international liquidity, both conditional and unconditional, is likely to increase, under the present set-up, by not more than 33 per cent per annum on the most optimistic assumptions. It goes without saying, therefore, that a more positive policy, taking account of developments in the international economy in a long-term perspective, is called tor to meet the growing demand for liquidity. This is more so when the supply of gold depends on very uncertain factors such as gold mining in South Africa and gold sales by Soviet Russia.

Quite apart from this, the supply of reserve currencies would also tend to shrink in future, what with the US balance of payments position turning the corner in the latter half of 1965. It is a strange aspect of the international liquidity problem that foreign exchange reserves increase when there arc deficits in the balance of payments of the reserve currency countries and when these countries have a payments surplus there is a shortage of reserves. This neatly ties up the fate of countries using the reserve currencies as foreign exchange reserves to changes in the payments position of the reserve currency countries. All these issues are clearly brought out in the very admirable survey of the international liquidity problem in the Fund's annual report.

The report recognises that some quick steps have to be taken to solve the problem of liquidity on a long-term basis, both from the point of view of the developed and the under-developed countries. The Fund is convinced that an increase in member countries' quotas is the best solution. What the main, recommendations of the Group of Ten were on this issue, it is nowhere specifically mentioned in the report. But from available press reports it would appear that the Ten have set their faces against any radical revision of the Fund's functions or organisation. Obviously, the Fund's own views are dominated by the attitudes of the prosperous Ten.

But the rub of the quota increase solution lies in the gold subscription. Now every member country has to subscribe 25 per cent of its quota in gold. To pay 25 per cent of the increased quotas in gold, countries holding their reserves in foreign exchange would nave to obtain gold by converting a part of their foreign currency holdings into gold. This is bound to affect the reserve currency countries as it is their stocks of gold which would stand reduced. This might shako the confidence in the reserve currencies which provide the bulk of international liquidity.

Further, the gold subscription requirement will also affect the poorer countries. Among these, those who have substantial drawings outstanding with the Fund, would have to suffer a fall in their unconditional foreign exchange reserves to improve their liquidity in the form of conditional drawing facilities. Since the latter do not constitute part of a country's foreign exchange reserves as interpreted by the Fund, these countries stand to lose substantially from the gold subscription. Thus, the gold subscription requirement helps neither the rich countries with the reserve currencies nor the under-developed countries with precarious reserves positions.

The way out suggested by the Fund in its report, and which is likely to be discussed at Tokyo Conference, is a novel one. It is recommended that gold certificates may be issued to member countries in lieu of gold subscription. This would qualify the members to avail themselves of the gold tranche drawing facility without having to suffer a corresponding reduction in their gold and foreign exchange reserves. This opens out a promising direction in which future developments might take place, though its full implications need to be spelt out.

Private Steel Expansion

BOTH the private steel companies are drawing up plans for expanding their ingot capacity by 1 million tons each. Indian Iron, as a matter of fact, is well on its way towards completing the first phase of 300,000 tons of this programme for which it received a World Bank loan. Tata will probably have a single phase expansion, mainly of sheets and strips in a continuous or semi-continuous strip mill, the cost of which would be approximately Rs 170 crores exclusive of the Rs 50 crores to be spent on expansion, modernisation and coal washing projects already in hand. Indian Iron has yet to make a firm estimate of the costs of the second phase, pending a decision on the end-products but the total cost of the two phases would, it is believed, be in the neighbourhood of Rs 140 crores. The Tata expansion would practically exhaust the possibilities of enlargement within the present Jamshedpur lay-out but Indian Iron might still be able to expand a little more subsequently. In other words, the two existing private plants would have almost exhausted the possibilities of expansion by, say, the first two years of the Fourth Plan.

That is not all. The projected costs of the expansion, particularly Tata's even though approximate, do not seem to be appreciably lower than the cost of setting up the new plant at Bokaro (allowing for the difference in end-products) which, moreover, is capable of substantial expansion after the Fourth Plan period at a relatively low cost.

These considerations do not invalidate the intrinsic merits of the Tata and Indian Iron programmes during the Fourth Plan, for Bokaro after all is still beset with uncertainties, and no risks can be taken with steel supplies in the next few years. These programmes, too, have to get past the serious objection which the World Bank is known to have raised against two provisions of the Companies Amendment Act passed last year. These provisions relate to the power of Government to convert its loans into equity in the borrowing concern, and to take over the voting rights of trusts through a public trustee.

These powers affect the steel companies to a considerable extent because they have taken loans from Government out of the steel equalisation fund, and because a substantial part of the controlling investments in both companies is held by trusts. True, the Finance Minister has declared that the conversion of leans into equity will not apply to the past loans extended to steel companies and that the public trustee will act only to prevent misuse of trust voting power. But the World Bank, no less than the Chairman of Tata Steel, is apprehensive that the powers would be used for backdoor nationalisation to subvert undertakings given by the Government earlier (before the Bank agreed to finance the Second Plan expansion) not to nationalise the steel companies. The issues are without doubt fundamental but that does not rule out a solution, on traditional lines, *of* keeping intact both the amendments to the Companies Act as well as private control over steel companies and giving the necessary undertakings (in secret documents) to the Bank.

Future development in the steel companies, at their existing sites, at any rate, would have to concentrate increasingly on the kind of innovations to which Sir Biren Mookerjee draws attention in his statement to the shareholders of Indian Iron, The high ash content in coal, as well as fluctuation in its level and the varying size of iron ore have created serious difficulties in blast furnace operations. Indian Iron considered the orthodox practice of sintering iron ore an expensive process and has, thanks to its own research, found that a combination of direct re-

duction, magnetic separation and agglomeration yields more satisfactory results. Sufficient information has now been obtained to enable engineers to design the appropriate plant. A number of similar other developments are also in hand.

U K's Investments Abroad

Our London Correspondent writes:

THE fate of the British economy is so closely linked with the balance of payments position that special interest attaches to the recent figures published by the Board of Trade of British investments overseas. This is because investments overseas exercise a significant influence on the balance of payments.

Britain's foreign exchange income from profits and interest earned abroad has risen slightly faster than her payments and the surplus now amounts to nearly £350 million.

What are the significant features revealed by the report? Overseas investment by U K companies in 1963 were higher than in the year before, but not quite up to the 1961 figure. (At the same time there was an increase in the rate of foreign investment in the V K in 1963; the total at £150 million was £20 million higher than in the year before). Secondly, there has been a significant change in the pattern of investment, with a sharp increase in new investments in Western Europe and a steady decline in the funds going into Northern America—particularly Canada.

The Board of Trade estimate values the overseas investments of U K companies at £3,600 million. These figures exclude oil, insurance and banking, It should, however, he pointed out that it is extremely difficult to establish a reliable basis for valuing assets. For example, a large proportion of the U K's overseas assets have been written down and are invested in sectors which are less profitable than manufacturing industry. The Board of Trade estimate given above is based on net assets at book value and is, therefore, likely to be on the conservative side.

The following figures show the value of overseas investment by U K companies in the last three years:

Year	Value (£ million)
1961	226
1962	209
1963	223

In 1963, unremitted profits were £105 million compared with £95 million in 1962; net acquisition of share and loan capital rose from £64 million in 1962 to £65 million in 1963.

It has to be admitted that the statistics available on U K overseas inves'-ment are far from satisfactory since, until 1963, it had not been thought wise to publish separately figures of direct investment in either oil or insurance which account for an important percentage of investments. However, in 1963 it was decided to publish figures of overseas investment in insurance; even then oil has been excluded. But there is evidence now of some change in the strict secrecy about the value of British oil investments overseas. With the assistance of the oil companies, the Bank of England has recently published estimates of the value of the foreign assets of the oil companies which have been placed at £1,100 million.

Eyes on Europe

The following figures on the geographical distribution of U K capital abroad refer to 1962.

The Overseas Sterling Area: This area remains by far and away the most-important recipient of U K capital, its share rising from 55 per cent of the total in 1961 to 59 per cent in 1962. In this year, the value of U K investment amounted to £113 million. Australia was the most favoured country m this area— 40 per cent of total U K investments in the Sterling Area, amounting to £44.9 million, went to Australia in 1962. In 1961, Australia's share of total U K investment in the Sterling Area amounted to 28 per cent

Western Europe: One of the most significant facts of U K's overseas investment has been the spectacular rise of investment in Western Europe. Despite, or perhaps even because of the Brussels debacle, there was a sharp increase in new investment in Western Europe as the figures below show:

Year	Value (£ million)	Percent of Total
1959	20	—
1960	25	10
1961	38	18
1962	46	24

The most popular outlet in Western Europe was Western Germany, which received net U K investments of £13.2 million. Switzerland was the next mosi important recipient with a total of £12.7 million.

North America: A striking feature of U K investment has been the steady decline of funds flowing into North America. As the *Hoard of Trade Journal* article says, "the amount and percentage of U K investment going into North America have declined steadily since 1959 and in 1962 formed 9 per cent of the total. The reduction has been concentrated particularly on Canada".

During 1963, some 57 per cent of U K investment abroad went into manufacturing industry, and a large proportion of earnings were derived from this source.

In 1963, earnings of U K capital employed overseas rose to £312 million. The figures for 1963 include, for the first time, an estimate of insurance earnings.

Taking the figures given by the Board of Trade, the 1963 earnings of U K capital overseas represents 8.7 per cent of the book value of investments at the beginning of the year.

It has already been pointed out how difficult it is, given the type of statistics available, to work out an accurate estimate of what the rate of profitability really is; for example in 1963 (when for the first time figures on insurance are included) earnings on insurance may be of the order of £20 million. This seems a small figure is it is known that overseas assets of the insurance industry in the U S alone amounted to about £350 million, but not when it is remembered that overseas insurance earning is what is left after meeting underwriting losses.

The Board of Trade has estimated the total of foreign-owned direct investment in the U K (excluding oil, insurance and banking) at £1,500 million at the end of 1962. In 1963 there was an increase in the rate of foreign investment. Compared with £130 million in 1962, it rose to £150 million. The USA, as in the previous years, was by far and away the most important source, accounting for £89.5 million of the total.

Three-quarters of the U K earnings of foreign-owned undertakings came from manufacture, and a further 11 per cent from distribution. In 1963, earnings of U K subsidiaries of foreign companies was £158 million.

Taking the figures provided by the Board of Trade, foreign capital employed in the U K earned 10 per cent. It appears, therefore, that the U K does not earn as much on its investments as the U S—the principal investor in the U K.

Year	Earnings of U K Companies Overseas	Earnings of Overseas Companies in U K
1959	238	136
1962	276	134
1963	312	158