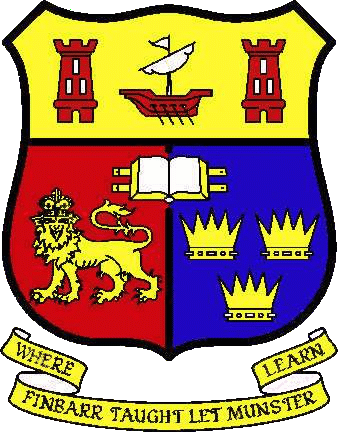
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**‘Extreme Shortage of Money in the**

**Irish Free State 1922-1932’**

* **Donal Corcoran**



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**Extreme shortage of money in the Irish Free State 1922-1932**

**Donal P. Corcoran**

*Introduction*

During the Great War farmers and merchants made large fortunes which they invested or deposited with the banks. Many of them were to live off this ‘old money’ in the lean years after the 1929 Wall Street crash, de Valera’s disastrous economic war with Britain in the 1930s, the Second World War and its aftermath, and the depressed 1950s.

The Irish Free State replaced a beleaguered British administration which had been unable to collect all its taxes. As Ireland was no longer subsidised by Britain, severe cut-backs were needed to bring expenditure into line with revenue. During the civil war scarce resources were diverted to the army. Compensation was paid for damage done in the war of independence and civil war. The purchase of the remaining land from landlords required to be funded. These factors combined with the post-World War I economic depression meant that money was not available for economic, infrastructural and social development.

The Department of Finance (Finance) took a lead role in the smooth transfer of power from the British, and the establishment of an Irish public service. The state lived within its means at a time when few countries did so. Budgets were balanced, expenditure strictly controlled and borrowing kept to a minimum. Parity with sterling was maintained and new notes and coins were issued. The government believed that agriculture would grow the economy and focused on keeping it cost-competitive. It favoured free trade and introduced tariffs reluctantly. Substantial investment was made in electricity generation and sugar manufacture was subsidised, but funding for industrial development, the state’s infrastructure, healthcare and social welfare was insufficient as fiscal rectitude took priority. The government bequeathed a sound financial position to its successors in 1932.

*The Department of Finance*

Michael Collins was appointed minister for finance in January 1922. From a farming background, he joined the Post Office in London at the age of 15 and was subsequently employed by a stockbroker (1910), the Board of Trade (1914) and the Guaranty Trust Company (1915). During that time he was active in the GAA, Gaelic League and IRB before returning to Ireland where he briefly worked for chartered accountants Craig Gardner. He was interned after the Easter 1916 rising and subsequently re-built the IRB organisation, served on the Sinn Féin executive and was elected an MP in 1918. He played a leading role in the war of independence particularly in counter-intelligence, cleverly avoided imprisonment, and masterminded the Dáil loan. Collins was an administrator and organiser rather than a fighter. His death had severe consequences for the government as he was by far its most popular leader.

Collins was replaced by William T. Cosgrave, who retained the finance portfolio when he became executive president. He was succeeded as minister for finance by Ernest Blythe in September 1923. Blythe, a native of Magheragall, County Antrim, was the only Protestant to serve as an Irish Free State minister and remained in that post until 1932. Like Collins he came from a farming background and worked in the Department of Agriculture and Technical Instruction before becoming a journalist. A member of the Gaelic League and IRB, Blythe joined the Irish volunteers, was imprisoned in 1915 and was one of three Protestants elected to the Sinn Féin executive along with Dr Kathleen Lynn and Darrell Figgis. He served as director of trade and commerce in the first Dáil and opposed the Belfast boycott fearing it would destroy north-south unity, suggesting instead a selective ban on firms discriminating against Catholics. Blythe advocated conciliating rather than coercing northern Protestants. He strongly believed agriculture would grow the economy. Aged 34 on his appointment, he had a strong personality but a narrow perspective and little interest in administrative innovation.[[1]](#endnote-1) He succeeded O’Higgins as vice-president in 1927.

The Ministers and Secretaries Act 1924 assigned Finance the tasks of administering the state’s public finances, supervising and controlling all purchases by government departments and responsibility for the ‘business, powers, duties and functions of the branches and officers of the public service’ specified in the act. The minister was also given responsibility for the Revenue Commissioners, the Stationery Office, and the Office of Public Works which remained largely unchanged under Sir Philip Hanson.

The role of the comptroller and auditor general (C & AG) and public accountability closely followed the Whitehall model. The office of C & AG had been established by the Exchequer and Audit Department Act 1866. The C & AG was made responsible to the Dáil and provided it with an independent, apolitical and objective assessment of how the government spent money. Joseph Brennan, the then acting C & AG, wrote to all ministries on 16 February 1922 stating that Finance was in charge of the public service. He advised them that the legislature would decide on the provision and funding of public services, and proposals for expenditure would be introduced only by the government of the day. Finance would determine financial regulations and manage the financial vote process. The C & AG would supervise exchequer receipts and issues, and audit the public accounts. Each ministry would have an accounting officer responsible for financial transactions that could be called upon by the C & AG and the public accounts committee to explain expenditure made without proper authority.[[2]](#endnote-2) From the beginning, Finance communicated directly with other ministries, by-passing their ministers and exercised as tight a control over the state’s finances as Treasury (Ireland) had prior to independence.

Brennan indicated that the C & AG would carry out an accountancy audit, an appropriation audit to ensure parliamentary control over expenditure, and an administrative audit to verify that expenditure was properly authorised. Appropriation and finance accounts would be prepared annually to inform the Dáil how its directions had been carried out. The C & AG would publish them, reporting where money was spent on unauthorised services, in excess of authority or where no service was provided. The public accounts committee would then examine the report.[[3]](#endnote-3) In the early years of the Irish Free State it took three years to review expenditure and even by 1931 over a year to do so. Consequently it was not an effective control mechanism. The system was criticised as the published government accounts were difficult to comprehend. Independent Senator Sir John Keane called for the reform of public accountancy and the Incorporated Accountants suggested that double entry book-keeping principles be introduced with ‘appropriate modifications’.[[4]](#endnote-4)

*The Revenue Commissioners*

Inland Revenue and Customs and Excise were merged to form the Revenue Commissioners in February 1923. Most British tax legislation was carried forward. The Provisional Collection of Taxes Bill 1926 was introduced to put beyond doubt the legal validity of the procedure used to collect taxes and head off potential challenges in the courts. Taxes included income tax, super tax, estate duties, stamp duties, customs tariffs on imported goods and excise duties levied on beer, spirits, tobacco, wine and hydrocarbon oils, while licences were payable by publicans, brewers and distillers. Customs and Excise accounted for over half of the state’s revenue.

The government’s priority was to collect outstanding taxes and it agreed with the British that it could retain all sums recovered regardless of when they were assessed or fell due. Arrears were collected with difficulty as many taxpayers had not made payments for years and a number of tax offices had been burned down after 1919. Before the treaty, the Dáil had tried unsuccessfully to collect taxes while the irregulars also attempted to do so during the civil war. Approximately £5.7 million was due in income tax alone. Aggressive tax collection was resisted. Cumann na nGaedheal Deputy Alfred O’Rahilly complained in 1924 that court judgements were widely enforced for non-payment of taxes.[[5]](#endnote-5) Fianna Fáil Deputy Sean MacEntee suggested that the Revenue Commissioners ‘call off the dogs’ in 1927. An investigation branch was set up in that year with the assistance of tax inspectors seconded from Britain.[[6]](#endnote-6) Customs and Excise lost key staff after the treaty, and acquired extra work including tariffs and pension investigations.

*Taxation policy*

The ‘People’s’ budget of 1909 had increased income tax, super tax and indirect taxes to fund the construction of battleships and new social welfare payments. This was the beginning of the welfare state in Britain and the benefits introduced included old age pensions, national health insurance and other measures which were of great benefit to the Irish but were difficult to fund after independence. The Great War led to further increases in taxation and left the UK with huge war debts and military pension liabilities. After 1922, the Irish Free State government reduced income tax and agricultural rates, imposed additional taxes on drink, betting and entertainment, and raised customs duties on some imports. Blythe cut income tax rates from 25 per cent to 20 per cent in 1925 and further reduced them to 15 per cent in 1927. He provided an annual agricultural rate rebate of £599,011 per annum in 1925 and a further £750,000 in 1931. A movement in Cork called for the abolition of income tax in 1925.[[7]](#endnote-7) Cosgrave queried where the alternative revenue would be raised. Hugo Flinn, one of the leading campaigners, suggested reductions in the army and public services, and argued that the abolition of income tax would repatriate capital and reduce the cost of living.[[8]](#endnote-8) However, the taxation system was not subjected to major review until the 1950s and 1960s. Increased drink and tobacco duties were resisted by merchants and the licensed trade supported by independent Deputies William Redmond and John Daly. Betting tax was opposed for fear it would destroy the racing and horse-breeding industry but independent Deputy Bryan Cooper argued that a five per cent levy would not kill racing.[[9]](#endnote-9) The government hoped that low income taxes would encourage people to keep funds at home but bank deposits of £100 million in 1927 had fallen by 20 per cent since 1922. Nevertheless in 1926-27, Irish people had £195 million invested abroad while foreigners had £75 million invested in Ireland.[[10]](#endnote-10) The old problem of plenty of Irish capital and inability to utilise it continued in the 1920s.

Even after the ultimate financial settlement with the British in 1926, Blythe remained cautious and was reluctant to increase taxes to provide funds for economic and social expenditure which could have stimulated the economy and gained the government badly needed popularity. His policies made sense according to the then prevailing conventional wisdom, but the tax regime was regressive as taxes fell disproportionately on the poor.

*Balanced budgets*

After World War I financial stability and balanced budgets were the order of the day as nations began the process of reconstruction and aggressively competed to regain trade and get access to raw materials, oil and investment opportunities. The British government pursued a deflationary policy and steadily reduced the amount of currency in circulation. It had risen sharply during the war which left Britain with a large national debt leading to calls for economy, elimination of waste, a return to balanced budgets and a firm currency after the rapid inflation of 1918-19.

The war and its immediate aftermath had been boom years for agriculture but in the early 1920s agricultural prices fell significantly; borrowers were unable to make repayments and unemployment increased. The Irish Free State absorbed some of the shock from the downturn in the economy as it had substantial income from external investments, pensions and emigrants’ remittances.

Strict financial controls were implemented immediately after independence. The book of estimates informed the Dáil how much money was needed and the Dáil voted the amount that could be spent. Finance exercised control before money was expended and the C&AG afterwards. Government spending consisted mainly of salaries, wages and pensions for civil servants, teachers, police and soldiers together with old age pensions. Other significant items of expenditure included home assistance, agricultural rate rebates and interest on loans, while health, social and economic expenditures were minimal. Capital expenditure was confined mainly to hydro-electricity, roads, housing and telephones. Audits began in June 1922, particularly of the army, which had been hurriedly set up, had no effective supply system and poor accounting procedures for purchases and issues.

William O’Brien served briefly as secretary of the department before being replaced by Joseph Brennan who was a strong proponent of fiscal rectitude. Under him Finance determined how much money could be spent having regard to the state’s revenue and credit rating. The cost of the civil war and the potential liability for bonds issued under the Land Act 1923 reduced the state’s capacity to borrow.

Cosgrave presented the budget for 1923-24. Expenditure exceeded revenue by 50 per cent due to the civil war. The banks were unwilling to bridge the funding gap because of the political instability so a national loan was considered despite the risk that it might not be fully subscribed thereby damaging the government’s credibility. Cuts were needed and, as Sir John Keane subsequently argued, government expenditure needed to be reduced by about a third through decentralising control, imposing strict financial rationing and stopping civil service recruitment.[[11]](#endnote-11) Yet the Irish Free State’s expenditure was less than Norway, a country with a similar sized population which had higher debt charges, spent more on economic and social development but had far lower pension costs.[[12]](#endnote-12)

Retrenchment was advocated because the cost of living, which had increased during World War I, fell sharply after 1921 without corresponding cuts in public service wages and state pensions. The government reduced the pay of public servants by ten per cent in 1924 and more controversially, old age pensions, then payable to people over 70 years. Pensions were reduced by one shilling per week but were subsequently restored in 1928. The reduction was a major blunder as old age pension cuts should have been a last resort. Civil servant Bulmer Hobson suggested borrowing but Finance was too influenced by Treasury thinking to budge.[[13]](#endnote-13) Revised means testing and stricter examination of claimants by pension officers caused resentment while some elderly people had difficulty proving their ages due to poor records as state registration of births had only begun in 1863. Labour Deputy Timothy Murphy stated that the Old Age Pensions Act 1924 was one of the most reactionary measures ever placed on the statute book and cited cases of small farmers who had their pension reduced from ten shillings to six shillings because they had a few cattle.[[14]](#endnote-14) At the same time tradesmen and labourers in Cork suffered wage cuts of 12.5 and 15 per cent respectively.[[15]](#endnote-15) The rapid reduction in army size eased fiscal pressure, but led to the army mutiny in 1924 which resulted in the national loan falling from 99 to 92 at a time when gilts were appreciating, and investments in savings certificates plummeted. Brennan observed that **‘**Credit is a very delicate fabric which is much easier to damage than repair.’[[16]](#endnote-16) Yet the government, in a period of cut-backs, made its initial investment in radio.

Brennan grew increasingly annoyed at his inability to curb expenditure and became disenchanted with Blythe, whom he considered a ‘dead-loss’ being more concerned with the Irish language than finance, and he resigned in January 1927.[[17]](#endnote-17) He was a hard taskmaster but popular in Finance as he ensured its primacy over other government departments. The state’s credit was by then firmly established, a financial settlement with Britain had been made and the internal organisation of Finance had been set up in a form which was to endure for over 30 years. Good order and organisation prevailed where there had been uncertainty and instability in 1922. But fiscal stringency had won out over common sense. Brennan, who was still only 39 years old, was appointed chairman of the Currency Commission.

Brennan was succeeded by Assistant Secretary James John (J.J.) McElligott. Born at Tralee in 1893 and educated at UCD, he became a first division clerk at Dublin Castle, was dismissed for participating in the 1916 rising and imprisoned. McElligott subsequently worked as a journalist and managing editor of the *Statist,* a London financial weekly, before returning to Ireland in 1923. He did not initiate any major changes, and remained secretary until 1953.

An economy committee was set up in 1927 with objectives similar to those of the cost cutting Geddes committee in Britain. After a few sessions, Farmers Party leader Michael Heffernan, parliamentary secretary to Blythe, was appointed chairman. The committee made preliminary findings in November 1931, recommending further reductions in teachers and police salaries, and old age pensions. However, Heffernan was against reducing the old age pensions again stating they ‘were little more than barely sufficient to maintain the pensioners at the scantiest level of existence’.[[18]](#endnote-18)

The executive devoted more time to discussing the annual estimates after 1927. Cuts in expenditure were opposed by the Labour Party but were supported by Fianna Fáil which sought reductions in the army, police and civil service. Labour Deputy Richard Anthony challenged de Valera to explain how the army and police could be reduced to the advantage of the state as the army was needed while there was an armed threat, but he got no response.[[19]](#endnote-19) After the Wall Street crash in 1929 the government set up an all-party economic committee to seek ways of stimulating the economy. It contained no experts, no professional assistance was sought and it became deadlocked along party lines on the issue of free trade.

The governments between 1922 and 1932 were acutely aware that not only could they be defeated militarily and politically, they could also be defeated financially. The state had to pay the costs of the civil war which has been estimated as high as £50 million, twice the state’s annual expenditure at the time. It also needed to fund up to £30 million for land purchased under the Land Act 1923 together with compensation for damage during the war of independence and civil war. Its financial position was very exposed and if it ran out of money, Britain was its lender of last resort. The government did not want to exchange hard-won political independence for financial dependence on Britain and the political instability that would inevitably follow.

This was a real risk as proved by Newfoundland, the oldest British dominion which had achieved ‘responsible government’ in 1855. That state suffered financial meltdown after it was devastated by the post-1929 economic depression. The prime minister was ousted and the colonial buildings (houses of parliament) were set on fire. The new prime minister failed to arrest the economic decline and by 1933 Newfoundland was unable even to pay interest on its debt. Nobody would lend the state money. Britain assumed responsibility for Newfoundland’s finances until it became self-financing again as a default would have damaged the dominions’ credit worthiness. Newfoundland was reduced to the status of a crown colony in 1934, governed by a commission. Its people voted for confederation with Canada in 1949.

The governments between 1922 and 1932 operated as far as possible within balanced budgets as the following tables demonstrate:

**Receipts into and payments from the Exchequer, 1922-32**

*Financial Year Receipts Payments*

*£m £m*

1922/23 27.86 29.60

1923/24 31.41 38.64

1924/25 26.95 27.48

1925/26 25.44 26.22

1926/27 25.06 27.02

1927/28 24.12 26.08

1928/29 24.22 25.39

1929/30 24.17 25.05

1930/31 24.37 25.27

1931/32 25.50 26.14

Total  259.10 276.89

**Source and use of government funds, 1922-32**

£m £m

Source of funds: Receipts 259

National loans (net) 22

Savings certificates 7

Temporary advances 2 290

Use of funds: Payments 277

Capital exp./repayments 11

Balance in exchequer 2 290

Notes:

1) Receipts in 1922-24 were high due to arrears of tax collected.

2) Payments in 1922-24 were high due to the civil war.

3) Funds for land purchase and damage compensation were raised by issuing bonds and are not included in the above tables.

4) The principal capital expenditures were the Shannon electricity scheme and telephones.

Source: *Finance Accounts, 1922-32.*

The government, which was accused of being parsimonious, lived within its means disappointing politicians and the public which expected independence to bring prosperity. There were few creative revenue generating ideas such as Dublin’s potential as a financial services centre raised by financier Sir James Dunn in a letter to Governor-general Tim Healy in 1924.[[20]](#endnote-20)

The economic situation worsened after the Wall Street crash in 1929 and fiscal policies began to be challenged as politicians looked for quick solutions to a complex problem. A more just financial settlement of the land annuities needed to be negotiated as the Irish Free State was stronger than it had been in 1923 and 1926. But the government stuck with its policy of avoidance of disputes with Britain where there was a growing movement for protection which could seriously damage Irish exports. McElligott reviewed the financial situation in 1931 at a time of severe worldwide depression. Trade and industry were stagnant, the harvest had been poor, import duties were falling, current expenditure was rising, capital expenditure was minimal and there were no windfall taxes. The national teachers’ pension fund needed an injection of £5 million and £500,000 of the first Dáil loan was due for repayment. Emigrants’ remittances and returns on foreign investments were declining. McElligott speculated that if public sector costs could be cut, the private sector might follow thereby causing deflation. He did not wish to raise tax or borrow at a time of depression so he proposed no new expenditure and reductions in police, teachers and army pay, old age pensions, national health insurance, unemployment benefits and grants-in-aid. Local authorities’ standard of service would be examined to seek economies. Small amounts of extra tax could be raised.[[21]](#endnote-21) The government introduced a supplementary budget in late 1931 to address the worsening financial position rather than borrow money. Petrol was increased by four pence a gallon and income tax by six pence in the pound. Garda and teachers’ salaries were reduced. It was against that background that Cumann na nGaedheal went into the general election in early 1932.

*The national loans*

The city of London considered the Irish Free State to be a bad risk during the civil war while investors wanted to be sure that loans would be repaid on par with sterling fearing that the Irish pound might be devalued. While American banks offered finance, Brennan preferred to borrow at home but was against borrowing to cover budget deficits. McElligott saw a national loan as both a means of raising money and getting the public financially interested in the state. He argued that long-term borrowing for capital projects would be acceptable.[[22]](#endnote-22)

The 1923 funding requirement of £25 million was very high, the equivalent of one year’s government expenditure. This led to fears of inflation. The option of issuing more banknotes was rejected by Finance as bad practice which was borne out by the experience of Germany where banknotes were issued to fund expenditure leading to hyper-inflation. Cosgrave was reluctant to seek British backing for a national loan for fear it could lose him the 1923 election so he postponed the loan and Finance managed to raise sufficient cash by short term bank loans, deferring compensation claims and payments to creditors, securing control of government funds in Ireland and abroad, ending building schemes, stopping the recruitment of civil servants, making economies in the army and police and collecting tax arrears.[[23]](#endnote-23) The government remained concerned about its international credit rating. Yet after the civil war, the credit of the Irish Free State stood next to Britain and Canada on Wall Street as it was one of the few creditor nations in Europe, it balanced its budgets, and in 1926 had external income from foreign investments of £11 million plus emigrants’ remittances of US$3 million from America alone and £3 million in British military, police and judicial pensions.[[24]](#endnote-24)

After the election of the fourth Dáil in 1923, a national loan of £10 million redeemable stock at 5 per cent interest was issued at a discount of 95. The loan was floated in Dublin rather than London where it would have had to conform to the Colonial Loan Stock Act. The banks were not helpful but the stock was oversubscribed by £200,000 proving that the Irish public was more confident than the bankers. When dealing in the stock opened it rose four points to 99. This was a ‘valuable moral victory’ and a major vote of confidence in the government and Finance.[[25]](#endnote-25) Thereafter government fiscal policies were dictated by the senior civil servants in Finance as Blythe had less interest in the details of state finance than his predecessors Collins and Cosgrave. Two further national loans were raised for £7 million in 1928 and £6 million in 1931.

*The financial settlements*

Under article 5 of the treaty the Irish Free State was required to pay a ‘fair and equitable’ share of the UK public debt and war pensions. The Irish sought compensation for past over-taxation, drained capital, destroyed industries and banished millions of emigrants estimated at £700 million in 1920.[[26]](#endnote-26) This figure was based on the Childers commission on Irish over-taxation (1895) but when the Primrose commission reported seventeen years later the situation had changed radically as British expenditure in Ireland was by then considerably higher as a result of the Old Age Pensions Act 1908 and the National Insurance Act 1911. The British, although anxious to settle, did not press the Irish during the civil war but the Conservative governments under Bonar Law and Baldwin were less sympathetic than Lloyd George had been.

An interim arrangement, the ‘Hills/Cosgrave pact’, was reached in February 1923 whereby the Irish Free State would pay the land annuities (about £3 million per annum) to the British who waived some claims, agreed to fund the remaining land payments before the 1923 Land Act and guaranteed future land loan stock. Cosgrave had a very poor bargaining position as he desperately needed to finance land purchase to end agrarian agitation. The deal was done in secret at the request of the Irish and was never ratified by the Dáil. The British guarantee was not taken up as the ending of the civil war obviated its need. Liability for compensation arising from the war of independence was agreed and a commission chaired first by Lord Shaw and subsequently by Sir Alexander Wood-Renton was set up to adjudicate on claims made by both sides.[[27]](#endnote-27) It heard 37,000 claims of which 17,000 were found to be outside its terms of reference. White Cross and British government advances and insurance were deducted from claims. Compensation before and after the truce under the Damage to Property Compensation Act 1923 and Indemnity Act 1924 (which covered billeting of troops) amounted to £12.5 million. Personal injuries claims, which are difficult to quantify with any degree of accuracy may have amounted to a further £11 million.

The ‘ultimate financial settlement’, relating to the dissolution of the fiscal unity of the United Kingdom, was made in 1926 following the boundary commission report. The Irish rejected the British claims but believed they had to make some settlement to maintain international financial credibility. Cosgrave may have had a better bargaining position than he realised as the British wanted a settlement and might have been willing to do a deal on the land annuities. The British waived their claim for war debts, pensions and interest amounting to £162 million provided the Irish Free State paid a total sum of £16 million by instalments over 65 years. This was communicated to the Dáil, was always paid, even by Fianna Fáil governments during the economic war, until it was waived by Harold Wilson’s Labour government in 1969. In return for the debt write-off the Irish agreed to pay over land annuities collected under the Land Acts 1891 to 1909 without deduction of tax. A double taxation agreement was subsequently finalised. The Irish also agreed to repay the local loans fund (£12 million) over 20 years and would recoup this money by collecting annuities from farmers who purchased land before 1891. Other items resolved or waived included war damage claims, railway compensation, properties, munitions purchases, the unemployment insurance fund deficit, and police and judicial pensions. The Irish waived any claims against the British consolidated fund assets and share of war repatriations.[[28]](#endnote-28)

*The land annuities*

The land annuities question remained to be resolved. The landlords had been bought out mainly with loan stock repayable over a long period of time. The scheme was administered by the Land Commission that collected annuities from the farmers, and the British Public Debt Commissioners which managed the sinking fund into which the annuities were paid and out of which disbursements of interest and capital were made. If insufficient funds were collected the British Exchequer was liable for the deficiency. Land purchasers agreed to repay the debt by annuities (usually 66 ½ or 68 ½ years) which would fund the repayment of the loan stock and interest. But many people argued that the debt should have been written off as the land had been expropriated from the Irish. The government considered the legal position and decided to continue remitting the annuities. There was confusion as the Government of Ireland Act 1920 cancelled Ireland’s liability for land annuities but it required payment of an imperial contribution of £10 million per annum. Under the treaty, the Irish Free State was not obliged to make the imperial contribution but the British expected it to pay over the annuities which they considered a legal debt. The annuities were not specifically referred to in the treaty, and there was disagreement regarding whether or not they were included in the British public debt under article 5. The British finance accounts indicated they were not, and annuity payments were also excluded from the Irish finance accounts.

Socialist republican and IRA member Peadar O’Donnell began to agitate against paying the annuities in 1926. In 1928 he joined forces with Senator Maurice Moore to launch the anti-tribute league and, encouraged by British communists in 1930, tried to separate small farmers from larger farmer interests and forge them into a revolutionary alliance with agricultural labourers and the urban working class in line with the thinking of Kresintern (the peasant international, a branch of the Comintern). He subsequently began to build a new organisation, Saor Éire (Free Ireland), on the foundations of IRA units and working farmer committees which would more aggressively oppose the annuities. However, Fianna Fáil, which by then had recruited the majority of the IRA, argued that farmers would still have to pay the annuities but the government should retain the money rather than remitting it to Britain.[[29]](#endnote-29) Legal proceedings were issued against defaulting annuitants and the Department of Local Government reduced local authority grants where annuities were not paid resulting in poorer roads and services. Minister for External Affairs Desmond FitzGerald stated that the annuities were a legal obligation and the nation’s honour was involved.[[30]](#endnote-30)

When de Valera refused to pay over the land annuities in 1932, the British Treasury reviewed the position. It conceded that Ireland had been ‘unfairly treated’ but the 1916 rising had been a ‘dig in the back’. In its view the treaty had been based on the premise that Northern Ireland would join the Irish Free State at which stage the British would have wiped out the financial debts provided there was ‘free recognition’ of the king. When that did not happen it decided to resolve the outstanding financial arrangements and look for a wider settlement later. In the late 1930s the British sought to pacify potential enemies and make friends as war with Germany was becoming increasingly likely and, as part of Neville Chamberlain’s appeasement policy, sought to end the economic war and resolve the annuities issue. De Valera also needed to end the economic war which had been disastrous for Irish farmers. The Treasury felt it was sensible to conclude a settlement even if it cost £4.6 million per annum (police pensions, land and local loan annuities, and other smaller payments). It attempted to quantify how much the Irish Free State could afford accepting that the full amount of £100 million due could not be collected as de Valera had by then reduced his capacity to pay by halving the land annuities owing from the farmers. The Treasury had concerns about how Northern Ireland farmers, who were still paying annuities, might react. It considered seeking a sum of £25 million but rejected it as the British would have to guarantee an Irish loan resulting in difficult legislation and extra cost, and finally settled on a sum of £10 million which it calculated the Irish could raise.[[31]](#endnote-31) The British decided not to make an offer but to agree if the Irish suggested that sum, which was eventually paid by the Irish Free State as part of the settlement ending the economic war in 1938. De Valera, who had promised never to remit the annuities, argued that the £10 million paid did not relate to them but represented half of the capital value of the other items in dispute.[[32]](#endnote-32)

*Currency*

Currency needed to be addressed as British banknotes issued after December 1922 were no longer legal tender and the banknotes of the six note issuing banks applied to Ireland as a whole. Finance was primarily concerned with balancing the budget and maintaining the Irish pound on par with sterling so a cautious approach was adopted with interventionist and expansionist policies avoided.[[33]](#endnote-33)

Collins appointed the Bank of Ireland as the government’s agent, giving it a monopoly of government banking similar to that held by it under the British. But the Irish joint stock banks were unprepared for the creation of the Irish Free State, were generally unhelpful, and after 1922 maintained comparable lending policies to British banks.[[34]](#endnote-34) They continued to operate as they had before independence and maintained their main reserves in sterling rather than Irish currency. The Bank of Ireland acted as a *de facto* central bank until the establishment of the Irish Currency Commission in 1927 while the Bank of England remained in effect the Irish banks’ lender of last resort. During the 1920s the Bank of England adopted a positive approach to the Irish Free State providing advice on international finance and other central banking related matters. Its governor Montagu Norman was particularly supportive.

The government set up a banking commission in 1926. The setting up of commissions was a favourite means of Cumann na nGaedheal governments to get advice or delay decisions. The commission considered currency and note issue; agricultural, industrial and commercial credit; banking regulation and legislation; public borrowing, money market and discount conditions but did not recommend a central bank. McElligott wrote a minority report which suggested that ‘after a period of, say, five years of smooth working of the proposed currency arrangements, further enquiry should be made into the question of setting up a central bank.’[[35]](#endnote-35) T.J. Barrington of the Department of Industry and Commerce questioned the advisability of maintaining the link with sterling as the interests of the two states were not compatible. Richard Mulcahy suggested decimal currency.[[36]](#endnote-36) The commission recommended that the Irish pound should be maintained on par with sterling. It adopted a cautious approach to currency reform and to have attempted more in 1926 could have caused public unrest and loss of confidence and might have had serious economic and political consequences.[[37]](#endnote-37) The banking commission recommended the establishment of a Currency Commission which would manage the Irish currency and regulate the commercial banks but would not fulfil all of the responsibilities of a central bank. In particular it would not be a lender of last resort to the Irish joint stock banks.

In his capacity as chairman of the Currency Commission Brennan oversaw the banks’ financial position particularly after the Wall Street crash in 1929. In a letter to the Munster and Leinster Bank dated 24 September 1931 he emphasised the importance of keeping the currency commission promptly informed of any abnormal developments in the relations between the banks and their customers and the undesirability of ‘undue creations of credit’ particularly for speculative purposes.[[38]](#endnote-38)

The banking commission was lenient with the banks which retained their cartel and left the problem of long-term funding for industry to the state which set up the trade loans guarantee scheme in 1924. It failed because the banks would not advance long-term capital. The state also part-funded the Industrial Trust Company, another mechanism for raising long-term finance for industry, but it went into liquidation. Benefiting from the experience of these failures, the third attempt to provide state funding for industry was successful when the Industrial Credit Company, a state-sponsored body, was established in 1933.

Irish coins and banknotes were visible symbols of sovereignty but not everybody wanted them. The Institute of Bankers’ journal stated that: ‘It may be doubted if any real demand for a distinctive coinage can be said to exist’.[[39]](#endnote-39) The Currency Commission oversaw the introduction of coins and notes. The Coinage Act was passed in 1926 and a competition was held for suitable designs judged by a committee of art chaired by W.B. Yeats who had won the Nobel Prize for literature in 1923. The result was a magnificent set of coins which won international approval and remained unaltered for 40 years. The new coins were issued in December 1928 with notes following in May 1929, at which stage banks in the Irish Free State lost their note issuing rights and their banknotes were gradually withdrawn and replaced with consolidated bank notes issued by the Currency Commission. These banknotes remained in use until they were replaced by notes issued by the newly formed Irish Central Bank in 1943. The Currency Act 1927 made Irish currency the legal tender of the Irish Free State and the Irish pound was fixed on par with sterling and freely convertible into British currency.

The position of the Bank of England *vis a* *vis* the Irish banks from the establishment of the Currency Commission in 1927 and the creation of the Irish Central Bank in 1943 is unclear. It is unlikely that the Bank of England would have rescued any Irish bank unable to meet its commitments during that period, and it would have been even more reluctant to do so after de Valera’s refusal to pay the land annuities and other debts from 1932 onwards.

Britain returned to the gold standard in 1925 against the advice of economist John Maynard Keynes who favoured a managed currency. The conversion rate decided on was too high; a lower one would have stimulated growth. Britain left the gold standard in 1931 and devalued the pound. The government kept the Irish pound on par with sterling. It did not withdraw its gold from London as that would have damaged the pound. It was difficult to do otherwise considering the level of trade with Britain and the Currency Commission expressed satisfaction that ‘the Saorstát pound was as secure as could be reasonably expected’.[[40]](#endnote-40) Fianna Fáil Deputy Sean MacEntee supported the government’s decision. During the currency crisis Brennan consulted the Bank for International Settlements about the establishment of an Irish central bank. In the Irish bank standing committee’s view the direct effect of the suspension of the gold standard on the Irish Free State was almost negligible and there was little evidence of inflationary tendencies. [[41]](#endnote-41)

*The legacy of the 1920s*

Before his death, Collins ensured that Finance would have a key role in the future government of the state. This was reinforced by the Ministers and Secretaries Act 1924 and by the willingness of ministers to allow Finance officials make the key financial and monetary decisions. Ministers did so because they had confidence in the civil servants who demonstrated that they could administer the state’s finances and minimise risk during a decade of political and economic instability at home and abroad.

Many pre-treaty Sinn Féin financial aspirations were not implemented, mainly for pragmatic reasons. A separate currency was not introduced due to the preponderance of trade with Britain, the risk of a flight of capital and because most of the government’s supporters and advisors favoured the status quo. Finance was heavily influenced by Treasury and Bank of England thinking while the banking commission recommended no change. A break with sterling would have given the government more flexibility in economic policy but, in retrospect, the decision to remain on par with sterling during the 1920s was probably a prudent one, and parity was not ended until 1979. The banks and stock exchange remained unreformed. The Dublin Castle civil servants were not replaced. Instead they were recruited *en masse* by the new state. Taxation was shifted from direct to indirect largely at the behest of the government’s business and farming supporters, while tariffs added further indirect taxes making the system more inequitable.

Finance consolidated the new state by managing the transition from British to Irish administration, established a professional civil service and ensured it did not become an institution of the ruling party. The government’s administrative and fiscal legacies included an established public service, a low-cost administration, good credit rating, minimal borrowings and significant external assets.

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