Belfast and Cork.¹⁹

Most of the limited companies formed in the period 1850-90

¹⁸ Calculated from Return Relating to Joint Stock Companies; Companies Registered in England, B.P.P., 1907, LXXVI, 549.

¹⁹ The Cork Stock Exchange was formed by a group of local brokers in 1886, while the Belfast Stock Exchange was set up in 1895.

were little more than small partnerships seeking the protection of limited liability, and it is not surprising that they did not graduate to a stock exchange list. In the main they had small capitals, few shareholders and did not expand to the point where an injection of outside capital was needed. Generally they were in the service and distributive industries where the capital requirement was low. There were some exceptions. The linen industry, in and around Belfast, was incorporated in a wave of limitation in the mid-1860s and in terms of both capital and shareholding these enterprises justified a stock exchange quotation. For the most part the shares were tightly held and tended to be of very high value. Also, in the late 1860s, several banks were incorporated, all with large capitals and numerous shareholders, but in this case the shares had a large uncalled element which left holders with the daunting prospect of a hefty demand for cash should failure occur.

Conditions in the early 1890s produced a recovery in trade and induced a marked increase in the number of companies seeking incorporation and significantly from a stock exchange standpoint a number were of sufficient size to merit a quotation. The favourable trading conditions held out prospects of good dividends, while cheap money attracted savings away from staid trustee stocks towards more risky but rewarding outlets. Promoters were thus tempted to launch companies, while rising stock market prices enticed investors to try their luck. Annual registrations of limited companies rose from about 50 in the mid-1880s to over 90 in the early nineties, and reached 145 in 1897. Most were concerned with meeting the growing needs of the main urban areas of Belfast, Dublin and Cork, while several were linked with the improvement in the export trade. Thus, over the period 1890-97, more than half of the companies registered were to do with the necessities of living, that is, household goods, food and provisions, brewing and mineral waters, hotels, newspapers, warehouses, tramways and farming. For the Stock Exchange list it produced by 1897 a further forty companies, shared out between the various sections, that is,

bakeries, drapery and trading, hotels, cycle shares and manufacturing companies.

A few of these companies had small capitals, in the region of £18,000, but most were between £50,000 and £100,000, with five over £250,000. They were thus viable from a quotation and dealing standpoint since they had a few hundred shareholders. In addition the use of small share denominations encouraged wider ownership, in contrast to the high value and low paid up element of earlier years. Not that these companies dominated all else, rather they provided a welcome diversification away from dependence on government stocks, banks, railways and foreign stocks. But the notable absentee from the contemporary market were a large number of manufacturing companies; they are only sparsely represented in the Stock Exchange lists. However, the absence was not due to any "want of capital". There seems to have been enough of that as holdings of gilt edged and foreign investments would testify. The basic problem was lack of demand. Proximity to a large manufacturing neighbour made the emergence of large-scale manufacturing difficult, while the size of the local market was not such as to permit firms to grow to the point where significant economies of scale could be attained and where large sums of capital would be required. The capital market met the needs of companies at the time and if its contribution was seen by some as small this was due more to lack of appetite on the part of firms rather than forced starvation by the market.

The criticism levelled against Irish investors in the railway era, and to some extent later with bank shares, that they were reluctant to assume the initial risks of an enterprise, preferring to wait until the investment was seen to be on a sound footing before buying into the company, was laid to rest in the boom promotions of the 1890s. This was particularly evident in the enthusiasm of investors for the shares of cycle companies. Although developed in the 1880s the industry really did not flourish until 1893 when cycling suddenly became a "fashionable rage". The response was the appear-

ance of nearly fifty companies in the cycle and tyre trade, and a period of hectic speculation on the Dublin market. At the time Birmingham and London investors did not give this "crowd of new companies a second thought". Irish investors, on the other hand, greeted both English and Irish offerings with equal enthusiasm driving prices to hefty premiums. No doubt the use of £1 shares with only 10% paid on application (a 2s. share) appealed to a wide range of investors. Such share booms do not last long and within a few months prices had fallen greatly, with many quotations being purely nominal. But 1895-96 saw an even more intensive bout of speculation with yet more new flotations on the market. This time, however, Birmingham became the centre of dealing activity with Dublin a close second; London continued to remain relatively aloof. In the ensuing reaction in 1897, brought on by excess production, foreign competition and the gross overcapitalisation of many concerns, the leading shares lost half their value, lesser concerns lost far more. But at least if losses had been suffered the episode had removed the taint of "financial cowardice" from Irish investors.

Irish Government Securities

After the forced inactivity of the war years, the formation of the Irish Free State in 1927 and the need for government borrowing brought the Stock Exchange a new lease of life.²⁰ By 1937 the marketable portion of the national debt had reached £51m., more or less equally split between Land Bonds and National Loans. The former were issued to finance the purchase of land in the "congested districts", and the early issues had the comforting assurance for holders of a sterling guarantee as to capital and interest. Quoted not only in Dublin and Cork but also on the London Stock Exchange they were always a "big attraction".

²⁰ The formative years of the government are dealt with in Ronan Fanning, *The Irish Department of Finance 1922-58*, (1978) pp. 13-25.

During the interwar years the general budgetary policy of the government was to run a modest deficit of around £1m., financed by short term borrowing through issues of Treasury Bills, savings certificates and ways and means advances from the banks. As these liabilities accumulated they were then funded by a large National Loan, with enough left over to defray the following year's deficit. In accordance with this pattern the government made four National Loans, ranging in amounts from £6m. to £10m. In addition it made an £8m. National Security Loan in 1941 to meet abnormal defence expenditure. Only the 1933 National Loan, made in greatly altered economic circumstances, failed to attract a full subscription from the public. The other loans made in this period were the 1935 Conversion Loan (which involved converting the first 5% National Loan to a lower interest rate basis), and the 1938 Financial Agreement Loan for the settlement of the financial claims made by the United Kingdom government.

Despite the youthful nature of the bond market the early National Loans proved very successful. There were several reasons for this. First, there was the practice of pricing the bonds so as to offer a yield slightly above comparable returns on gilt-edged securities, and thereby hope to entice new money into home securities while inducing others to switch. Second, generous sinking fund provisions were attached to the issues, particularly the first, and this helped to allay investors' fears when taking up the stock — there would always be a buyer in the market when the price fell to a certain point. Third, in the case of the second loan a tranche was sold in the United States, denominated in dollars and transferable in New York, and it proved very successful in appealing to the loyalties of the immigrant Irish community. Fourth, nearer home, patriotism swelled the subscription list, while others withdrew funds from London to avoid the complications of double taxation following independence. Finally, the issues were helped by the dearth of local trustee stocks.

By the mid-1930s some £25m. of stock was quoted on the

market. With such a modest total and in view of the nature of some of the holders, an active two-way market could not be expected. The government held about a quarter of the debt and generally was more interested in buying than selling. The rest of the debt was held by banks, companies and individuals. In the main personal holders held stock for income rather than for capital gain prospects, and there was little market participation by financial institutions, indeed, most of their gilt edged holdings and dealings were in London. The market was seen as "wonderfully good in the circumstances", but it tended to be one way and while small deals presented few problems larger ones could take quite a time to complete. That the market was "not a bad one" was due in large measure to the activities of the Government Broker who helped to accommodate sizeable deals by using official funds at the disposal of the Department of Finance. It was, of course, a very small market compared to London and the differential of $1/2 - 3/4\%$ between Irish and London yields reflected the limited marketability of the Dublin floor.

After the Second World War the national debt was boosted by the Public Capital Programme which produced a fivefold increase in the government borrowing requirement between 1946 - 48 and 1951 - 53. Most of the funds came from a series of well publicised National Loans specifically designed to absorb savings from the agricultural sector. Also, to attract domestic savings and entice the repatriation of money held abroad, the issues sported attractive yields and generous sinking funds. After a period of retrenchment in the mid-fifties capital expenditure rose following the publication in 1958 of the influential blue print *Economic Development*. As a result the overall borrowing requirement of the government increased fivefold in the period up to 1968. This rapid pace of spending could not be covered by domestic small savings and annual National Loans and the government was obliged in 1965-66 to turn to foreign sources. The importance of loan issues, representing some 60% of borrowing requirements and the resort to

outside markets, clearly pointed to the significance of developing the home bond market. The authorities thus embarked on a policy to build up the domestic financial system. The blue print on this occasion was provided by the 1968 *Report of the Committee on the Function, Operation and Development of a Money Market in Ireland*.

The *Report* recognised that the financial system had developed in response to the growth of the economy and savings, and while it displayed signs of greater maturity by way of being less dependent on the London market, there was still some way to go. The leading financial institutions, particularly the banks, still held the greater part of their bond portfolio in gilt edged. Their shyness about the domestic product sprang from the state of the local market in Irish stocks, especially short dated bonds in which only small deals could be done at the quoted prices. At the time the total of government bonds outstanding stood at £420m., with 60% of stocks in the medium to long-term range. Market turnover ran at about one third of the amount of stocks outstanding, and significantly, the government broker was involved in nearly 90% of business done. In effect, the prices ruling in the market were those fixed periodically by the Government Broker, while the yields on most stocks were very similar thus providing little scope for switching activity. In addition, while the market catered for the needs of the small investor, it was far too thin and restricted for the larger institutions and their growing resources. Marketability would have to improve if institutional interest was to increase. The *Money Market Report* suggested several measures, later implemented, and these served to promote the breadth and depth of the market.

To encourage turnover the margin between buying and selling prices was narrowed, commissions on large transactions reduced, and the Government Broker was given greater freedom to deal in big blocks of stock. It was also necessary to widen the range of securities available to investors. In 1970 22 stocks were quoted but

the number had risen to 53 by 1985, and the average size of the stocks outstanding had been increased from a modest £22m. to £153m. To cater for the growing needs of institutional investors the proportion of short stocks on the market was raised from 25% to 57% and to help marketability the resources of the Central Bank and the Department of Finance were increased enabling them to assist with large scale switching operations by the major financial institutions.

As a result of these measures the quality of the bond market improved considerably.²¹ There is a bigger and more diversified debt tailored to meet demand, greater institutional participation, and the authorities, while still fostering the development of the market, have been able to reduce their general level of support. These gains have been reflected in the removal of the uniformity of redemption yields, thus giving the yield curve much greater diversity. This provides greater scope for switching activity and the pattern of yields now reflects the preference of investors rather than the hand of the Government Broker.

Despite the improvement in the quality of the domestic market and the increased activity of financial institutions, it could not keep up with the growing borrowing needs of the Department of Finance. From £0.5bn in the mid-seventies the borrowing requirement grew to over £2.0bn a year in the mid-eighties. Domestic sources of savings, including the bond market which contributed 45% over recent years, have covered some 60% of the requirement, leaving the rest to be met by direct external government borrowing. Thus, the domestic debt in government stocks doubled between 1981 and 1986, from £4.5bn to £9.6bn, but the external debt rose even more rapidly from £3.7bn to £9.8bn, the bulk of it borrowed in dollars, deutsch marks and yen. It involved a crippling annual servicing cost of over £1bn a year for the next ten years and beyond.

²¹ The fullest account of the market is T. Garry, *The Irish Gilt Edged Market*, Unpublished Dissertation, University of Dublin, 1977.

The Market for Irish Equities

While the capital market had been quickly mobilized to serve the borrowing needs of the newly formed Irish Free State, industry made little call on its services for some years. In the recession which followed the short post war boom the downward slide of the economy was mirrored in a 20% fall in share values on the Dublin market. What capital industry required was adequately available from savings or from the banks. As the Banking Commission of 1926 noted in its Report, it could find no evidence of a "general demand for long term credit in business".²² But while established concerns had few problems in obtaining capital the Commission pointed to the difficulties new firms encountered. Thus, it recommended some assistance to the latter by way of an element of protection for their markets and greater ease in the provision of finance. Selective protection was therefore given to certain industries heavily dependent on the home market, but such benefits were not always welcomed. More direct financial assistance took the form of a government guarantee of principal and interest on loans made to companies, largely from the Industrial Trust Company and the National City Bank. While such loans were intended for financing long-term investment they tended to be used, contrary to the government's wishes, for paying off bank debts and restructuring businesses which had got into difficulties.

The independence of companies from the long-term capital market continued during the recovery of share prices in the late twenties. This can be explained by the continuing adequacy of other sources of finance and the reluctance of established and prospective businesses to seek long-term capital in the face of the competitive pressures felt by the manufacturing sector. However, the arrival of the Great Depression, and the official measures it induced, soon sent Irish companies scurrying to the market on a scale reminiscent of the eighteen nineties.

²² *Banking Commission, 1926, Second Interim Report, p. 32.*

The effect of the early stages of the Depression on Irish firms was fairly limited due to their heavy dependence on the home market. In contrast to the 40% fall in the London share market, Dublin only fell by 20%. The deepening of the world recession by 1932, coupled with worsening economic relations with Britain, saw the emergence of a series of defensive economic measures. The dispute with Britain, which lasted six years, gave rise to a number of protective duties and quotas which were designed to bolster agriculture, and on the industrial front to make the economy less dependent on imports by encouraging industrialisation.

The capital market was accorded an important role in this drive towards greater manufacturing self-sufficiency. Several measures were adopted to promote the flow of funds to Irish firms and this would enable them to take full advantage of the protection afforded by the newly erected tariff wall. To attract individuals to the shares of new companies the Finance Act of 1932 offered an abatement of 20% of income tax on the dividends of publicly issued securities, where the money was used for direct investment within the country. Within a few years 27 companies qualified for relief. It is debateable, however, whether this inducement was a powerful factor in shifting demand towards Irish shares since other considerations such as profits and share price movements were probably more influential. One disadvantage was that the presence of the tax relief segmented the market in a company's shares. Shares issued before 1932 did not qualify for the abatement so that market dealings in each category was less in volume than if the entire capital had been treated equally. The distinction was removed in 1956.²³

The supply of shares to the market was hindered before 1932 by the relative absence of the appropriate institutional machinery. The markets own institutions had remained dormant for some years and it seemed most unlikely that they would devote capital

²³ C. H. MURRAY, "Some Aspects of the Industrial Capital Market", *Journal of the Statistical and Social Enquiry Society of Ireland*, 1959-60, p. 113.

resources to many untried ventures. A government-backed issuing house, the Industrial Credit Company was therefore formed in 1932 to sponsor and assist new companies in coming to the market. True, its predecessor in the twenties had failed, but the new enterprise prospered. This was because it was endowed with far larger financial resources, the prospects for the firms it sponsored were improved by the protection of the tariff wall, and most significantly the share market proved exceedingly buoyant rising by some 70% between 1930-34, and reaching a peak in 1938. In this receptive financial climate issues went well, and stock taken in by the issuing house was sold off later to the market without depressing prices. In the period 1934-38 the Industrial Credit Co. participated in 27 capital issues, raising well over a million pounds a year, while the average issue was between £275,000 and £350,000.²⁴

Stimulated by the success of the government-sponsored institution several other interests helped in the revival of the new issue facility. The long established banking house of Guinness Mahon & Co. undertook several issues, along with three newly established issuing houses, while local brokers again became active in handling share flotations.

Notwithstanding the considerable improvement in the institutional machinery for making new issues, the continued support of domestic investors depended ultimately on the quality of the secondary market for shares. Certainly, by 1939 the breadth of the market in industrial shares had increased markedly - from 24 quoted companies in 1933 to 78 in 1939, with a total capitalisation of £9.8mn. However, the marketability of individual stocks was a much more variable matter. Large issues were dealt in at "close prices", but this was only for companies with capitals in excess of £250,000. Many of the issues of the thirties were below this level and the market in their shares tended to be "slow" and "thin". Despite these drawbacks Irish investors were prepared to support

²⁴ *Twenty-one years of Industrial Financing* (1955), p. 14.

the new offerings. Indeed, many were reported as switching out of shares quoted in London so as to acquire domestic issues, while the larger offers even attracted applications from English investors. On balance, the government's financial and institutional stimulants seem to have produced the desired results.

The outbreak of the Second World War heralded a quiescent period for the share market. Share prices fell initially, then recovered ending the war some 36% above the pre-war level. Industrial borrowing came to a standstill. Peace brought a revival which was stimulated by continued protection, Marshall Aid expenditure and the impact of the Public Capital Programme. In response company profits and savings rose, as did the share market. However, after the brief spurt of the Korean War the market relapsed into a long period of considerable inactivity with prices virtually unchanged from 1953 to 1959, in marked contrast to the rapid advance on the London market.

A new decade brought a change of fortune. Several elements contributed to the revival. By the mid-fifties it was appreciated that concentrating investment on infrastructure had produced disappointing results and the influential document *Economic Development*, published in 1958, set out to alter the bias and usher in a period of more openness for the economy. The old policy of only admitting external capital reluctantly was abandoned and direct external investment was encouraged. In addition firms were given fiscal incentives to help with modernisation and improve their competitive stance. The general effect of these measures was to produce an annual growth rate of some 4%. Stimulated by expanding output and profits the share market rose from a low of 36 in 1958 (1963 = 100) to 125 by 1964. After a brief period of restraint in response to balance of payments difficulties, the decade closed with a further upswing, to be followed by the 1972-73 boom when manufacturing output rose by an impressive 11% in 1973. The share market reflected this achievement. The first oil shock produced a severe recession and the share market fell by an unpre-

cedented 60%. The ensuing adjustment to high energy prices was assisted by buoyant trade, membership of the European Economic Community, and increased investment at home. By the end of the decade company profits and savings had recovered, with share prices more than doubling between 1975 and 1979. The boom was cut short by the second oil price rise and the need to introduce restrictive measures to curtail inflation and reverse a severe balance of payments problem. The decision of Ireland, in December 1978, to join the European Monetary System resulted in the imposition of exchange controls against the U.K. and several other countries. This greatly curtailed the freedom of Irish investors to acquire overseas shares.

Looking at this long span of years from the point of view of the use made by industry of the capital market, two distinct phases are apparent. The fifties and sixties saw quite infrequent resort to the market. Over the period 1952-71 only £47mn was raised for private sector needs compared with £678mn for the public sector. Such neglect of the capital market may probably be accounted for by several features of the contemporary financial and fiscal systems. In a period of relatively slow growth the investment needs of firms were met largely from internal funds and by looking to the banking system, which traditionally occupied a more prominent role in company finance than in Britain.²⁵ As elsewhere the supply of internal funds was also boosted by the use of generous depreciation allowances, and to encourage exports tax relief on profits from such activity was available from 1956 onwards. Such measures served to improve the internal financial position of qualifying firms.

Compared to the sparse number of new issues in the sixties the seventies witnessed a marked rise in activity, both cash and non-cash. The increased use of the market for cash (an annual average of £22mn for 1970-79 and £51mn 1980-85) was due to the rate of

²⁵ J. C. COLBERT, "Financing Irish Industry", *The Statist*, February 3, 1951, pp. 43-44.

investment outpacing the internally generated funds of companies. In the main the funds have been raised by direct calls on shareholders, that is by rights issues. Also, the general competitive climate altered greatly with entry to the European Economic Community, and this induced firms to expand in search of economies of scale which really could only be realised with certainty by a policy of increasing the volume of exports. The accumulation of debt financing from the banking system may, in addition, have exerted some pressure on companies to fund their loans through equity issues. On the demand side companies were well aware of the receptive state of the equity market during the times of its sharpest rises in 1972-73 and 1975-79.

Non-cash issues also proliferated during the early seventies. Capitalisation issues were used by companies to bring nominal capital more into line with actual capital, while some were prompted by the need to remove the temptation of large reserves in relation to existing quoted equity. Alongside these issues were a large number linked to merger activity. This route enabled companies to expand rapidly rather than rely on long term and painstaking internal growth. As a result a handful of leading conglomerates such as Waterford, Smurfit, Irish Distillers, Carroll, T.M.G. Group and Doreen Holdings, emerged to dominate the industrial and market scene.

The appearance of a small group of relatively large companies, with capitalisation sufficient to allow institutional interest and dealing activity, has produced a high degree of concentration in the share market. In the early eighties the first five industrial companies accounted for over 70% of the capital of the top 20 companies, followed by a tail of about 30 companies with capitals under £6.0mn. While there is reasonable dealing activity in the leading shares there is only lethargic turnover in the smaller companies.²⁶ Such companies tend to lack consistent growth records

²⁶ The exception to this has been the occasional flurry of speculative dealing in the shares of oil exploration companies in the early 1980s.

and their shares display uneven price movements with little secular upward trend. The prospects for adding to the number of large companies, or for frequent changes in ranking, are very slight. This arises due to the constraints on the size of the domestic market. One of the largest sectors of the economy, agriculture, has a strong cooperative tradition and the state has considerable interests in several important trading activities, such as sugar, turf and transport.

Progress and Problems

For much of its existence the Irish capital market has lived in the shadow of the large London market; it was not until 1922 that political and close economic ties were severed. Thus from its beginnings the market had something of a "colonial" nature, but its dependence on London was certainly not total. In the short era before the Act of Union it readily adopted, and adapted, London practices to serve the more limited needs of the country. The authorities moved to set up a formal stock exchange when the existing institutional arrangements seemed unsatisfactory. The impetus for such changes came predominantly from the supply side, while the more urgent needs of investors, which might have induced new innovations, could always be met without undue delay across the channel. Throughout the nineteenth century the trustee investment needs of Irish investors were for the most part satisfied by the London market at one remove, provided by the operation of a dual register in gilt edged. In their response to the arrival of joint stock companies Irish investors were accused of behaving in a less than full blooded fashion, reluctant to bear risks and leaving the initial burden of uncertainty to be taken on by more mature English investors. While this "financial anaemia" may have been present in the early and middle years, it seemed to fade in the face of a more vigorous behaviour towards the close of the century.

With independence steps had to be taken, over several years, to

create a more self-sustaining market. At the outset investors readily responded to the government's financial offerings but the creation of a more developed market to service the needs of the new breed of institutional investors, and wean them away from dependence on London, required considerable sponsorship and continued support by the authorities from the nineteen fifties onwards. A great deal of success has been achieved in this area but the market is probably of insufficient size to sustain its own body of dealers, and it has certainly proved too small to meet the explosive borrowing requirements of the public sector over recent years. These have been satisfied abroad - as they were on an earlier occasion. To cater for the needs of the private sector the institutional framework of the primary market (new issues) had to be buttressed by an official agency whose success then prompted emulation from the private sector. While the institutional foundations are now in place the secondary market displays comparatively limited "breadth" and "depth" but these drawbacks are reflections of the underlying conditions.