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***MONEY AND BANKING IN THE
IRISH FREE STATE 1921-1939***

by

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MONEY AND BANKING IN THE IRISH FREE STATE 1921-1939¹

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INTRODUCTION:

Under the Union (1801-1921), Irish banking had developed broadly along English lines. The Bank of England had its parallel in the Bank of Ireland, and the cluster of Irish joint-stock banks founded in the 1820s and 1830s was closely integrated into the London money market. Irish interest rates were governed by London bank rate. The Bank of Ireland, chartered in 1783, prided itself on its special status, as holder of the government account in Dublin and quasi-lender of last resort to the Irish banks. Because the Bank of Ireland retained far more of its commercial character than the Bank of England, the other Irish banks acknowledged its leading role with some reluctance. By and large, the Irish system had functioned smoothly, though it had not been scandal-free, nor was it a model of free competition (Ó Gráda, forthcoming).

The hallmark of Irish monetary policy after independence was caution. As Pratschke has remarked of the 1920s, "such changes as occurred in this decade were of an institutional character, and did not immediately affect monetary policy weapons to any extent". In the commercial banking sphere it was the same story, and the Irish banks "continued to regard their balances in London .. as the ultimate basis of their credit" (Pratschke, 1969: 74; Nevin, 1963: 291). The same might be said of the 1930s and 1940s. Despite the enduring popular appeal of 'crank' currency schemes, neither Cumann na nGaedheal (1921-32) nor Fianna Fail (1932-47) administrations were keen to meddle with monetary practice.

1. THE IRISH BANKING SECTOR:

Commercial banking in the twenty-six county Irish Free State (Saorstát Éireann) in the interwar period was dominated by eight joint-stock concerns, viz. the Bank of Ireland, the Munster & Leinster, the

¹Revised version of a paper prepared for the European Science Foundation Workshop on Banking, Currency and Finance, Venice, 11-12 January 1992. The comments of Gianni Toniolo (rapporteur at Venice) and Antoin Murphy are gratefully acknowledged.

Deposits Provincial, the National, the Royal, the Hibernian, the Northern, and the Ulster. The Belfast Bank ceded its southern branches to the Dublin-based Royal in 1923, in order to concentrate henceforth on business in newly-constituted Northern Ireland. Bank deposits in the Free State were very high relative to national income. In the south in 1932 they were worth almost £42 per head of population, compared with £48 in Britain, £40 in New Zealand, £22 in Denmark, and £72 in the United States. The bulk of deposit in Irish banks consisted of accumulated savings rather than funds for financing current spending, bearing out Andrew Jameson's quip that "the Irishman is temperamentally a depositor, not an investor". Other savings outlets, such as savings certificates and trustee savings banks, were less widespread in Ireland. Such outlets absorbed £5 per head Ireland's population, compared to £22 of Britain's, £33 of Denmark's and £40 of New Zealand's. The Irish banks converted many of their deposits into liquid resources, held for the most part on the London money market. Thus the deposits indirectly put Ireland in a very strong financial position. ✓

Joint-Stock Banks The joint-stock banks differed from each other in terms of clientele, regional spread, and commercial and investment strategies. The Provincial retained its rather old-fashioned image of banker to the landed and the wealthy. The Royal was the bank of Protestant Dublin businessmen and professionals; the Munster & Leinster's orientation was towards the southern farming and business community; and so on. Still, there was ample scope for competition, which, like their confreres in England and Scotland, the Irish banks sought periodically to limit. The Ulster banks had long operated a gentlemen's agreement, and most of the banks had for several decades followed the lead of the Bank of Ireland in rate-setting. In *in plume* November 1913 the Bank of Ireland had proposed to the eight joint-stock banks a system of rates and charges "to be embodied in a formal agreement to be signed or sealed by all the Banks". However, the Munster & Leinster Bank did not attend the meeting that ensued, and the support of the Royal and the Hibernian was not forthcoming. The remaining banks considered a limited agreement, not binding in places where one of the banks not party to the agreement had a branch. But nothing seems to have come of this. At the outbreak of the Great War the banks agreed privately "that each would

retain its existing business but would not canvass for or encourage business away from any of its competitors" (Hall, 1949: 19). Rivalries about branch banking were renewed at war's end. On a Monday evening in August 1921, for example, the chairman and manager of the traditionally staid and cautious Royal Bank travelled from Dublin to the village of Blessington, twenty miles away, in order to acquire premises for a new branch. They were prepared to act without the consent of their board, so that the Royal could begin business there on the following Thursday, one day before the Hibernian Bank (Milne, 1964: 83-4).^①

Co-operation in Irish banks Yet a series of developments in 1918-9 - a request from the Chancellor of the Exchequer that all the Irish banks hold interest rate on deposits to three percent, the prospect of serious industrial unrest, and the uncertain future status of Irish bank-notes - made for increased co-operation between the banks in other ways. This co-operation was institutionalized in 1920, when the six southern banks joined together with representatives of the three northern banks to form the Irish Banks' Standing Committee. The Committee would meet quarterly (and more often when necessary) to agree on rates for overdrafts, loans and discounts, and to discuss other matters of common concern.

In the period under review here, banking developments were largely conditioned by the operation of the Standing Committee. This gentleman's agreement quickly acquired teeth. Not only did it set rates; members agreed in March 1920 to a scale of charges on cheques lodged in overdrawn accounts, and in May to an annual charge of one guinea on current accounts. These measures led to considerable customer dissatisfaction, but they stuck. Scales such as the following from February 1922 give an impression of the banks' pricing policies during the interwar period:

	Rate (percent)										
Bank of England Rate	2	2.5	3	3.5	4	4.5	5	5.5	6	6.5	7
Irish Banks' Rate			4	4.5	5	5.5	6	6	6.5	7	7.5
Standard Overdrawn Accounts			5.5	5.5	6	6	6.5	7	7	7.5	8
Deposits (a) Ordinary			1.5	1.5	2	2	2.5	3	3	3.5	3.5
(b) £500-£1999			1.5	2	2	2.5	3	3.5	3.5	4	4

The margin between standard overdraft and deposit rates - four percent - was wide for its day. Indeed, Irish rates were usually less attractive than those on offer in England, and there were repeated complaints in the press and from business customers about the spread between borrowing and lending rates. Delegations of businessmen and farmers² were met with a stock answer; the effective spread was narrower than the raw numbers suggested, and Irish customers benefitted in other ways. Yet the Standing Committee's enduring concern with the loss of large deposits to English banks tells its own tale. A confidential study by Geoffrey Crowther (future editor of **The Economist**) on behalf of the Standing Committee in 1932 found claims against the banks exaggerated, yet Crowther conceded that the typical borrower was paying 'slightly more' in Ireland than in England, but that it was in their treatment of the small depositor that the banks were 'weakest in face of criticism'. During the period under review here, individual banks grumbled at aspects of the Standing Committee's rate structure, but none seems to have systematically reneged on it.³

Setting standard bank charges was by no means the Standing Committee's only function. It also set out the terms for bank underwriting

²The Dublin Chamber of Commerce frequently complained about bank charges during the 1920s and 1930s. See Proceedings of the Council of the Dublin Chamber of Commerce (National Archives, 1064/3/19-20), passim.

³G. Crowther, 'Report on the Irish Banking and Currency System' (unpublished, 1932). As regards complaints about rates, e.g. I.B.S.C. Minutes, 15 December 1926, 19 October 1927, 19 January 1928, 23 January 1928, 23 September 1931, 28 September 1931.

of government loans, and represented the banks in attempts to fend off regulation and competition. Early contacts between the Committee and the Department of Finance were none too cordial. At one stormy meeting in 1923, several members of the Committee wondered if the "two young gentlemen (meaning civil servants Joseph Brennan and J.J. McElligott) who waited on them spoke with authority". * The banks were at first reluctant to underwrite government loans without a British Treasury guarantee, a politically insensitive demand that they did not continue to insist on. In the event, the government managed to raise the whole of its first National Loan of £10 million without support from the banks. The terms of the second national loan of 1930 were also the outcome of tough negotiation between the banks and the Department of Finance, the banks again taking a gloomier view of the government's credit-worthiness than the outcome warranted. In November 1933 the banks wanted to know how the money sought in the next national loan was to be spent. Typically the banks sought a commission of 1.5 percent to manage and underwrite the loans. The banks' attitude to the Financial Agreement of 1938 and the ensuing loan was one of relief. The National Bank's representative on the Standing Committee urged the banks' support for the government, declaring the National's willingness to take up its quota of a 3.5 percent loan at 99 or even par if the other banks went along. The other banks proved tougher, forcing 3.75 percent at par, but were content with a one percent commission. The Financial Agreement Loan was considerably over-subscribed.

Though it played a leading part in the Standing Committee - meetings were held at Bank headquarters, usually with the Bank's governor in the chair - the position of the Bank of Ireland remained rather special in the new Ireland (Fanning, 1983). Banker to the Dublin Castle administration for well over a century, the Bank of Ireland's ethos had been strongly unionist and protestant; in the 1920s, its Court of Directors was still dominated by earls, baronets, and captains. The Bank had not prepared for the creation of the Irish Free State, and indeed in January 1922 a high-power delegation crossed over to London to seek advice from the Bank of England. Governor Montague Norman offered little consolation,

urging the creation of an independent Irish central bank on the model of the Reserve Bank of the Union of South Africa. The stark choice offered by Norman - either become a central bank or continue as a commercial bank - failed to satisfy the Bank's delegation. Bank of Ireland Governor Cairnes could only reflect that Norman was "obsessed with the pre-eminent position and conservative position of the Bank of England".⁴

Nonetheless, the Bank of Ireland adapted well to political change. It accepted the invitation from General Michael Collins, minister of finance of the provisional government, to become financial agent for the new administration. A few months later, in the course of a dispute with the British Treasury, "the Court, .. animated by the feeling that in the new conditions arising out of the establishment of the Irish Free State individual interests should not be pressed to the possible advantage of the body politic, deem it a wiser and more patriotic course to merge their intests in the nation at large". This is more than could be said at this stage of the National and Provincial, deemed by Andrew Jameson to be "quite out of touch and sympathy with Free State affairs". The new government broached terms for short-term advances first with the Bank of Ireland; early in 1923 Liam T. MacCosgair (alias W.T. Cosgrave), Collins' successor, was seeking accommodation to the tune of £0.5 million, and in June the Bank of Ireland joined for the first time, not without some trepidation, with the other southern Irish banks in tiding the government over until after the general election. The Bank was unhappy with its statutory allocation of the aggregate bank note issue in 1926, but its anachronistic claim for a share based on the terms of Peel's Act of 1845 rather than on business share in the mid-1920s was a non-starter. (The Bank's share of total Irish bank-note circulation had fallen from sixty percent in 1845 to about forty-five percent in 1880; it was still about forty-five percent in 1920-2, but its share of the note issue was lower.) Tab 1 compares the situation in 1845 and 1926; besides reducing the share of the Bank of Ireland, the new legislation granted note-issuing rights for the first time to the Royal and the Hibernian (denied since 1845) and the

⁴I.B.S.C. file X(iii), report of meeting with Norman.

Munster & Leinster (founded in 1885).

Table 1: FIDUCIARY ISSUES OF IRISH BANKS IN 1845 AND 1926 (£ m.)

(percentages in brackets)

	1845	1928
Bank of Ireland	3.738 (58.8)	1.705 (28.4)
National	0.852 (13.4)	1.365 (22.8)
Northern	0.243 (3.7)	0.243 (4.1)
Provincial	0.928 (14.6)	0.649 (10.8)
Ulster	0.311 (4.9)	0.419 (7.0)
Belfast	0.282 (4.4)	--
Hibernian	--	0.439 (7.3)
M & L	--	0.852 (14.2)
Natl Land Bank	--	0.055 (0.9)
Royal	--	0.273 (4.6)
Total	6.354 (100.0)	6.000 (100.0)

¹⁸⁰⁸ The Bank of England on occasion treated its Irish sister as a kind of satellite central bank. Changes in the London Bank Rate were always communicated to College Green by telegram, and the Bank of Ireland and the other Irish banks adjusted their rates without fail to maintain a margin between their minimum rate and the announced London rate. In April 1924 the Bank of England provided further evidence of the Dublin bank's special status. Governor Montague Norman was then engaged in one of his major feats of banking diplomacy, the creation of a new German bank to finance foreign trade. The Bank of England undertook to find half the required capital, and asked the Bank of Ireland "as a central bank to accept participation in the loan". The Bank of Ireland duly complied, placing £0.25 million at the disposal of Threadneedle Street.

Yet the vicissitudes of Anglo-Irish politics in the end ruined the special relationship between College Green and Threadneedle Street. Just a few days before the outbreak of war, a nervous Bank of Ireland Court sent Deputy Governor Sir John Keane to London to seek assurances. Keane's interview began cordially enough with his London counterpart, B.G. Catterns, with Catterns playing down Irish fears regarding the

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unavailability of foreign exchange and a moratorium on assets. The rest of the minute is worth quoting in full:⁵

At this point Mr. Catterns retired temporarily, and on his return was accompanied by the Governor, Mr. Norman, who said that notwithstanding the long and intimate relations between the two institutions he was not prepared to commit the Bank of England by promising to come to the assistance of the Bank of Ireland in an emergency of the nature under discussion. As an ordinary banking transaction there would be no question whatever about making an advance to the Bank, but in an emergency situation there was an important principal (sic) involved. The Bank of England looked upon Eire as a Dominion, and if the accommodated the Bank of Ireland in a crisis, there would be no reason why they should withhold similar assistance from the other Dominions - the Bank was not prepared to concede this principal. Mr. Norman stressed the view that the Bank "whose centre of gravity was in Eire" should look to their own Treasury or the Currency Commission to help them over difficult periods. Sir John pointed out that the position in Eire did not admit of a solution in that way, as the Treasury came to the Bank of Ireland when it was short of funds, and the Currency Commission was not a lender of the last resort. Mr. Norman then urged that as Eire was a separate political entity it should have a Central Bank of its own. He went on to say that "two of your friends" (emphasising the word "friends") had already approached the Bank of England for a similar assurance which the Bank of Ireland was seeking, but the Bank could not admit the principal in their case either. W W 2

After some further general remarks on the provisions of the Currency Act in regard to Consolidated Bank Notes and Legal Tender Notes, the interview terminated.

Later Mr. Catterns urged the confidential nature of the information afforded as to the foreign exchange arrangements which had been discussed by His Majesty's Treasury and the Eire Government, and suggested that in any conversations which the Bank of Ireland might have with the latter, no reference be made to the fact that such information was in our possession.

Thus it took the prospect of World War Two to switch the Bank of Ireland's full loyalty to the Irish Free State and for the commercial banks to acknowledge that an Irish central bank might have a useful role to play.

(2) OFFICIAL RESPONSE:

The period saw two major official inquiries into banking and monetary policy options. The stance of both the Parker-Willis Commission of 1926-7 and the Commission of Inquiry into Banking, Currency and Credit (CIBCC)

⁵Bank of Ireland Transactions of the Court of Directors, 31 August 1939. Also cited (in part) in Fanning, 1983: 88. On the confidential assurances received by Dublin, see too the loaded hint in Meenan (1969: 29-30).

of 1934-8, was conservative and orthodox. So was policy, which sought simply to maintain the sterling link while gaining revenue from an Irish note-issue. Yet on the question of central banking there was some ambivalence. On the one hand, though central banks were very much the flavour of the day after 1918 - they had been recommended to emergent nations by the League of Nations and the Genoa Financial Conference of 1922 and enthusiastically supported by the Governor of the Bank of England, Montague Norman (c.f. League of Nations, 1924) - the Irish Free State seemed not to succumb to the temptation of creating its own until 1942. On the other hand, the Currency Commission, the statutory non-political institution created in 1927 to manage the new Saorstat pound, was granted the most important responsibilities of the textbook central bank - those of defending the value of the domestic currency and generating seignorage revenue for the government. To that extent, the Currency Commission was a central bank by another name. The ambivalence stemmed in part from a conviction that outside the Irish Free State - and to some extent within it - central banks were being promoted as antidotes to backward or unduly risk-averse commercial banking systems. Accordingly, creating an Irish central bank might be seen as both a slight and a threat to the long-established commercial banks. The joint-stock banks were firmly opposed to any such move (e.g. **Irish Times**, 26 January 1933).

The government quickly enacted most of the advice of the Banking Commission of 1926-7, of which the American economist Henry Parker-Willis was chairman. That Commission was dominated by bankers and their friends: its nine members included representatives of the Bank of Ireland, the National, the Munster & Leinster, and the Ulster, and neither the representatives of the Department of Finance, Parker-Willis, nor Campion (a retired Australian banker) were likely to rock the boat. Andrew Jameson of the Bank of Ireland, an old campaigner, had been the original choice for chairman. Jameson did not feel competent for the post, though it is telling that he should put the choice down to his "reputation of being an

old-fashioned conservative"⁶ Hardly surprising, then, that the Commission deemed that the soundness of Irish financial institutions vitiated the need for an Irish central bank. In this the Commission reflected the leeriness of bankers generally towards central banking (compare Plumptre, 1940: 178-9). Furthermore, the Commission held that the virtual absence of a domestic money or capital market ruled out an independent Irish monetary policy. Such a market might develop, but could not be forced. In making this last point, the Commission was doing no more than paying its dues to the orthodoxy that "the success of central banking depends largely upon the condition of the capital market in which it is practiced" (Plumptre, 1940: 4). Now, Britain's peculiar institutional framework made it natural for the Bank of England as de facto central bank to control credit through open market operations. But London's situation was quite exceptional; central bank control of the commercial banking system through reserve requirements or moral suasion, without the intermediary of a money market, was much more important elsewhere. Bank of England orthodoxy did not prevent Norman's roving ambassador, Sir Otto Niemeyer, from recommending a central bank for New Zealand in 1930. That there were "no bill market, no short-loan market, and, generally speaking, no money market in the full sense of the term [did] not constitute insuperable objections" (Plumptre, 1940: 187; compare CIBCC, 1938: 224; Jacobsson, 1979: 131).

More important than the quality of the commercial banking system or the lack of a money market, the Irish banks' links with London and the commitment to maintain parity with sterling arguably ruled out an independent monetary policy in any case. Instead of a fully-fledged central bank, the Parker-Willis inquiry therefore proposed the creation of an institution responsible for a domestic currency backed one-hundred percent by sterling notes, short-maturity British government securities or gold as the only fundamental change required.⁷ In addition Irish banks

⁶Narional Archives (S.P.O.), S5185, minute of 29 January 1926; I.B.S.C. Minutes, 22 December 1925.

⁷Curiously a very similar institution had been mooted in a Bank of Ireland memorandum prepared for the meeting with Montague Norman in January 1922. This scheme for a Central Reserve Bank of the Irish Free State envisaged seven directors (including three from the banks and two from the business

were to be allowed a consolidated note issue in lieu of the fiduciary issue allowed under the Bank Act of 1845.⁷ The Commission made no provision for either bill discounting or advances. The Government's account remained with the Bank of Ireland.

⁷The resulting Currency Commission (1927-42) guaranteed that the seignorage from note-issue belonged to the Irish authorities. How much was this worth? In a claim set out by the Irish government during the Economic War, the seignorage accruing to Britain while sterling remained legal tender (1922-8) was put at about £0.5 million a year. This figure was reached by allowing a return of five percent on the £3.9 million of British currency in circulation and another five percent on the £5.5 million of British Treasury bills held by Irish banks as backing for note issue above the fiduciary allowance.⁸ The estimate is probably too high; the net annual receipts of the Currency Commission in the 1930s from dividends, interest payments, and payments on consolidated bank notes, were about £0.2 million, or 0.1 to 0.2 percent of national income.⁹ The share of Irish legal tender notes and coins in the total supply of outstanding money rose steadily, reaching about two-thirds by 1939 (Moynihan, 1975: 512).

The seeds of an Irish bond market were sown by the small clandestine loan raised by the First Dail in 1919. By the mid-1930s about £25 million of government securities was being quoted on the Dublin stock market. Despite some government encouragement, this was still far from enough to create an active two-way market. Very small transactions were not a problem, but the sale of even £30,000 of National Loan might take a month to complete in the mid-1930s. Such a market was little use to the Irish banks, who dealt in the London market to the tune of several hundred thousand most weeks. For example, the Bank of Ireland's short-term loans of £0.3-£0.5 million to the London discount houses of Alexander, National Discount, and Union Discount stood in sharp contrast to its sales through

community), and one hundred percent backing in gold, notes and approved securities for note issue. See I.B.S.C. archive, file X(iii), January 1922.

⁸UCDA, P67/173.

⁹E.g. *Statement of Accounts of the Currency Commission for the Year Ended 31st March 1936* P. 2306 (Dublin, 1936), p. 3.

Dublin stockbroking firms of a few thousand pounds worth of National Loan or Land Bonds. As for markets in local industrial shares, they were typically slow. An order to sell shares at about the last quoted price might take three or four days "as luck would have it, but it is possible you may have to wait" (Thomas, 1986: 164-71; CIBCC (Minutes of Evidence), 1938: 395-426). Nevertheless, there was much more activity on the Dublin stock exchange in the late 1930s than ten years earlier. Between 1933 and 1938 the Industrial Credit Company organized public issues worth £4.4 million, and another £0.25 million was raised without its help. Such sums, along with the £6 or so million raised privately in these years helped to spread the investment habit (Colbert, 1938: 14-8).

Did the Irish bank cartel result in poor service at high prices? One might have expected a hard look at this question from the official inquiries of the 1920s and 1930s. However, both the Parker-Willis and 1934-8 Commission were very 'soft' on the banks. In the case of the former, 'packed' with bank representatives, and established in a hurry in order to provide a blueprint for exchange-rate policy and seignorage, this hardly comes as a surprise. The banks feared much worse from the second inquiry, a creation of the new, radical-populist Fianna Fail administration, and tried hard at first to quash it. Failing in that aim, they proceeded to 'capture' the inquiry through the selection of indulgent commissioners (see below). The Majority Report of the Banking Commission defended the banks against the charge of collusion by arguing that cartels like the Standing Committee were commonplace elsewhere, citing examples from Scotland, Britain, and the United States. Amazingly for a commission appointed to "examine and report on the system in Saorstát Éireann of currency, banking, credit, public borrowing and lending", the 1934-8 inquiry failed to cross-question **any** representative of the Irish joint-stock banks in public; Sir John Keane, a Governor of the Bank of Ireland and a member of the Senate, gave evidence, but only on the follies of Fianna Fail fiscal policy. Meanwhile, witnesses critical of the banks were subjected to vigorous questioning by bank supporters on the Commission. The Commission's only references to the Irish Banks' Standing Committee

(paras. 302-3) were defensive and apologetic, holding that "it is not to the ultimate interest of the public that competition should take the form of a competitive reduction of charges and an increase of the rate of interest paid upon deposits". Perhaps so, but there were points worth at least discussing. For example, the higher rates charged by Irish banks for loans and the slow growth of the system might seem prima facie evidence for a misallocation of resources. The power of the Standing Committee to prevent individual banks on occasion from expanding their branch networks because of objections from other members also suggests some degree of monopoly power. For instance, in September 1937 three banks - the Provincial, the Northern and the Belfast - sought permission to create several new branches in and around Belfast. A meeting of the Standing Committee deferred consideration indefinitely, on the basis that this would open the door to "unrestricted competition of a harmful nature to the officies already established in or near these areas, and of doubtful advantage in the long-run to newcomers". Suspicion of bankers' monopolies was by no means confined to cranks in the interwar period (Plumptre, 1940: 165-70; Sayers, 1976: 236-7). But the Banking Commission, content to report overdraft rates issued to it by the Standing Committee in its Report, failed to see through the banks' strategy of not increasing overdraft rates while the Commission deliberated. Indeed, that strategy was recommended to the banks by two of their representatives on the Commission, James Sweetman and Lord Glenavy.

argument Two considerations possibly mitigate such criticisms. First, the banks' monopoly was countered by a powerful trade union, the Irish Bank Officials' Association. Virtually all managers and clerks were members of the I.B.O.A., which would have been quick to capitalize on bank disunity. In the absence of the cartel, any single bank in a labour dispute would have been an easy target for the combination of a strong union and greedy business rivals. It might therefore have been slower to innovate. The problem with this argument is that the I.B.O.A. seems to have been quite adept at eating into the monopoly rents created by the cartel; in the interwar years, Irish bank clerks were better paid than their British peers.

Second, the Irish banking sector was in the doldrums in the 1930s, and the need for some rationalization was widely conceded. Geoffrey Crowther's confidential report to the Standing Committee in 1932 highlighted the issue. Crowther found that the Irish Free State had thirty-three percent more banking premises per head of population than Britain. Concerted action aimed at streamlining the branch network would result in higher profits, and enable the banks to pay a higher rate on deposits. In the following year, the Ulster Bank offered to produce at any time a list of branches that it was willing to close, and the 'redundancy of banks' was repeatedly discussed by the Standing Committee in the next few years. The results were rather disappointing, nonetheless. A concerted effort to effect branch closures was not made until 1938. Individual banks played bargaining games. The Bank of Ireland's articulate Lord Glenavy was the most vocal supporter of a system of branch closures, but the Belfast Bank declared satisfaction with the status quo, while the Munster & Leinster thought this was a matter for bank-to-bank horse-trading. Per Jacobsson's authority was invoked by Glenavy and James Sweetman (members of both the Standing Committee and Banking Commission), and eventually the Munster & Leinster conceded.¹⁰ The result was an agreement engineered by the Standing Committee in 1939 to close twenty-five branches in twenty-three counties.

The Banking Commission defended the banks against the charge of monopoly with the argument that they engaged in various forms of non-price competition. The failure of new entrants to make an impression on the market for banking despite the healthy profits made by those already in the business, and the remarkable stability in the shares of the nine joint-stock banks in deposits and advances in the inter-war period bespeak a degree of live-and-let-live, if not outright collusion (see below).

¹⁰I.B.S.C. minutes, 18 October 1933. See also Milne (1964). For an analogous argument see William Lazonick (1979).

Table 2: DEPOSITS AND ADVANCES OF THE NINE JOINT-STOCK BANKS, 1919-1938

(in percentages of the total)

Period	BofI	Prov	Natl	Hib	M&L	Royal	Belfst	North	Ulster
a. Deposits									
1919-24	16.6	8.6	21.2	7.4	14.5	2.9	9.1	7.8	12.0
1924-29	17.4	8.4	21.2	7.0	14.1	3.9	8.3	7.8	11.9
1929-34	17.7	8.2	21.1	6.6	14.3	3.7	7.8	8.1	12.4
1934-38	18.2	8.6	21.2	6.1	13.9	3.7	8.1	8.0	12.2
b. Advances									
1919-24	15.8	8.5	19.9	5.7	13.3	3.6	11.7	9.8	11.7
1924-29	15.2	7.3	18.7	7.4	14.2	4.5	10.2	11.1	11.4
1929-34	16.7	7.4	19.5	6.8	13.7	4.5	8.9	10.8	11.7
1934-38	16.9	8.3	20.6	7.1	13.5	4.7	8.0	9.7	11.1

BofI = Bank of Ireland

Prov = Provincial Bank

M&L = Munster & Leinster Bank

Belfst = Belfast Banking Company

Hib = Hibernian Bank

Natl = National Bank

Royal = Royal Bank

North = Northern Bank

Note: the calculations exclude deposits in the National Land Bank (1919-27) and its successor, the National City Bank, a tiny fraction of the total. See Hall (1949: 352). The Belfast Banking Company passed its southern business to the Royal in 1923, and this is reflected in the numbers. The data refer to all the banks' business, within and outside the Irish Free State.

The 1934-8 Banking Commission had been promised by Fianna Fail as part of its electoral programme in 1932. Finance minister Sean MacEntee and his permanent secretary J.J. McElligott, Joseph Brennan (Chairman of the Currency Commission), and representatives of the commercial banks protested both the timing and the need for such an inquiry. Brennan's objection typically contained an element of "Catch-22": while insisting that no institutional changes should be contemplated before exhaustive investigation, he urged that even rumours of an investigation would cause panic. Efforts to quash the inquiry were of no avail, but mention in its draft terms of reference to the "effective control of internal and external credit" and the "operations and methods of the joint stock banks in regard to credit facilities" (which had alarmed MacEntee and the banks) were

dropped.¹¹ The Banking Commission was established in late 1934 after a good deal of spadework. The government held firm against Brennan's objections, but could hardly be accused of packing the Commission's membership with radicals. Brennan sought to spike the Commission's guns by keeping its membership small and biased towards commercial banking interests. Though he did not altogether succeed in this, his role was nevertheless paramount. Brennan was the main architect of the Commission's majority Report. Other influential members included Professor George O'Brien of University College, Dublin (later a director of the Bank of Ireland), Per Jacobsson (then with the Bank for International Settlements, later president of the I.M.F.), and Professor Theodore Gregory of the London School of Economics. The two last-mentioned were chosen as foreign experts: Charles Rist and Gustav Cassell had been invited first, but both declined. Keynes had also been briefly considered; his 1933 Finlay lecture in University College, Dublin in support of protection and deficit spending cannot have helped his chances. George O'Brien was a trusted friend of the banks. Asked by the Standing Committee in June 1932 for advice "as to the case which can be made by them in the event of the appointment of a Banking Commission", he felt unable to comply, but O'Brien obtained Geoffrey Crowther for them instead. Gregory and Jacobsson were both conservative in banking matters. The bishop selected, Dr. McNeely, was "unaware of any reasons why he should have been appointed, except to add an atmosphere of respectability to the conference".¹² Brennan, who feared a commission dominated by academics, had fought very hard to get Jacobsson, then an advisor to the Bank for International Settlements.

The Banking Commission proved very indulgent to banking interests, and there was a good deal of behind-the-scenes contact between the banks and individual Commission members. Thus Lord Glenavy (repeatedly) and even Theodore Gregory urged the banks to hold their lending rates down until the Commission had reported.¹³ With Joseph Brennan at the helm, a conservative

¹¹UCDA, P67/105(3), P67/105(2) (letters from MacEntee to De Valera, 23 February 1933 and 31 January 1934).

¹²National Archives, S2235A (letter from Hugo V. Flinn to E. De Valera, 13 April 1935). See too Lee, *Ireland*, pp. 199-200.

report was guaranteed.¹³ The Commission's Majority Report looked back with nostalgia on the gold standard era, and the associated "great advance in world production, international trade and international investment" (**Majority Report**, para. 198). It saw little to support the policies in fashion in the 1930s, and showed little enthusiasm either for an Irish central bank. Yet in the end the Majority Report proposed that the Currency Commission be granted powers to engage in open market operations, and recommended an unspecified name change to reflect this central banking feature. The Majority Report saw the main function of any such body as a restraining force on the government of the day on monetary matters. Any experimentation with the exchange rate was once more ruled out as leading to uncertainty and futile, and the Commission saw no real role for a money market in Dublin. Lord Glenavy's Minority Report interpreted the Majority Report as meaning that "nothing whatever is wrong with the system in Saorstát Éireann of currency, banking and credit" (Moynihan, 1975: 209, 211, 216).¹⁴ As **The Economist's** correspondent in Dublin put it (cited in Moynihan, 1975: 224):

The conclusions of the Commission bear all the earmarks of a compromise. The present functions are virtually limited to the issue of currency and all the holding of sterling assets against the notes issued) is to be renamed and its functions are to be enlarged. But the enlarged functions are not to include those usually attaching to a Central Bank. For example, there is to be no attempt to create a money market in Dublin, the commercial banks are not to be under the obligation of keeping reserve deposits with the new institution, and it is not even to take over the Government from the Bank of Ireland. In short, the Currency Commission is to have a new title and a research department, and that is all. It seems to be an admirable solution of the problem, which should please politicians and bankers alike.

¹³As early as April 1935 Hugh Flinn, parliamentary secretary to McEntee, predicted the eventual split into majority and minority camps very well in an amusing letter to De Valera. He was wrong about Sean O Muimhneachain and Robert Barton (both government supporters), however; they signed the Majority Report. See National Archives, S2235A, 13 April 1935.

¹⁴Lord Glenavy, the Bank of Ireland's man on the Commission, was handsomely rewarded by the Bank for his services (Bank of Ireland Court Transactions, 22 July 1937). Like other bank representatives on the Commission (though not other members), he was allowed to send a substitute to meetings. George O'Brien sat on the Commission at the behest of Lord Glenavy (Meenan, 1980: 136-8).

However, **The Economist's** correspondent was none other than Professor George O'Brien, an active member of the Banking Commission ! The Commission's Majority Report was universally - and correctly - interpreted as a thinly-veiled attack on the policies of Fianna Fail. The Report sounded a warning about the balance of payments threat posed by industrialization, and was leery of the rise in public debt resulting from Fianna Fail's social programme and the running down of foreign assets. The rhetoric of the Report anticipated that of the annual reports of that body only furtively anticipated by its authors, Ireland's Central Bank. The government chose to ignore the Report, and it took the threat of war to produce central banking legislation. In the end, the Central Bank Act of 1942 was a compromise between, on the one hand, Brennan and the Department of Finance, and the the majority of ministers on the other. Ironically, Clause 50 of that Act left open a possibility explicitly ruled out by the Banking Commission: the Central Bank's right to special deposits from the commercial banks. The aim of this clause was to induce the bank to repatriate some of their external assets for the purpose of investment at home (Hein, 1967: 13).

The Banking Commission noted that the legislation of 1927 did not envisage the Currency Commission providing advice to the government, coyly adding that "it does not seem to have been the habit of the Government to consult the Commission on financial questions generally". The Banking Commission also noted the lack of co-ordinated research into economic and monetary trends, and proposed the creation of a research department in the new monetary authority.

MONETARY TRENDS:

Though sterling may well have been overvalued relative to foreign currencies by Churchill in 1925 (Broadberry, 1984), the effect on the Irish economy was probably small. Higher costs in Ireland than in the United Kingdom hardly dictated a devalued Irish pound in the late 1920s. Overall, the logic of maintaining the link with sterling in the interwar era was compelling, since Irish foreign trade was almost exclusively with the

United Kingdom, and the Irish and British labour and capital markets were closely integrated. Nevertheless, the British decision in September 1931 to suspend gold payments was a blow to Ireland. Such a decision had been on the cards, and the Currency Commission had even considered converting some of its sterling balances and securities (which totalled £7.5 million at the time) into gold or gold-backed currencies. It had failed to act out of loyalty to the Bank of England on that occasion, though seven years later, with war in prospect, it quietly exchanged £2.5 million of its sterling balances for gold.

For Irish holders of sterling assets (estimated to have been worth £200 million at the time), the twenty-five percent depreciation of sterling that followed suspension constituted, in theory at least, an equivalent loss capital loss. Their disappointment at what was seen as a breach of trust on the part of Britain was widely shared (Bonn, 1949: 318-9):¹⁵

September 20, 1931, was the end of an age. It was the last day of the age of economic liberalism in which Great Britain had been the leader of the world.. Now the whole edifice had crashed. The slogan 'safe as the Bank of England' no longer had any meaning. The Bank of England had gone into default. For the first time in history a great creditor country had devaluated (sic) its currency, and by so doing had inflicted heavy losses on all those who had trusted it.. Hitherto devaluation had been the prerogative of improvident debtor countries. Great Britain was a powerful creditor country, yet she had sacrificed, with apparently little regret, the fundamental principle of an international capitalist system, the sanctity of contracts.

However, most of Ireland's external sterling assets could not have been easily converted into some harder currency, so the implied loss of £50 million or so constituted a mere paper loss. More important, part of the loss must have been short-term only, since the sterling value of the assets probably rose to compensate for the depreciation. The dollar, which may have looked a good prospect in late 1931, was soon to depreciate even more than sterling. Still, the collapse of the gold standard provided the new Fianna Fail administration with the opportunity to set up a public inquiry

¹⁵UCDA, P67/139, 'Memorandum on certain financial and economic aspects of the annual payments by Saorstát Éireann to Great Britain' (4 October 1932); Fanning (1975: 207-8); Currency Commission, **Report for the Year Ending 31 March 1932** P. No 729 (Dublin, 1932), p. 5.

into monetary and banking policy.

Several recent studies in the Keynesian tradition have emphasized the importance of exchange rate policy before and during the Great Depression (e.g. Broadberry, 1984; Eichengreen and Sachs, 1985; Bernanke and James, 1990). These studies show that those economies that depreciated soonest and most staged the best recoveries in the 1930s. By this reckoning British policy was a notable success, and France's loyalty to gold in the 1930s costly. Broadly speaking, the outcome of these studies is that depreciation boosted the volume of manufacturing output and exports, restored business confidence (as reflected by in the movement in Tobin's q , the ratio of an index of security to industrial output prices), dampened real wage increases, and increased the money supply. The model suggests that the sterling depreciation of 1931-3 should have given a fillip to the Irish economy. Adding Ireland as an eleventh observation to Eichengreen and Sachs's sample of ten European economies produces the following result:

Table 3: REDUCED FORM REGRESSION RESULTS

	Adjusted R_2		Elasticity	
	Without Ireland	With Ireland	Eichengreen and Sachs	Ireland
(1) Export Volume	.537	.385	- 0.72	+ 0.88
(2) Industrial Production	.553	.514	- 0.60	- 0.71
(3) Real Wages	.234	.277	0.44	0.04
(4) Tobin's q	.637	.382	- 1.13	- 1.78
Bank Deposits	.276	.303	- 0.63	- 0.10

Sources:

(1)-(4): variables as defined in Eichengreen and Sachs (1985). Irish data taken from **Statistical Abstract**. Other data inferred from Eichengreen and Sachs. Elasticities use averages of 1929 and 1935 values.

(5): data on commercial bank deposits taken from Mitchell (1975: 692-5).

All data refer to 1929-35.

The outcome shows Ireland confirming the pattern indicated by Eichengreen and Sachs as regards employment and industrial output are concerned (if one is to credit the Irish census of industrial production), and real wages. However, Irish exports fell off dramatically in real

terms, despite sterling's depreciation relative to most other currencies in the sample. Moreover, viewed against the experience in the economies examined by Bernanke and James, Irish bank deposits and advances grew very modestly relative to the depreciation against gold. Sticking with sterling cannot be blamed for this. Nor did depositors withdraw their money for fears of the banks' solvency: Irish banks were considered so safe in this period that in the wake of the U.S. banking crisis of 1931, several million U.S. dollars found a temporary haven in them (JIBI, 1933: 74; 1934: 96; 1934: 218). The pre-1932 data are approximate, but they show that between 1926 and 1931 the aggregate deposits of Irish banks in the twenty-six county area rose by only 0.1 percent. Between 1931 and 1939, the rise was virtually zero. These are unimpressive numbers compared to those of the London clearing banks, whose deposits rose by 5.7 percent in 1926-31 and twenty-eight percent in 1931-9 (Mitchell, 1975: 683). Since the rate of inflation was about the same in both economies during the period, a **relative** decline at least in Irish macroeconomic fortunes would seem to be indicated. In support, the failure of Irish deposits to rise in the 1930s was put down to the depressed state of Irish agriculture by the Majority Report of the Banking Commission. In the eyes of the Commission, of course, the damage was largely self-inflicted, the product of an Anglo-Irish wrangle known as the Economic War (CIBCC, 1938: 190; also JIBI, 1935: 72; 1939: 87; Neary and O Grada, 1991).

Two further reasons for the failure of deposits to rise have been suggested. Both have less to do with the level of aggregate demand than with the structural transformation of the economy in the 1930s. First, the Banking Commission and others claimed a role for 'a higher degree of home investment' (CIBCC, 1938: 192; JIBI, 1938: 95; Thomas, 1986: 182-9; Colbert, 1938). Certainly, there was much more activity on the Dublin stock exchange in the late 1930s than ten years earlier. Between 1933 and 1938 the Industrial Credit Company organized public issues worth £4.4 million, and another £0.25 million was raised without its help. A further £6 million or so was raised privately in these years. The result was a substantial increase in the paid-up capital of Irish joint-stock companies. Between 1926 and 1932 paid-up capital had risen modestly, from £35.7

million to £37.7 million; by 1938 it had reached £49.0 million. Emboldened by tax concessions and the buoyant market in Irish shares, Irish investors provided most of the capital. The process helped to spread the investment habit. But did it result in a net withdrawal of deposits from the banks? In theory, in a closed economy no such withdrawal is likely, since the expenditure of the proceeds of stock issues and other forms of company borrowing should have led to the creation of roughly equivalent flow of deposits, as the vendors of capital equipment banked their receipts. True, if the new joint-stock companies had spent the proceeds on imported capital goods, a net reduction in the deposits in the banking system would have resulted. The trade statistics show no sign of the necessary increase in the value of capital good imports: by one definition, such imports averaged £5.6 million in 1928-31, £5.0 million in 1932-5, and £6.4 million in 1936-8.¹⁶ Overall, moreover, the sums involved are small compared to aggregate bank deposits in the Irish Free State (£114 million in 1938).

The second reason given for the sluggishness of bank deposits, that investors in Irish government debt, culminating in the Financial Agreement Loan of 1938, financed their investments by withdrawals from the banks, is theoretically more plausible, and the sums involved more significant (JIBI, 1939: 87). The liabilities of the Free State government rose from £13.9 million in 1923 to £31.8 million in 1932 to £61.4 million in 1939, and most of this debt was internally financed.

Reference to the picture in Northern Ireland removes some of the gloom cast by the Irish Free State bank deposit data. In Northern Ireland deposits and cash balances fell marginally between 1926 and 1931, and dropped from £44.9 million in 1931 to £44.4 million in 1937. Admittedly, too, some other southern bank data tell a more cheerful story than the trend in deposits: the total sum of notes, bills and cheques cleared rose from £274 million in 1932 to £324 million in 1938, while the circulation of legal tender notes rose from £6.9 million to £10.2 million over the same period (CIBCC, 1938: 188-92; Mitchell and Deane, 1962: 448). Nevertheless, it is the sluggishness of the Irish banking sector in the 1920s and 1930s

¹⁶Defining Class III (B-E) in the trade statistics (e.g. **Statistical Abstract 1939**, 92) as capital goods.

that is most striking, and this reflects, above all, the failure of the economy to grow as fast as other European economies in those decades.

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