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The Irish Department of Finance 1922–58

The Irish Department of Finance 1922–58

Ronan Fanning

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Institute of Public Administration
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Published by
Institute of Public Administration
57/61 Lansdowne Road,
Dublin 4
Ireland

ISBN 0 902173 82 0

Printed in Ireland by
Cahill (1976) Ltd. East Wall Road Dublin

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To Dudley and Desmond
who set me on this path

Foreword

In 1970 Mr C. H. Murray, then Secretary of the Department of Finance, suggested to me that since the Department was approaching its 50th year in existence its history should be written. I thought this a good idea and gave my agreement. Mr Richie Ryan TD, during his term of office as Minister for Finance, approved the continuation of the work.

Dr Fanning's book reflects the objective approach of a trained historian in its skilled use of source documents and personal recollections and in its interpretation of facts and events. In preparing it he had full access to departmental papers and was given an entirely free hand in using the material available. He also interviewed many former Ministers and civil servants.

As a politician, it is probably inevitable that I should notice that the book has less of the political, as distinct from the financial and administrative, considerations that influenced Ministers and Governments. This is understandable in a history based on departmental sources. It is, I suppose, a reflection of the fact that politicians are not required to commit their thoughts to paper to the same degree as civil servants.

Apart from its interest to students of public finance this book should have a wider appeal in that it shows how a major Irish Department worked and developed over a period of almost half a century after independence. It thus adds to the growing body of knowledge on our machinery of government. It is inevitably one man's view. Others no doubt would see things differently. But this is part of the fascination of history; the research and the debate rarely, if ever, reach finality.

GEORGE COLLEY

Tánaiste and Minister for Finance

Preface

In October 1970, when I was first invited to write a history of the Department of Finance by Mr. C. H. Murray (then the Secretary of the Department), it was immediately apparent that the opportunity offered me was unique. No professional historian had previously been given access to the archives of an Irish government department. At that time, indeed, none of the official records accumulated since the foundation of the state had been released to historians and there was, and still is, no archival legislation regulating the preservation and release of such records.

Nor was it envisaged that this book should be an "official" history in any other than the sense that it had been commissioned by the Department; it was never contemplated that I, as author, should become attached to the Department in any formal sense, even on a temporary basis. My brief was to write the definitive history of the Department of Finance, paying particular attention to the Department's origins and early years and I was given no more detailed terms of reference. The structure of this book was thus a matter for my discretion and I did not even propose an outline until some time later when I had been able to complete considerable preliminary research.

The records of the Department of Finance have not been organised on any archival basis and no distinction is drawn between the Department's current files and the files which might be described as comprising the Department's historical records; both are lodged in the working registries of the Department. Under these circumstances and in order that my access to the Department's records should be in no way restricted, I agreed to sign the declaration required by the Official Secrets Act.

I did so only with some misgivings: there were no precedents as no comparable exercise had previously been attempted, and I feared it might be difficult to reconcile the expectations of the Department with the demands of historical scholarship. Such fears soon proved groundless. Mr Murray's comments and criticisms (offered in response to my first draft of successive chapters) never sought materially to change, let alone to censor, what I had written; not once, it should be recorded, did he suggest the deletion of any of the innumerable quotations drawn from the Department's records. This book, then,

remains very much as it was first written and its detail — down to the choice, for example, of 1958 as the terminal date* — was also a matter for my own judgement.

But the central role played by the Department of Finance in the Irish system of government has meant that little has happened since 1922 to which reference may not be found in some shape or form in the departmental files and the consequent embarrassment of riches has made this choice of detail peculiarly difficult. This difficulty was compounded, moreover, by the sheer volume of records and by the absence of proper archival arrangement; much interesting material has doubtless remained unearthed. These caveats aside, the choice was primarily dictated by my decision to concentrate upon those issues which examination of the files revealed had seemed to loom largest in the minds of the Department's leading officials at any given time. It became more and more difficult to apply this criterion as the Department grew older and as its responsibilities expanded, most notably in the postwar years, and I am conscious that another historian — still more, perhaps, an economist or a political scientist — might well have chosen differently.

One other point about format seems apposite. I decided from the beginning to quote frequently and extensively from the documents at my disposal, notwithstanding the realisation that certain readers might find the result somewhat indigestible. But, given the special circumstances under which I was writing and, in particular, that the documents in question are not generally accessible, I felt under an obligation to reproduce the widest possible range of primary source material in its original form for the benefit of other scholars, not only in history, but in economics, political science and other related disciplines.

It remains, finally, for me to thank all those who have helped me, beginning with the Tánaiste and Minister for Finance, Mr George Colley, who first approved of the project when it began in 1970 and again when he resumed office as Minister for Finance when it was nearing completion. My thanks are also due to Mr Richie Ryan who similarly granted his approval when he became Minister for Finance in 1973.

My greatest debt, however, as the earlier paragraphs of this preface may already have made plain, is to Mr C. H. Murray. This debt, indeed, I cannot adequately acknowledge: suffice it to say that I could

*See below, pp. 597–9

not have written the book I wanted to write, and have written, without the freedom he gave me. Moreover, although the text was almost complete when Mr Murray left the Department of Finance in 1976 to become Governor of the Central Bank, he agreed to play the same role as before in commenting upon what remained to be written and upon the final draft.

I am also deeply indebted to the present Secretary of the Department of Finance, Mr T. F. Ó Cofaigh, and to his immediate predecessor, Mr M. N. Ó Murchú, for generously suggesting that I should go on dealing directly with Mr Murray in the interests of continuity and for everything else they have done to bring the enterprise to fruition.

Dr T. K. Whitaker kindly consented to read the later chapters in draft and his painstaking notes and comments were most illuminating.

I am specially grateful to Mr R. J. Curran of the Department of Finance who has acted as my direct link or liaison with the Department and its officials, both past and present, throughout the seven years. He, too, read the complete text in successive drafts and made many useful suggestions. His was also the unenviable chore of coping with the multitude of practical problems I encountered and, in this respect above all, his help was invaluable; without him, a long road would have been much longer.

Certain academic colleagues have also aided me greatly: Patrick Lynch (who was associated with my undertaking this project from the start), Dudley Edwards and Desmond Williams all read the first draft; and Dr F. S. L. Lyons also read some of the early chapters. I am most grateful to all of them for their wise advice and warm encouragement.

Further acknowledgements of specific assistance appear in the reference notes at the end of this book and it seems invidious otherwise to distinguish here between the many others who have helped me. These include: Mr Frank Aiken; the late Mr A. W. Bayne; the late Mr Ernest Blythe; the late Dr Joseph Brennan; Dr L. M. Fitzgerald; Mr Sarsfield Hogan; Miss Kerry Holland; Mr Paul Keating; Miss Sheila Lawlor; Dr John Leydon; Mr Seán MacBride; Dr John McColgan; the late Dr J. J. McElligott; Mr Seán MacEntee; Mr Patrick McGilligan; Mr Brendán Mac Giolla Choille; Miss Deirdre McMahon; the late Mr O. J. McWilliams; Mr D. J. Maher; Mr Maurice Manning; Mr J. J. Manweiler; Mr John G. Molloy and his colleagues at the Irish Embassy in Washington D.C.; Dr Maurice

Moynihan; Mr Thomas Murray; Dr Leon Ó Broin; Mr Séamus Ó Conaill; Mr P. S. Ó Muireadaigh; Professor Kevin B. Nowlan; Dr N. S. Ó Nualláin; Mr O. J. Redmond; Professor Ted Wilson.

Lastly, I want to thank my publishers. Jim O'Donnell, Jonathan Williams and Tony Farmar have all been closely involved in various phases of the preparation of the final text and their enthusiasm and support have meant much to me.

Ronan Fanning
February 1978

Prologue

Not the least of the problems confronting the historian of the Irish Department of Finance is to decide how much of his space to devote to the larger canvas of modern Irish historical development which provides the backdrop against which his work must be viewed. Two factors compound this difficulty. First, that 1919–22, the years of the Department's origins, are singularly turbulent and controversial years in Irish history; second, that the primary sources upon which the definitive history of Ireland since independence must be based have not yet become accessible — indeed the first draft of this book was nearing completion before *any* Irish government archives were opened to historians.* But, although the significance of certain findings, now documented for the first time as a result of research done for this book, may extend far beyond the limits of the Department of Finance and may thus contribute to the reinterpretation of modern Irish history, nothing in the nature of a general outline of that history is attempted.

Irish readers, obviously, are much more likely to read a work such as this than readers of other nationalities and some familiarity with the historical background has therefore been assumed. But other readers may view this book from a different perspective. They may have little interest in, or knowledge of, Irish history, but may rather be concerned with, say, the comparative history of government administration or the conduct of financial administration in the states of western Europe or in the states which have achieved independence in the twentieth century. What follows is an attempt to provide such readers with a brief historical introduction by way of prologue.

The Ireland of 1919 was still an integral part of the United Kingdom of Great Britain and Ireland which had been established by the Act of Union of 1800. This Act had abolished the separate Irish parliament and provided that Ireland's elected representatives should henceforth sit in the United Kingdom parliament in London. Irish political divisions had since centered upon this British connection which, in general, the nationalist, Catholic, majority sought to loosen and the unionist, Protestant, minority to preserve intact.

Irish nationalists fell into two separate, if not always distinct, groupings. Constitutional nationalists advocated parliamentary and

* See below, p. 597.

nonviolent methods in pursuit of independence which, towards the end of the century, took the form of a demand for Irish home rule — a demand, that is, for the re-establishment of an independent Irish parliament with responsibility for all Irish domestic affairs. Revolutionary nationalists, on the other hand, were committed to using armed force to realise their separatist ideal of an Irish republic completely independent of Britain, although they were unable to mount a serious challenge to the home rule party's command of the allegiance of the great majority of Irish nationalists between 1880 and 1914.

Irish unionists provided the real opposition to the home rule party in Ireland during these years. The Protestant minority were in a majority in the six north-eastern counties of Ireland and their Ulster Unionist party swiftly became as predominant within that geographical area as the home rule party were in the rest of Ireland. The violence and intransigence of Unionist opposition to home rule came to a head in 1912–14 when the third home rule bill was before parliament and when Ulster Unionists proclaimed that they would resist home rule with every means at their disposal, even if it meant civil war.

But World War I changed everything. A compromise decision to postpone home rule until the end of the war weakened the constitutional nationalists. At Easter 1916, moreover, the revolutionary nationalists, in keeping with their traditional slogan that "England's difficulty is Ireland's opportunity", launched a rebellion and proclaimed an Irish Republic. Although the rebellion was not popular in Ireland and was easily suppressed by superior British military force, when the British executed fifteen of the rebel leaders public opinion became more sympathetic to the revolutionary cause. The threat that conscription would be applied to Ireland and the vacillations between coercion and conciliation of a British government preoccupied by the war in Europe contributed to this process. In the next election, in 1918, the heirs of the 1916 rebels (the Sinn Féin party) displaced the home rule party as the elected representatives of nationalist Ireland.

Sinn Féin refused to attend the United Kingdom parliament in London but instead renewed their unilateral declaration of an independent Irish Republic and established their own parliament in Dublin — the Dáil. The British refused to recognise the Dáil and this led to the Anglo-Irish guerilla war of 1919–21.

Britain's post-World War Irish policy was founded on two propositions: that an Irish settlement must safeguard Ulster Unionist

interests and that no part of Ireland could be permitted to establish a republic independent of the British Empire. The result was the Government of Ireland Act 1920 which provided for two separate home rule parliaments, one for the six north-eastern counties and one for the rest of Ireland, and for continued Irish representation in the United Kingdom parliament.

Sinn Féin and the Dáil rejected the 1920 act but were unable to prevent its implementation in the north. Ireland was, and has remained, effectively partitioned since the opening of the Northern Ireland parliament in June 1921.

A truce, in July 1921, ended the Anglo-Irish war and the ensuing negotiations led to the Anglo-Irish Treaty of 6 December 1921. Although Northern Ireland opted out of the Treaty settlement, it conferred upon the rest of Ireland the status of a self-governing dominion within the British Empire.

But the Treaty split the revolutionary nationalists asunder. A large minority bitterly opposed it and held out for a republic, notwithstanding the popular endorsement of the pro-Treaty side in an election in June 1922. The civil war of 1922–23 followed. The supporters of the Treaty prevailed, having formed the first government of the new dominion, the Irish Free State, which came into existence in December 1922.

The defeated republicans at first refused to participate in the institutions of the Irish Free State. In 1927, however, a new republican party, Fianna Fáil, which had been founded the previous year, entered the Dáil as the principal opposition party.

Fianna Fáil became the government party when they won the 1932 election and they remained in office until 1948. The early nineteen-thirties witnessed an Anglo-Irish tariff war and a general deterioration in relations with the United Kingdom as the Fianna Fáil government began enacting legislation to expunge certain features of the Treaty (such as the oath of allegiance to the British Crown) which republicans found especially repugnant; in 1937 they enacted a new constitution which renamed the state "Ireland" (or "Éire") and which was republican in all but name. The 1937 constitution completed the process of a unilateral Irish redefinition of the constitutional relationship with the United Kingdom and the Fianna Fáil government was now ready to enter into negotiations with Britain.

These negotiations gave rise to the Anglo-Irish agreements of 1938 which ended the tariff war and returned certain ports (retained by the

British under the Treaty) to Irish control. The return of the ports assumed a new significance at the outbreak of World War II, since the Irish government's policy of neutrality could not have been sustained had there been a continued British military presence on Irish soil. In the event Irish neutrality, which was supported by all parties in the Dáil, was not violated.

But, if neutrality enabled Ireland to escape the horrors of war, the economic deprivation which war brought in its train could not be avoided. Irish isolation was prolonged, moreover, by her strained relations with the victorious Allies which resulted from her strict adherence to neutrality. The consequent economic difficulties are thought to have contributed to Fianna Fáil's defeat in the 1948 election.

The new inter-party government, headed by Fine Gael (the successors of the old pro-Treaty party), completed the process of Irish disengagement from the British Commonwealth when they repealed the External Relations Act in 1948 and declared the Republic of Ireland in 1949.

The Republic of Ireland Act marked the opening of a new phase in Irish party politics. Anglo-Irish relations, the nature of the continuing British connection which had given party political divisions much of their meaning ever since the Treaty split, were subsequently less relevant.

The next decade was a time of flux: four changes of government between 1948 and 1957 — two terms of coalition government (1948–51 and 1954–57) broke Fianna Fáil's hold on office — in comparison with only one change of government during the previous twenty-five years well illustrated the changing nature of Irish politics. Social and economic issues loomed larger in the electoral consciousness than ever before and it is in these years, perhaps, that we may trace the first faint outline of the evolution of contemporary Ireland.

List of Abbreviations

DE	Dáil Éireann
DNB	Dictionary of National Biography
MFD	Minutes of Proceedings of the First Dáil
NL	National Library of Ireland
PDDE	Parliamentary Debates: Dáil Éireann
PDSE	Parliamentary Debates: Seanad Éireann
PRO	Public Record Office (London)
SPO	State Paper Office (Dublin)
T/D	Taoiseach's Department

CHAPTER ONE

The Historical Background 1919–22

There was no "department of finance", no "minister for finance", in Ireland under the Act of Union and it is only with the founding of Dáil Éireann in January 1919 that these titles make their first appearance. But while the constitutional *theory* of the revolutionary nationalists who founded the Dáil and who won independence in 1921–22 conceived of the Department of Finance as emerging fully grown from the soil of the revolution and as the only begetter of the Department of Finance as it has existed since 1922, in *practice* the Department's origins were much more complex. For the post-1922 Department, as we shall again and again have occasion to remark in the pages which follow, was closely and consciously modelled upon the British system of financial administration in Ireland in the nineteenth and early twentieth centuries. We must, therefore, look briefly at that system before turning to an account of the Department of Finance of the First and Second Dáil.

I: The Treasury Remembrancer and Treasury (Ireland)

Few aspects of modern Irish history are as labyrinthine as the history of Irish administration under the Act of Union. This complexity stemmed from a fundamental anomaly in the Act which abolished the separate Irish parliament of the eighteenth century and provided that henceforth Irish elected representatives would sit with their British counterparts in the Westminster parliament of what was to be the United Kingdom of Great Britain and Ireland. However, this union of legislatures was not mirrored by a union of executives and this was why Ireland under the Union, according to one anonymous British official serving there early in the twentieth century, was

> . . . the most queerly governed country, the most expensively governed country and the most inconsistently governed country in the world . . . . Before the Union, Ireland was like a colony. She had a parliament and a governor. The Union took away the parliament, but left the governorship — left the Vice-royalty and [Dublin] Castle. That is the inconsistency. If they wanted the Union consistent, they ought to have swept away the Castle as well as the parliament, and put Irish affairs in the hands of a Secretary of State in London. That was not done. The Castle was kept. You have now two executives: an executive in Dublin, and an executive in London.[1]

Although the Irish executive was theoretically subordinate to the British cabinet, in practice it enjoyed wide discretionary powers and considerable independence. The degree of this independence varied with the changing personnel of the two bodies and was ordinarily in inverse ratio to the time and energy which the cabinet (and the Prime Minister in particular) was prepared to expend upon Irish affairs. Nothing better testifies to the reality of this independence, however, than that the Irish executive commonly enjoyed the title of the "Irish government".

The Irish government was headed by a triumvirate: the Lord Lieutenant (the sovereign's personal representative and as such its titular head); the Chief Secretary (the minister with parliamentary responsibility for Irish affairs and the real source of power and patronage in Dublin Castle, especially when, as happened increasingly in the later nineteenth century, he, rather than the Lord Lieutenant, exercised the authority commensurate with a seat in the cabinet); and the Under Secretary (the most senior civil servant in Dublin Castle).

The Irish executive's independence was enhanced by the complex system of "departments", "boards" and "offices", numbering nearly fifty in all at the end of the century, through which the business of civil government in Ireland was conducted. These were divided into two broad categories: the "departments of the Irish government" (or "Irish departments") and the branches of United Kingdom departments functioning in Ireland, although the former group could be subdivided according to the degree of control which the Irish government exercised over them.[2]

The departments over which the Irish government exercised direct control had proliferated throughout the nineteenth century because of the revolutionary expansion of government activity characteristic of

the United Kingdom as a whole. Hence the expanding functions of the Home Office in Britain led to a corresponding increase in the immediate responsibilities of the Irish government which centred upon this "law and order" function; the departments, other bodies and personnel which came under its direct control included the Royal Irish Constabulary and the Dublin Metropolitan Police, the Prisons Board, the Reformatory and Industrial School Office and resident magistrates.

The intermediate categories included the so-called independent departments which owed their existence to the increasing preoccupation with Irish affairs of British legislators in the last thirty years of the nineteenth century under the great reforming ministries of Gladstone and the consequent Unionist programme of social and economic reforms aimed at "killing Home Rule with kindness". Thus the Land Commission (founded in 1881) was only under the partial control of the Irish government, and the Local Government Board (1872) and the Department of Agriculture and Technical Instruction (1899) were not under its control despite having the Chief Secretary as their *ex officio* president; neither were the Congested Districts Board (1891) and the various Boards of Education under its control, except in regard to appointments and, sometimes, their rules of business.

There were other Irish boards and departments, moreover, such as the universities and the judiciary over which the Irish government exercised not even this minimal control. The Treasury Remembrancer's Office fell into this category.

The final category, at the furthest remove from the Irish government's control, consisted of those United Kingdom departments, the volume of whose Irish business was sufficiently great to warrant their setting up a branch or sub-office in Ireland to coordinate their activities there. There were obvious reasons of administrative convenience why, to take but a few such instances, the Commissioners of Inland Revenue, the Stationery Office and the Civil Service Commission should set up Irish branches which could in no sense be described as independent Irish departments since they conducted their business under the authority of their parent department in Britain and without any reference to the Irish executive. "While it cannot be contended that the Lord Lieutenant should exercise direct authority in the departmental administration of Admiralty, War Office, Post Office, Customs and Inland Revenue",

complained the then Under Secretary, Sir David Harrel, in 1896 in the course of a memorandum proposing the expansion and rationalisation of the Irish government's functions, "at the same time where questions of policy involving Irish interests arise, it would appear to be . . . absolutely necessary that the Irish government should be semi-officially informed and consulted."[3]

Even this brief outline of the Irish administration under the Union reveals something of its extraordinary unwieldiness and complexity which gave birth to the aphorism that Ireland had "as many boards as would make her coffin". No part of the whole was more cumbersome than the financial administration of Ireland. The old Irish Treasury of the eighteenth century, the Act of Union notwithstanding, was not abolished until 1817. Until then, although "the United Parliament imposed taxes on both England and Ireland, . . . the Irish Treasury collected the Irish Revenue, defrayed the local expenditure of Ireland as sanctioned by the United Parliament and remitted the surplus in aid of the [Napoleonic] war expenditure."[4] Thereafter both British and Irish revenue was paid alike into the imperial exchequer and Irish expenditure was controlled by the Treasury in Whitehall, subject only to the Westminster parliament's imposition and repeal of Irish taxation.

The middle of the nineteenth century, in Ireland as in the remainder of the United Kingdom, had witnessed the growing predominance of the Treasury over all other public departments of government and the gradual expansion of Treasury control.[5] These developments eventually led to the creation, by a treasury minute of December 1870, of the office of Treasury Remembrancer in Ireland. The new appointment, according to an official Treasury account of the office,[6]

> . . . was intended to supply the want which the Treasury had for some time been increasingly experiencing of an officer resident in Dublin to whom they might look for the supply of local information and confidential advice on Irish matters. For the sake of economy the officer was attached to the branch office of the Paymaster-General's Department in Dublin and performed the duties of Deputy Paymaster as well as those of Financial and Consultative Officer to the Board of the Treasury. In matters connected with the Pay Office he was subordinated to the Paymaster-General. In other matters he received instructions from the Treasury Board, to whom he was directly responsible. In 1880 the Treasury Remembrancer was forbidden to report to any department other than the Treasury. The nomination of the Treasury Remembrancer rested with the first Lord of the Treasury.

This, then, was the theory, and we are fortunate in that Maurice Headlam (the last man who held the office in this form — between 1 April 1912 and 1 May 1920) has left us his account of the practice.

> [It] . . . consists, first in agreeing the estimates of the other Departments of State for presentation to parliament, and then in sanctioning (or refusing) variations from those estimates to meet the necessities of the Departments which have cropped up since the estimates were prepared, or which have been imposed upon the Departments by fresh legislation. As the estimates for the financial year beginning the 1st of April have to be settled finally soon after the previous Christmas, and presented to parliament in February at the latest; and as those estimates cover the year to the succeeding March, the demands to be dealt with are practically continuous, as new conditions arise. In dealing with the Departments in London it is easy for the Treasury to discuss with the Departmental officials, by visits, conferences, and the telephone: it is a matter of going across the street or down Whitehall to see one's Departmental colleagues, or getting them to come to the Treasury to explain or justify any points in their estimates. The Office of Treasury Remembrancer in Dublin was established, among other reasons, in order to get this system of personal explanation between the Irish Departments (which were in exactly the same relation as the English Departments to the Treasury in the matter of their estimates and proposals for expenditure), and to have on the spot a representative of the Treasury who is thus able to advise Whitehall. The Treasury Remembrancer was not able to give a decision, unless specially authorised; and the procedure was that when the Irish Department sent his proposals to Whitehall the paper was returned to Dublin marked 'refer to the Treasury Remembrancer'. He undertook the necessary enquiries, and returned the paper to the Treasury with his report and advice; and the Treasury then gave its decision.[7]

But others viewed the Treasury's role (and that of the Treasury Remembrancer in particular) less dispassionately. One such was George Chester Duggan, the superintending clerk in the Chief Secretary's Office Finance Division in 1919–21, working to the assistant under secretary, Sir John Taylor. Taylor, wrote Duggan,

> . . . was hand in glove with the die-hard representative of the Treasury in Ireland, Maurice Headlam, the Treasury Remembrancer, who moved only in the best circles of the Kildare Street Club where he found landed gentry who could provide him with facilities for fly-fishing on his week-ends. I foolishly thought that when Departments put forward proposals for new financial expenditure, it was part of my duty to examine

them on their merits, discuss them with the promoting Department and advise the Treasury of the views of the Chief Secretary. I was soon disillusioned. The document was merely to be copied and sent on with a covering letter 'for consideration', or (even occasionally) for 'favourable consideration' and nothing more, and that was what I was paid for doing. The Treasury next returned this letter to the Treasury Remembrancer at the Castle attaching any relevant files and the latter then settled directly with Taylor what was to be the fate of the proposal; as both were cheese-parers and both were opposed to the policy of killing Home Rule by financial bribes there was little that got through the net.

Catholics were suspect to Taylor, a committed Unionist and a Protestant who bitterly resented his subordinacy to the Under Secretary, James MacMahon (a Catholic, "a friend of some members of the Hierarchy" and "almost a figurehead"); he saw MacMahon as "a person to be disregarded where questions of policy arose and policy affected not only the criminal law but matters of finance." So strongly did he feel on this subject that he objected to Duggan's arranging to share his room with his assistant, Joseph Brennan. Taylor suspected Brennan — who once complained about the behaviour of General Tudor (the head of the Auxiliaries during the Anglo-Irish war) and who, on another occasion, sent a telegram through official channels to the Irish Office in London strongly criticising the conduct of soldiers of the Essex regiment in Bandon (Brennan's home town) — of Sinn Féin sympathies. Dislike was mutual and Brennan subsequently described Taylor as "a loathsome character, bigoted and anti-Irish."[8]

Duggan's account helps to explain why it was that nowhere in the public service of the United Kingdom did the Treasury have a more baleful reputation than in the Irish departments. "The permanent officials of the Treasury have always hated the name of Ireland", claimed Sir Henry Robinson, vice-president of the Local Government Board and doyen of Irish civil servants after the turn of the century. "They seem to have considered that the Irish chief secretaries went to too great lengths to propitiate the Irish members [of parliament] and did not hesitate to commit the Treasury in favour of unnecessary expenditure to make things easier for themselves in the House of Commons. It was because of this that the young watch-puppies of the Treasury would start up like the fretful porcupine when schemes from Irish Departments came before them."

Not even the most open-handed and enlightened of Chief Sec-

retaries, Robinson points out, presiding over the sprawling and heterogeneous collection of boards and offices of the Irish government departments and of the United Kingdom departments functioning in Ireland, had any chance of defeating this system. He had to reserve his energies for the occasional head-on confrontation on a carefully selected major issue and to accept the Treasury viewpoint on the host of day-to-day issues which might arise. It is no coincidence that the one Chief Secretary whom Robinson exempts from this category was A. J. Balfour — who had the advantage of being the nephew and confidante of the then Prime Minister, Lord Salisbury — and who, as such, had exceptional influence in Whitehall.[9]

But the Treasury (Ireland) of 1914 was not the Treasury (Ireland) of 1922, and the system of financial administration inherited by the provisional government was in several important respects different from that which had prevailed in Ireland for almost half a century before the outbreak of World War I. While it is a commonplace for students of the Irish civil service to point out the obvious and heavy debt which that service owes to the British system from which it sprang, it is not so commonly appreciated that the years immediately preceding the provisional government's takeover had witnessed extensive changes in the British civil service — changes which affected the British Treasury in particular. The pressures of war had ruthlessly exposed the weaknesses of the British civil service: the lack of coordination and extravagant overlapping of functions between government departments and the uncertainty about the source of financial control; it had revealed, above all, the need for a more homogeneous, centralised and efficient civil service. Shortly after the war ended, special committees reported on the machinery of government, on the organisation and staffing of government offices, and on the application of the Whitley Report to the administrative departments of the civil service.[10] The publication of these reports culminated in the complete reorganisation of the Treasury from September 1919 onwards.

Under the new scheme the Treasury was divided into three separate departments — Finance, Establishments and Supply — each of which was headed by a controller with an equivalent status to that of the permanent secretaries of other government departments. The permanent secretary of the Treasury, it was announced, was to "act as Permanent Head of the Civil Service and advise the First Lord in regard to Civil Service appointments and decorations."[11] The

Treasury's authority was further increased in March 1920 when a Treasury circular announced that the Prime Minister's consent was necessary before permanent heads of departments, their deputies, principal finance officers and principal establishment officers could be appointed or moved and, again in July, when the Treasury was empowered to make regulations for the control of civil establishments over which it was placed.

"The importance of this", as a recent historian of the Treasury has observed, "can hardly be exaggerated. At no time in the past had the relationship of Treasury control with the machinery of government been so logically formulated or so clearly enunciated. . . . By underlining the special relationship with the Premier and consolidating the Treasury's authority over the Civil Service, they amounted to a substantially novel departure."[12] It was a departure which was to be of profound importance for the Irish, as well as for the British, civil service.

Those civil servants who transferred whether permanently or temporarily, from the Treasury and other British departments[13] to the new Department of Finance under the provisional government in 1922 and who were responsible for the initial organisation of the new department, could not but have been acutely aware of the recent, sweeping changes in the Treasury and throughout the British service. They did not necessarily conceive of themselves, therefore, as applying an old system to their new, Irish circumstances; rather were they working a new, almost radically modern, system. Today, fifty years on, there is a temptation to see the Department of Finance — in its structure (the divisions of Finance, Establishment and Supply endured until after World War II), in its hierarchy of secretary, assistant secretaries, principals and assistant principals, and in such matters as the critical role ascribed to establishment officers and accounting officers — as an old and outmoded British inheritance. The inheritance was inescapable, but it was new, not old, modern, not outmoded, in the eyes of the men to whom it was bequeathed. All these things became a quintessential part of the Treasury system *only* as a result of the great reforms of 1919–20.[14] That the Irishmen who were to administer this system in the nineteen twenties and thirties did not think of it as old, gave the initial structure and organisation of the Department of Finance a durability it otherwise might not have possessed.

In the short term, the implications of the reorganisation of the

British civil service for what was to be the new Irish civil service were clearly spelt out by A. P. Waterfield — then the head of the Treasury office in Dublin Castle. The provisional government, wrote Waterfield,

> . . . are no doubt aware that for the last 18 months the Treasury have been engaged in reorganising the whole of the Civil Service in England and Scotland as well as in Ireland, the clerical and executive staffs being regraded in accordance with the recommendations of the Report of the National Whitley Council dated 17 February 1920, and the technical or professional and subordinate staffs in accordance with various schemes prepared after special consideration in each case. The policy is one which has been deliberately adopted by the British Government as a necessary measure of reform for the Civil Service as a whole, and nothing has been done in Ireland otherwise than in accordance with that policy; in other words, subject to the following general observations, every single question of reorganisation which arose in Ireland was considered and decided by the Treasury on exactly the same principles as are being applied simultaneously in London and as would have been applied in Irish Departments if the British Treasury had been liable to provide for the cost of new schemes indefinitely. The Treasury can give the Provisional Government an emphatic assurance on this point.
>
> The general observations referred to above are that the Treasury regarded it as part of their duty to hand over the Irish Civil Service in a good working order, with their staffs thoroughly overhauled and placed on a proper footing as regards pay, grading, number and conditions of tenure and service. This process of overhaul comprised two parts:— first the working out of an ideal scheme of reorganisation, and secondly the application of this scheme to the individual employees. The former process might be regarded as purely theoretical, and would not necessarily commit the new Government to any obligation. As regards the latter process, the Treasury have pledged themselves to the staff associations concerned to put the schemes into operation, so far as concerns not only all existing employees, but also all applicants for employment in Government service to whom the British Government were under a moral obligation to provide for such employment (so far as there was work to be done) — in such a way that, before the Appointed Day, all such persons might be placed in a not less favourable position than they might have expected to receive in the ordinary course of promotion or appointment, but for the transfer of services on the Appointed Day.[15]

Yet if the application of these general, British reforms was of undoubted importance in Ireland, there were other, specifically Irish

and coincidental changes in the administration centred upon Dublin Castle which preceded the transfer of power to the provisional government. These reforms had their origins, not in World War I, but in the Irish war of independence and were of particular relevance for the financial administration of Ireland. In the spring of 1920, when Lloyd George's government, having been preoccupied for so long with World War I and, in 1919, with the peace conferences, at last turned its attention to Ireland, it found the Irish executive at Dublin Castle sadly defective. The government's attempts to remedy this state of affairs led to sweeping changes in the Irish administration.

In the first week of May 1920 a team of British civil servants led by no less a person than Sir Warren Fisher, the young and talented new permanent secretary to the Treasury and, as such, the new head of the British civil service,[16] carried out a special investigation. The report of Fisher and his subordinates, Cope and Harwood, was nothing less than a scarifying indictment of a Castle administration which, in Fisher's words,

> . . . does not administer. On the mechanical side it can never have been good and is now quite obsolete; in the infinitely more important sphere a) of informing and advising the Irish Government in relation to policy and b) of practical capacity in the application of policy it simply has no existence. . . . The prevailing conception of the post of Under Secretary — who *should* be the principal permanent adviser of the Irish Government in civil affairs — appears to be that he is a routine clerk. . . . The Chief Secretary, for his part appears to be under the illusion that a Civil Servant — even though he has the position and emoluments of permanent head of the Irish administration — is entirely unconcerned with the exploration or settlement of problems which the Irish administration exists to solve.[17]

The root of the matter, the report declared, was that the chief secretary's office "under its present management has lost its grip on the civil government of the country . . . both on its advisory and executive sides it fails to fulfil its function as the chief governmental organ of the country." The report argued that such a lamentable state of affairs arose from "a general confusion as to the quarter in which the chief executive authority at present resides" between the civil authority on the one hand and the military authority on the other; it accordingly recommended "a drastic reorganisation of the Administrative Division of the Chief Secretary's Office" and "the introduction of new and additional personnel . . . by seconding a

small number of suitable officers from English Departments". Fisher himself, in a special supplementary and confidential report, was even more damning. The government of Ireland, he declared "strikes one as almost woodenly stupid and quite devoid of imagination. It listens solely to the ascendancy party . . . and it never seemed to think of the utility of keeping in close touch with opinions of all kinds."[18]

The recommended changes were immediately implemented. Before the month was out, a hand-picked team of British civil servants, headed by Sir John Anderson and Alfred Cope (both of whom were personally recommended by Fisher)[19], took over Dublin Castle. Although in theory Anderson was only joint Under Secretary (with James MacMahon), there was no doubt in anyone's mind that he was the "really able and powerful civil servant in control" that Sir Warren Fisher had advocated.[20] With the possible exception of Fisher himself, there had been no more meteoric rise within the ranks of the twentieth-century civil service than Anderson's. "Once in a blue moon", wrote Sir Henry Robinson, "the open competitive examination for the civil service brings to light a man of his exceptional type who no power on earth can prevent from sprinting like a flash to the top of the ladder."[21] Placed first in that examination in 1905, Anderson had become secretary to the National Insurance Commission by 1913; secretary to the newly established Ministry of Shipping by 1917 and, on 1 October 1919, had succeeded Fisher himself as chairman of the Board of Inland Revenue.[22]

The implications for the sphere of financial administration were striking. Both Taylor and Headlam went on leave and never returned to the Castle; Cope replaced Taylor and A. P. Waterfield, a principal assistant secretary at the Treasury, replaced Headlam, although his function "was to act as Anderson's chief financial scrutineer, not as a Whitehall sleuth."[23] Anderson was given new, unique Treasury responsibilities: a Treasury circular letter of 25 May 1920 proclaimed that he had been assigned "in his personal capacity functions in relation to expenditure in Ireland analogous in all respects to those exercised in London by the Secretary to the Treasury."[24] So great, indeed, were Anderson's almost pro-consular powers that they sometimes produced anomalous results: proposals involving expenditure which needed and obtained the Under-Secretary's (Anderson's) sanction would be sent up by the Chief Secretary's office (of which Anderson was head) to the Treasury's Irish representative, only there to be turned down on Anderson's authority.[25] Such occasional

incongruities notwithstanding, it is difficult to gainsay Duggan's opinion when he saw the new régime in operation at first hand: that Anderson's powers were such as "no Chief Secretary has ever wielded, or is ever again likely to wield." Duggan concluded that, on the financial side where he was working with Brennan and two other members of what he described as the "posse of civil servants from London offices" (Bernard Gilbert and B. W. Matthews) under Waterfield's supervision,

> . . . the power of the Treasury given to Sir John Anderson was not intended to be used in a niggardly spirit. The open hand of war-time expenditure, whose rare refreshing fruit had not yet been tasted in Ireland, was to be tried in a new direction. To prevent any misunderstanding a new branch of the Treasury was opened in Dublin. It sat where the Treasury Remembrancer had sat before, but its functions differed. Previously the office was merely an outpost of the Treasury *propugnaculum imperii,* whose main function was to keep its parent office posted in all the official and political intrigue which underlay most of the proposals in Ireland for spending public money. Now it was to become for almost all purposes a microcosm in itself.[26]

However, Anderson's responsibilities, especially in relation to the civil government's responsibility for security, were so large and his presence was so frequently demanded in Whitehall for high-level conferences on government policy, that he delegated much of his authority in Treasury affairs to Waterfield who headed the office set up at Dublin Castle under the title of Treasury (Ireland).[27] This office remained in existence throughout the transitional period of the provisional government and only ended with it on 5 December 1922. Consequently, whereas Anderson finally left Ireland before the formal handing over of Dublin Castle on 16 January 1922 (the powers of his office being largely subsumed in the powers transferred to the provisional government), Waterfield remained and played a key role in the transfer of the financial administration.

The reforms in the Castle administration in May 1920 and the setting up of Treasury (Ireland) were of crucial importance for the transfer of power under the provisional government. The increased efficiency it produced together with the sweeping reforms of which Waterfield wrote in his memorandum of 22 January 1922 meant that the provisional government inherited an administrative machine which had been thoroughly overhauled by some of the best brains in the

British civil service. While it would be wrong to depict the Irish civil servants of the early twentieth century as being exclusively Unionist and Protestant,[28] there can be little doubt that, before the 1920 reform of the Castle, the great majority of leading Irish civil servants were extremely hostile to Irish revolutionary nationalism and all that it represented. "The phrase 'Sinn Féin' ", wrote Warren Fisher in his indictment of the Irish administration,

> is a shibboleth with which everyone not a 'loyalist' is denounced, and from listening to the people of influence you would certainly gather that Sinn Féin and outrage were synonyms . . . In fact, the ruling caste reminds one of some people in England — mainly to be found in Clubs and amongst retired warriors and dowager ladies — who spend their time in denunciation of the working classes as 'socialists' without ever considering (or indeed being able) to analyse what they mean.[29]

The British civil servants who ran the Castle from 1920 had not the same political axe to grind; they were neither Nationalist nor Unionist, although some of them (notably Alfred Cope) were markedly sympathetic to Sinn Féin. They were consequently able to sustain a more amicable working relationship with the men who were to become the ministers of the provisional government than could possibly have been expected of their Irish predecessors, who in the eyes of the new government were tarred with the brush of ultra-Unionism and Protestant ascendancy; Cope, for instance, had known Michael Collins, the first Minister of Finance, since the early summer of 1921.[30] That the new Irish ministers were able to achieve a *modus vivendi* with the men who ran the Irish administrative machine for the last two years of British rule was a factor of inestimable importance for the smooth transfer of administrative power under the provisional government. And, as we shall see, it was never more important than in the case of financial administration and the establishment of the new Department of Finance.

II: The Department of Finance under the First and Second Dáil 1919–22

The constitution of Dáil Éireann, proclaimed when it first assembled on 21 January 1919, provided for the appointment of a ministry (its formal title) or cabinet of five ministers: a President (or Prime

Minister – *an Príomh-Aireach* – and Ministers of Finance, Home Affairs, Foreign Affairs and National Defence, all to be nominated by the President. The next day, Cathal Brugha (appointed President *pro tem.* in the absence of Eamon de Valera whose escape from Lincoln Jail on 3 February was then being plotted) nominated Eoin MacNeill as "Finance Minister" and this was approved despite the dissent of one of the twenty-four deputies present, Piaras Béaslaí, noteworthy as the very first occasion in the Dáil's proceedings when the dissent of a member to the majority view is recorded.[31] The temporary nature of the appointments made them of no more than nominal significance since only one of the five ministers in question (Count Plunkett in Foreign Affairs) retained his appointment after de Valera's return when, on 1 April, Brugha tendered his own and his ministry's resignation. At this same meeting of the Dáil the relevant article of its constitution was amended (on de Valera's nomination, seconded by Michael Collins) as follows:

> The Ministry shall consist of a President of the Ministry elected by Dáil Éireann, and not more than nine Executive Officers, including:
>
> A Secretary of Finance,
> A Secretary of Home Affairs,
> A Secretary of Foreign Affairs,
> A Secretary of National Defence,
>
> each of whom the President shall nominate and have power to dismiss.[32]

When, having duly been elected President, de Valera made his nominations the next day, Secretaries for Labour, for Industries, and for Local Government (Countess Markievicz, MacNeill and W. T. Cosgrave) were added to the list of Finance (Michael Collins), Home Affairs (Arthur Griffith), Defence (Cathal Brugha) and Foreign Affairs (Plunkett). "Heads" of the "Departments" of Propaganda (L. Ginnell) and Agriculture (R. C. Barton) were also made and, finally, de Valera said he intended to nominate a Director of Trade and Commerce (Ernest Blythe).[33]

The main significance of these appointments was propagandist — Collins observed at the time: "our appointments simply ensure the hanging that was only probable had we remained merely members of the Dáil".[34] But it would be wrong to suppose that the Dáil departments and their ministers left no mark upon the development of the provisional government's departments after the British handed over Dublin Castle. There were several reasons why this was

especially true of the Department of Finance and its secretary or, as he continued to be more commonly described, minister: first, because Finance was from the beginning listed as the principal of the four ministries which had to be represented at cabinet level under the Dáil's constitution; second, because of its central role in raising the revenue necessary both for the continued operation of the other Dáil departments and for the prosecution of the Anglo-Irish war; third, and most important, because of the central role played both in the conduct of the war and in the proceedings of the Dáil and its ministry by the man who served without interruption as Minister of Finance until the provisional government had been established, Michael Collins.

That Collins was likely to enjoy exceptional powers as Minister of Finance was evident from the moment when, at the meeting on 2 April when he was appointed, the Dáil decided to suspend its standing order on financial procedure until the following November and instead agreed that Collins as "the Secretary of Finance is hereby authorised to apply monies to such specific objects as the Ministry (when not reduced below five in number) shall unanimously approve."[35]

Collins's first object and his outstanding achievement as Minister of Finance in this period was to raise revenue. It was "obvious that the work of our Government cannot be carried on without funds", observed de Valera on 10 April 1919 during his first major speech to the Dáil outlining his ministry's policy: "the Minister of Finance is accordingly preparing a prospectus which will be shortly published, for the issue of a loan of one million sterling — £500,000 to be offered to the public for immediate subscription, £250,000 at home and £250,000 abroad, in bonds of such amounts as to meet the needs of the small subscriber."[36] This statement, more ambitious than the Dáil resolution of a week earlier authorising the ministry "to issue Republican Bonds to the value of £250,000 in sums of £1 to £1,000",[37] was given added weight by its being issued as Dáil Decree No. 3; it was in fact the first decree issued by the Dáil other than the decrees of the Declaration of Independence and the Democratic Programme issued at the inaugural meeting on 21 January.[38]

The National Loan

The arrangements for the loan were set in motion on 19 June when

the Dáil approved the loan prospectus, the trustee deed and the appointment of the three trustees: de Valera (who had already arrived in the United States with the objective of floating the external part of the loan), James O'Mara, TD, and the Bishop of Killaloe, Dr. Fogarty. The prospectus for the internal loan provided for the issue of £250,000 5 per cent registered certificates in denominations of £1, £5, £10, £20, £50 and £100, interest to be calculated "from the date when the certificates are fully paid, but not payable until a date six months after the Irish Republic has received international recognition, and the English have evacuated Ireland." The issue was priced at £100 per cent, 50 per cent payable on application and the remainder in two equal instalments on 1 October and 1 December 1919; it was laid down that "after the withdrawal of the English military forces, this loan becomes the first charge on the revenues of the Irish Republic." The loan was to be used to finance a consular service; a national civil service and national arbitration courts; to aid Irish industrial development generally and fisheries and reafforestation in particular (the Dáil had already voted £5,000 to establish a commission to investigate industrial resources); to reopen Limerick Technical Schools, recently closed by the British; and to establish land tenancy societies and a land bank for which it had already been estimated that £200,000 would be required.[39]

On 15 August, at a meeting of the Sinn Féin Ard-Chomhairle in the Mansion House in Dublin, the news of the national loan was made public — the June meeting of the Dáil had been private — and its dimensions extended still further when Collins reported that de Valera wanted to increase the American loan from $1·25 to $5 million.[40] The public appeal, "to the people of Ireland", issued on note-paper headed "DÁIL ÉIREANN — Aireacht Airgid — Department of Finance" over the signatures of Arthur Griffith as acting President and Collins as Minister of Finance, was framed in language far removed from the language characteristic of future national loans. The loan, it proclaimed,

> will be available for, and it will be applied to, all purposes which tend to make Ireland morally and materially strong and self-supporting.
>
> Through generations of cruel oppression the people of Ireland sustained their invincible conviction of the future freedom of the Irish Nation. It is our privilege to live in the generation which witnesses the justification of serene faith in the justice of God. Today all Irish energies are united to consummate the triumph of the National idea. To that end the National

> Loan is issued, and all who lend to Dáil Éireann today, lend to ensure the dignity, the prosperity, and the independence of the Irish Nation.[41]

Four days later Collins presented a two-page report on his Department to another private session of the Dáil, saying that the Finance Committee of sixteen deputies set up to establish "machinery through which to issue the Loan and collect the subscriptions" had met twice and had adopted procedures whereby each deputy would be responsible for organising and directing the effort in his own constituency, although special arrangements would have to be made in the case of deputies who were imprisoned or out of the country. Once preliminary meetings had been arranged, argued Collins,

> . . . the work must go ahead rapidly. It will be essential to get on with a rush. The Finance Committee will issue for distribution several leaflets explaining the intentions of the Loan, the need for money, etc. A big advertising campaign will be indulged in, and it is hoped to secure the assistance of *all* the Irish-Ireland organisations in the undertaking. It is, however, not feasible to go on with the main public advertising until we have a sufficient number of copies of the prospectus delivered to meet our requirements. Deputies will understand that the printing of the prospectus was a large and extremely difficult undertaking. The Finance Committee decided to get 250,000 copies, and it is hoped to secure delivery of these during the next three weeks . . . when . . . the general advertising will be started at once. The *type* of advertising will of course largely depend on the action of the British censorship towards our notices. It is to be expected that the interference will be considerable, hence the great need for increased individual effort on the part of all Members of An Dáil.[42]

Collins's apprehensions were soon abundantly justified when, on 12 September, the British authorities "proclaimed" Dáil Éireann an illegal and "suppressed" organisation, having earlier proclaimed Sinn Féin, the Irish Volunteers and other of the revolutionary nationalist organisations. Police and military raided the Sinn Féin offices at 6 Harcourt Street from where Collins ran his Department of Finance business. Collins only escaped by clambering through a skylight and across the adjoining roofs. A future Minister for Finance under the Free State government, Ernest Blythe, was not so lucky and was arrested. The next night, on Collins's orders, one of the raiding party, Detective Hoey, was shot dead outside police headquarters in Brunswick Street.[43]

Even so hasty an account of some of the events of these weeks

shows something of the extraordinarily hazardous circumstances surrounding the loan's flotation. Hugh Kennedy, then legal adviser to the Department of Local Government and later Attorney General of the Free State, succinctly described these circumstances. "The position throughout the period of both the First and Second Dáil until the Treaty", asserted Kennedy,

> was that though persons were appointed to Ministerial positions, and staffs appointed to help them, it was impossible for them to have permanent or continuous location, because during the entire period everyone connected with the Dáil and its services was hunted down by the British Government; consequently, all offices and office equipment had to be of the most portable character, capable of instantaneous removal at the sound of the approach of the British Black and Tans or Military. An entire Department might find it necessary to make a hurried removal through a skylight or down a drainpipe at a moment's notice. Though daring and skill succeeded wonderfully in enabling the Ministers and their staffs to execute their functions to a greater or less degree, files of papers and records were sometimes seized, and were always in danger of seizure. A Ministry could seldom count on more than one night's rest in a particular spot.[44]

Collins, more than any of his colleagues, became a past master of such stratagems. The raid on the Sinn Féin offices prompted him to obtain the ministry's authorisation to buy a house for the work of the Dáil and from where he could administer the loan; and he arranged with Batt O'Connor, a close personal friend and a master builder, to buy another house in Harcourt Street (No. 76) where he built "a secret closet in the thickness of the walls" where books and papers could be stored. In mid-October 1919 Collins made another skylight escape after a raid, this time by a prearranged route designed by O'Connor.[45] O'Connor also buried the bulk of Collins's precious gold reserves (which totalled £25,000) in a baby's coffin under the floor of his own house at 1 Brendan Road, Donnybrook. After the second Harcourt Street raid, Collins moved to Henry Street, first to an upstairs room at No. 21 and then, though the aegis of Michael Noyk, a Dublin solicitor, next door to 22 and this remained his major Finance office until shortly before the truce, when it was discovered by the Black and Tans. Collins's other Finance offices were in Mary Street — at No. 22 (where he came closest to being captured in a British raid, the day after the burning of the Custom House in May 1921), in a secret room in a draper's shop at No. 28/29 (the official

address of the Dáil Department of Finance after the provisional government had been established) — and in 3 St Andrew Street where another hidden gold reserve survived the perils of the Anglo-Irish war only to fall to Collins's Irish opponents in the middle of the Treaty debates. Nor does this complete the list of Collins's other offices, for he kept separate from his Finance responsibilities the innumerable other duties attaching to his three military positions of Adjutant General, Director of Organisation and Director of Intelligence in the Volunteers.[46]

Inevitably, historians and Collins's biographers have tended to focus their attention on the more romantic and dramatic aspects of his military role, to the relative exclusion of his role as Minister of Finance. Yet neither Collins himself nor his British adversaries made any such error of judgement. The British immediately reacted to the advertisements of the loan by suppressing by military order all newspapers in which they appeared, by seizing the copies in question and, sometimes, by dismantling the printing machinery of newspapers, including the *Cork Examiner* and Arthur Griffith's *Nationality*; and this notwithstanding Collins's precautionary omission of any reference to the Dáil in the advertisements. Such "wholesale suppressions" may well have proved the loan's most effective advertisement, although the resourceful Collins also resorted to such methods as making a film advertising the loan which his supporters — "forceful young men" — made sure was shown at Dublin cinemas before the police could be called.[47] "You will be interested to hear that the enemy's chief offensive here at the moment is directed against the Loan", reported Collins to de Valera in mid-October 1919; "men are now being arrested for making public reference to the subject." In a second letter two months later Collins wrote that "the situation has been getting more and more difficult here lately" and that about £30,000 had so far been subscribed to the loan:

> . . . this is not very satisfactory, but the hindrances have been simply enormous. Indeed, at the present moment, the main enemy objective is directed to secure the failure of this enterprise. Yet that objective will not be reached, for, although things have been slow, they have been sure, and the promises made throughout the country, and reported to me up to the present, total something in the neighbourhood of £100,000. Advertising is impossible practically, meetings are impossible practically, movements of prominent Sinn Féiners are greatly interfered with, so that everything has to be done quietly, unassumingly, and with much labour. The

> combination does not appear to appeal to several people, but the ordinary men and women are certainly showing the faith that is in them.[48]

Collins's optimism was well-founded, although his disillusion with the lack of contribution of certain of his would-be supporters would afflict him later as well — "this enterprise will certainly break my heart if anything ever will", he was to write to Harry Boland in April 1920; "I never imagined there was so much cowardice, dishonesty, hedging, insincerity and meanness in the world."[49] But by then success was assured, as another letter from Collins to de Valera in February 1920 makes clear. Having first congratulated de Valera on the "wonderful success of the Loan in the United States", Collins went on to give a more detailed account of the British campaign against the loan in Ireland:

> . . . the enemy Government quickly realised that the economic policy of the Dáil was as great a danger to them as its political policy, that in fact the elected Government of Ireland stood for social and economical deliverance, no less than for political deliverance. Without finance, however, the policy would be inoperative. The enemy must, therefore, at all costs prevent our getting the necessary funds. He attempted, certainly — and with a renewed determination and savagery. His military and armed police smashed up meetings called to support the Loan. They suppressed newspapers, and removed their machinery, if mention was made of the Loan. Prospectuses and literature were seized in the Post Office where discovered. Everywhere all through the country our workers were held up at the point of the bayonet and searched, in some cases three and four times in one day. Official action denied us the use of motor cars, searches and hold-ups denied us the advantages of even horse-vehicles and bicycles. Our people . . . had to use the by-ways and not infrequently had to cross country to avoid the enemy forces. Men were put in jail for requesting applications, and men were put in jail for making applications. People found in possession of documents relating to the Loan were put in jail, and the entire male Head Office Staff were put in jail as an 'Illegal Assembly'. The Head Office itself was closed by military force.
>
> Yet all the attempts have signally failed. . . . We have sent out throughout the length of breadth of Ireland 500,000 copies of the Prospectus, and 2,000,000 leaflets, and a special letter to over 50,000 individuals. All this from the Head Office, while many constituencies got printing of their own done, amounting to as much as 50,000 leaflets and circulars, in some instances.
>
> In return the response has been splendid. From the constituency of West

> Limerick they have sent us up £10,000, and are by no means finished yet. . . . From Mid-Cork, remote and mountainous, with no town of any size, they have sent over £5,000. . . . In the Castlebar district *alone* they have collected £2,500.

Such figures, stressed Collins, were not exceptional and indicated "a very creditable achievement" and an assurance of "final success".[50]

The scale of that achievement was recognised when the Dáil next assembled, on 29 June 1920, for its first meeting since the previous October. "The Minister for Finance", said Arthur Griffith in his statement as acting-President, "had accomplished one of the most extraordinary feats in the country's history": the loan "was now over-subscribed to the extent of £40,000 in spite of the most determined opposition of England."[51] That Griffith's praise was in no way excessive was plain from Collins's report on his Department's operations presented to this meeting of the Dáil and showing the receipts and expenditure for the period ending October 1919, for the half-year ending April 1920 and noting the further receipts and expenditure. The loan figures showed receipts in excess of £340,000 (£281,000 Home Issue and £59,000 USA Issue) against expenditure of less than £80,000 leaving a balance of some £260,000 — more than enough to cover the estimated financial requirements for the next six months of £204,000 which Collins simultaneously submitted.[52] With good reason, then, could Collins tell the Dáil that he desired to dispel the idea that the Loan Fund was going to drag on indefinitely and obtain agreement for his motion that it should finally be closed as from 17 July.[53] Collins argued that such a move would quicken the pace of outstanding contributions and, on 31 July, was able to write that the total then exceeded £355,000.[54]

Later figures were still more impressive. Collins gave a final figure of £370,165.6.0 in his report to the Dáil on 17 September 1920. The breakdown of the receipts, by constituencies and provinces, showed that the Munster effort was the most successful — over £171,000 and almost twice the amount received from any of the other provinces — an appropriate outcome in the light of Collins's special efforts in his own Cork constituency where he had attended the inaugural meeting at Dunmanway (again, narrowly missing arrest in the process) and where he inaugurated the loan with a personal contribution of £25 which amounted to about a month's ministerial salary. It was Collins's opinion, in July 1920, that "the prompt response in Mid

Cork was the greatest factor in making the Loan a success . . . Mid Cork and West Limerick made a headline at a time when it was badly needed."[55]

The September report also showed the success of the American loan, the June figures for which had been misleading because the bulk of the receipts and details had not then been communicated to Dublin from New York, but the grand total of which was over £505,000,[56] a further upward revision (to $25,000,000) of the amount for issue in America was approved by the Dáil on 20 August 1919.[57] "The proper handling of the financial issue will be of incalculable advantage to us in dealing with the situation as between England and ourselves", declared Collins in his September report and the loan figures provided a solid foundation for his claim

> . . . to reduce England's profit on holding the country; to transfer the power and advantage which the collection of revenue gives to a government; to utilise that power for the mobilisation and direction of Irish peace effort against the Enemy — in short to press the national riches, as well as the national sentiment, into the service of Ireland — These are the national aims we have in view today. They will be achieved gradually, but achieved they will be.[58]

The loan's success, unquestionably the outstanding achievement of the Dáil Department of Finance, made possible what had hitherto been impossible: the immediate and rapid expansion of the Dáil's activities across a broad front. So much is evident from the most cursory comparison of the proceedings at the Dáil meeting of 29 June 1920 with the earlier meetings of 1919. The latter were overwhelmingly concerned with declarations of policy, appointments, standing orders and other procedural matters and messages (often only of a propagandist character) for abroad. The meeting of 29 June, which began at 9 am and went on until 10.30 pm, dealt with an agenda of twenty-eight items (more than twice the number on any previous agenda), many of which required the approval of expenditure. It enacted no fewer than ten decrees — as many as had been enacted by the Dáil in the previous twelve months — and all of which necessitated expenditure. Thus de Valera was authorised to spend $1,500,000 in his American campaign and another $1,000,000 was voted for defence purposes; the appointment of diplomatic representatives to seven European countries, to Russia and to four American cities, and the appointment of an ambassador to Washing-

ton was approved; a Land Bank as well as Courts of Justice and Equity and Criminal Jurisdiction were established; appropriations for departments totalling over £100,000 were approved; £150,000 was voted for the establishment of an Import and Export Company and the possibility even of investing £300,000 or more in Dublin Corporation stock was considered.[59]

Nor should the impact of the loan upon the rank and file fighting in the then rapidly escalating war be ignored. Not only did it make possible larger arms and ammunition purchases and the renting of offices, stores and so on,

> . . . but there was also a psychological factor involved. Volunteer units began to shake off the feeling of inadequacy that goes with poverty. . . . As well as relieving the forces of the revolution of the petty restraints of poverty, it provided a means whereby sympathisers both at home and abroad could, by their contributions, become positively identified with the cause of Irish freedom.[60]

There were other reasons why the timing of the loan was crucial. The major British escalation of the war (involving, among other things, the introduction of the Black and Tans and Auxilaries and the reorganisation of Dublin Castle) only began to gather momentum from the spring of 1920. While, as we have seen, the obstacles placed by the British military in the way of the loan were considerable, they would have been still more formidable six months later. But if the British had failed to halt the loan, their efforts to capture its proceeds vindicated Collins's assessment of their reaction when he wrote that they had "seen clearly that the success of the loan is one of our first steps to economic freedom — it is the first token of release from the strangle grip which English money — or rather our own money in English hands — holds us in."[61]

Within a month of Collins's prophecy, the safety of the loan's proceeds (lodged in the name of various individuals in separate accounts in Dublin banks)[62] was jeopardised by the efforts of Dublin Castle. Alan Bell, a resident magistrate, who successfully tracked down some of the Land League accounts many years earlier, had been similarly engaged in trying to trace the loan accounts under the authority of the proclamation of 15 October 1919 which had finally "suppressed" the various "Irish-Ireland" organisations. By early March Bell's inquiries had reached the point where summonses had been served on officials of the Hibernian Bank and of the Munster and

Leinster Bank, and preliminary depositions were taken from the officials in question on 8 and 11 March.[63] The Minister of Finance reacted quickly and ruthlessly in defence of the loan upon which he had expended so much energy. On 26 March Alan Bell was taken from the crowded tram, at the top of Sandymount Avenue, upon which he customarily travelled from his home in Monkstown to the Castle, by members of Collins's "Squad" and shot dead. The loan accounts, recorded the Minister of Finance's written report to the Dáil meeting of 29 June, "are perfectly safe as the non-success of the bank inquiry will assure you all. Were it not, however, for the bank inquiry, there would probably be an additional £100 in the interest account. We need not regret that now. Details verbally."[64]

The British efforts to capture the loan proceeds did not end there and, although Collins's assurances were in general well-founded, they achieved one coup which serves as further testimony to the extraordinarily hazardous circumstances under which the Dáil Department of Finance had to conduct its affairs. The coup, at the end of October 1920, was carried out by the head of the British intelligence operation at Dublin Castle, Ormonde Winter, and has been vividly recorded in the diary of Mark Sturgis, then an assistant under-secretary at the Castle: "O. came in this evening in a chestnut moustache and wig, trench coat, flannel trousers and bowler hat — looking *the* most complete swine I ever saw — he had been pinching M.C.'s 'war-chest' from the Munster and Leinster Bank — quite illegally I expect — brought in about £4,000. £15,000 more to come."[65]

The episode, although insignificant when set against the overall success of the loan, well illustrates the perils due to the general intensity of the British military campaign in Ireland between the late summer of 1920 and the truce of July 1921, perils which prevented the Dáil Department of Finance from implementing some of its more ambitious policies. Income tax was one notable example. Collins had introduced a motion setting up an Income Tax Department at the meeting of 29 June, and the Dáil had decreed accordingly despite apprehensions expressed by some Deputies about its practicality. These apprehensions proved justified nine months later when, on 8 March 1921, the Dáil Ministry decided that the collection of income tax was "impossible . . . in present circumstances" and that the best that could be hoped for was "to instruct income taxpayers not to pay and hold for Republican Government".[66] Even this watered-down

version of the original policy, however, if not swelling the Dáil's coffers, contributed to the continuous erosion of British financial administration in Ireland and thus to the attainment of the objectives of the Dáil Department of Finance.

The Primacy of the Dáil Department of Finance

An examination of the Dáil papers for 1919–21 reveals that the Department of Finance enjoyed a remarkable ascendancy over the other Dáil departments. In practice, of course, given the circumstances of the Anglo-Irish war and the necessarily simple, not to say primitive, character of the administrative machine, the Department of Finance was often, for all practical purposes, synonymous with the Minister of Finance. The department's power and prestige thus largely derived from the extraordinarily powerful position enjoyed by Michael Collins after April 1919. We have already seen how the ministers of January-April 1919 were essentially stop-gap appointments — the Dáil ministry did not begin to meet as a cabinet until April. None of the other ministers who had positions in the cabinet as of right exercised the power and influence which Collins enjoyed over so broad a front and which stemmed not merely from his position in the ministry but from the three key posts he held simultaneously in the Volunteers. Count Plunkett, the Minister of Foreign Affairs, was little more than a figurehead, since what was then regarded as "foreign policy" was essentially de Valera's responsibility. Arthur Griffith, nominally Minister of Home Affairs, was acting President and, essentially, the chairman of the ministry during de Valera's absence in the United States from June 1919 to December 1920; moreover, he was imprisoned, together with Eoin MacNeill (Minister of Industries) from November 1920 until the truce. Nor did Cathal Brugha at Defence enjoy the same kind of influence as Collins: he declined to draw his ministerial salary and throughout the period, was engaged in private commercial activities as director of a firm of ecclesiastical suppliers.[67]

Perhaps the most notorious example of how Collins's attitude to ministerial responsibility differed from his colleagues', is his oft-quoted rebuke to Austin Stack, the acting Minister of Home Affairs, for whom de Valera had reserved the last place in his Ministry:[68] "your Department, Austin, is nothing but a bloody joke".[69] Later, in March 1921, when Collins wrote to the ministry's secretary,

Diarmuid Ó hEigeartaigh, asking for a complete set of the departmental reports presented to the Dáil at its meeting on 11 March, he received the revealing reply that "the reports of the Departments of Home Affairs, Irish and Defence were oral and no report was presented from Foreign Affairs."[70]

There could be no more marked contrast with Collins's detailed reports on the Department of Finance, reports for which he became solely responsible when the intensity of the British military campaign prevented the Dáil from meeting between October 1919 and June 1920 and when the "Finance Committee" of the Dáil withered away.[71] Another example of Collins's concern for administrative propriety was the motion, which he introduced and which was carried at this same meeting, appointing an Accountant General and establishing within his department an Audit and Accounts Department. When this was done, said Collins,

> I would propose to make each Department of the Dáil self-contained in so far as accounts are concerned. All payments on behalf of a particular Department being made by that Department in a form and manner prescribed by the Accountant General. The accounts of the Department to be audited monthly by him, and the books and vouchers kept as laid down by him on a general scheme. The value of this would be uniformity and constant check. The report . . . would show exactly the financial position of all Departments, the outgoings and receipts, the amount being spent, and the return if any; by a general coordination all books and accounts expenses would be saved and, by paying a first class man, all expenditure will be regularised and placed upon a business basis. The Accountant General would institute a scheme under which an order in writing by the persons responsible in each Department would be supplied for any goods received, and would also ensure regular payment of bills due, which I regret to say is not the case at present in some Departments.[72]

The motion specified that the appointee would be a fully qualified auditor and accountant and Collins also insisted that "it was an internal appointment" within his department.[73] The appointment fell to George McGrath, with whom Collins had worked in Craig, Gardner and Company (the Dublin firm of chartered accountants)[74] in the months before the 1916 Rising and who subsequently became the first Comptroller and Auditor-General of the Irish Free State.

A still earlier example of this same concern for .administrative propriety was the appointment of an auditor (Donal O'Connor & Company of Westmoreland Street) approved by the Dáil at its

private session of 27 October 1919 and reappointed at the 29 June meeting;[75] the auditor's report on the accounts for 1921 serves as a monument to the meticulousness with which Collins, McGrath and their staffs kept the Dáil accounts notwithstanding the fact that the Anglo-Irish war was at its height during the first half of that year.[76]

Collins's personal ascendancy both in the Dáil and in the other revolutionary organisations, his own personal administrative talents and his concern for order and efficiency in administrative matters were all factors, then, which contributed to the Department of Finance's occupying the first place in the pecking-order of Dáil ministries. What is of particular interest in the context of the later history of the Department of Finance is that Collins also seems to have deliberately set out, as a matter of principle, to establish his department's primacy in certain key areas. On 27 February 1920 Collins gave notice to Ó hEigeartaigh that he intended, at that night's Dáil Ministry meeting, to move that his department's business (in the form of "the passing of money payments") should "in future . . . be the first business taken up at Ministry meetings, it being understood that such payments arise only out of previous decisions" and this was duly agreed.[77] One is struck, too, by Collins's insistence that he be formally notified in writing by the Dáil secretariat of the Dáil's "registered . . . decisions involving the expenditure of monies"; on 16 July, for example, Ó hEigeartaigh wrote to Collins listing the ten such decisions taken at the meeting of 29 June 1920 — ranging from the resolution empowering de Valera "to expend a sum not exceeding $1,000,000 to obtain the recognition of the Irish Republic by the Government of the United States" to a decision to vote £250 to enable a deputy suffering from ill-health to go to Canada — and outlining also the decisions which otherwise affected the Department of Finance, although not necessarily involving direct expenditure.[78]

Yet the most important decision which affected the relations between the Department of Finance and the other Dáil departments was one that directly anticipated an important aspect of cabinet procedure in the Irish Free State and subsequently: on 30 September 1921, under the more normal conditions prevailing after the end of the war the previous July, the Dáil ministry decided that "in future, notice of any financial proposal to be brought up at Cabinet . . . be sent to the Finance Minister and, in general, any Minister intending to raise matters that are strictly the business of a department other than his own should notify the Minister of that

Department'"[79], a decision of which all ministers were formally notified on 3 October.[80]

One further point about Collins's attitude towards his departmental responsibilities is pertinent, especially in the light of the overall responsibility for the civil service as a whole which fell to the Minister for Finance under the Irish system of government administration as it developed after 1922: his concern to inculcate a sense of proper civil service procedure among his colleagues and subordinates. "Please note that all communications to this Department should be addressed simply 'AIREACHT AIRGID' and not to any individual", wrote Collins to the General Secretariat on 1 March 1921.[81] Collins's attitude was more strikingly revealed at the time of the general election of May 1921, when Kevin O'Higgins (then the Substitute-Minister for Local Government) wrote to him pointing out that two members of his department's staff, George Nicholls and Lorcan Robbins, were candidates and likely to be elected to what became the Second Dáil, and asking whether it might be possible to arrange for them either not to attend or not to vote in the Dáil rather than being required to resign their departmental posts from which they could ill be spared. "If we institute the practice of having members of the Dáil also officials of Departments" replied Collins, "we shall be doing a thing which will be leaving us open to charges of jobbery, and with good reason, I believe. There would be no impartial criticism by an official of the Local Government Board who was a member of the Dáil. He would have no liberty in debate and he would have no standing with a local body." Collins stressed that this was his "personal" opinion, but the fact that he took the trouble to write in a similar vein to de Valera, saying that the "suggestion is indefensible", indicates how strongly he felt, although in the event the Dáil Ministry meeting which discussed the issue on 30 May 1921 came to no definite decision.[82] Collins's anxiety about departmental procedures had been highlighted, moreover, by his complaint to Ó hEigeartaigh on 25 May (the very day of the Volunteers' largest military action in Dublin, the burning of the Custom House) that he had yet to receive the estimates due for the half-year July-December 1921 from many of the Dáil departments, including Trade, Foreign Affairs, Fisheries, Irish Propaganda and the Secretariat itself.[83]

The Legacy of the Dáil Department of Finance

The Dáil Department of Finance was not concerned with framing a

financial policy or policies other than in the critical area of raising revenue by loans. So much was implicitly acknowledged by Collins himself when, on 26 August 1921, he spoke to the Dáil of his department's achievements exclusively in these terms when seeking sanction for further loans.[84] Yet this is not to deny the legacy bequeathed by the Dáil Department of Finance to the Department of Finance established by the provisional government of 1922. The primacy of the Department of Finance *vis-à-vis* other departments, the efforts to establish some kind of system of financial control over those other departments, the concern for administrative propriety and for a civil service ethos, however rudimentary — all these were in keeping with the system of financial administration known as "Treasury control" inherited from the British after the provisional government's takeover of Dublin Castle. Conceivably, provisional government ministers might not have so readily accepted the rigid orthodoxies of financial administration imposed upon their departments by the new Finance civil servants had they not earlier been introduced to somewhat similar concepts as ministers of the Dáil. An important element of continuity was provided, moreover, by Michael Collins taking the Finance portfolio in the provisional government and holding it simultaneously with the old Dáil Ministry of Finance which continued in existence throughout the period of the Second Dáil which last met on 8 June 1922. The fact that Collins, with the even greater weight and authority he enjoyed as chairman of the provisional government, chose the Finance portfolio ensured a sense of continuity in financial administration and facilitated that smooth transfer of administrative functions and establishment of proper financial procedures which, as we shall see in chapter two, were characteristics of the Department of Finance under the provisional government.

CHAPTER TWO

The Department of Finance under the Provisional Government of 1922

I: The Establishment of the Provisional Government

On 12 January 1922 Arthur Griffith, in his capacity as chairman of the Irish signatories of the Treaty (under Articles 17 and 18), summoned a meeting of the representatives for all Irish constituencies other than those in Northern Ireland, who had been returned at the general election of May 1921. The meeting (of what Irish constitutional theorists described as "the members elected to sit in the defunct Southern Parliament, that is, . . . the Second Dáil exclusive of any member sitting only in respect of a seat in the Northern Parliament"[1]) assembled in the Mansion House in Dublin on 14 January. Sixty-six members attended — the members of the Dáil who had voted for the Treaty and the two members elected for Trinity College — and, under the same Articles of the Treaty, two resolutions were unanimously agreed. The first approved the Treaty. The second resolved that "a Provisional Government be and is hereby constituted, composed of Michael Collins, W. T. Cosgrave, Edmund Duggan, Patrick Hogan, Finian Lynch, Joseph McGrath, Kevin O'Higgins and of such other persons (if any) as may from time to time be determined by the Ministers for the time being."[2]

Ministers were not allocated departments and Griffith, in a brief speech, underlined the limitations upon the provisional government's powers when he stressed that it had been "called into being to take charge of carrying out the terms of the Treaty. Dáil Éireann remains in existence until the terms of the Treaty are carried out, when a general election will be called in this country."[3]

Hugh Kennedy, the Law Officer to the provisional government, produced the following definition of that government's power of legislation:

(a) the laws must relate only to matters of *administration* and that administration must be:
  (i) concerned only with functions which at the moment under consideration have been actually transferred to the Provisional Government;
  (ii) concerned only with the 26 counties;
  (iii) provisional only, that is to say, concerned only with matters of administration during the period which began on the 6th December 1921 and will end upon the constitution of a parliament and government of the Irish Free State, or the 6th December 1922, whichever be the sooner.

(b) The Parliament cannot make laws;
  (i) for imposing taxation; or
  (ii) of a permanent character or operating beyond the limit of time already mentioned; or
  (iii) affecting the 6 North Eastern counties; or
  (iv) relating to functions or Departments not yet transferred.[4]

The fact that the provisional government's legislative powers were confined to matters of administration was the largest single limitation upon these powers and the limitation which most closely affected government departments. The Department of Finance, given the absence of any power to impose taxation, was most obviously affected. Indeed, Darrell Figgis, writing to Arthur Griffith at the latter's request on the possible composition of the provisional government, suggested that its finances be entrusted to the hands of a commission of ministers who would have included all ministers of the provisional government and a couple of financial experts such as the chief cashier of the Bank of Ireland, rather than to any individual minister or department. Figgis argued that "a Minister of Finance is strictly not required until the constitution has been devised, because a Minister of Finance is a legislative rather than an administrative appointment. There is no budget to be devised but only monies to be transferred and accounts to be kept; this can be done first by a committee or interim financial arrangement."[5]

Although Figgis's plan, which would have had far-reaching implications for the development of the Department of Finance, came to nothing, it may have contributed to a certain hesitancy which characterised the provisional government's approach to financial policy in its first days. It is interesting to note, too, the particular

implications for financial policy of the limitations upon the provisional government's powers as enunciated by Hugh Kennedy. The provisional government, wrote Kennedy, "was (a) temporary only, merely a transitory machine; and (b) partial, concerned only with one aspect of government, namely, the administrative" — considerations "perhaps kept in view by referring to the Provisional Government as the 'Temporary Administration' ". This "temporary administration" was made possible by the Transfer of Functions Order of 1 April 1922 which we shall shortly be examining in more detail but which, insisted Kennedy,

> . . . was not a complete transfer of government or even of any department of government. It was a temporary transfer of the administration of certain functions of government for a period not to exceed one year.
>
> It becomes clear at once from this examination of the matter that, on the financial side, nothing could be dealt with except the year's revenue, income and expenditure, and that when charges are mentioned in the Transfer of Functions Order, the charges referred to cannot be capital charges (if not so expressed) but annual charges on revenue, such charges or contributions to charges as are capable of being debited against a year's revenue.[6]

Such considerations gave pause to the provisional government. On 16 January 1922 the British authorities formally handed over Dublin Castle to Michael Collins as chairman of the provisional government. After the government had held its first meeting that same day, a press statement was issued promising a further statement the next day "in regard to its immediate intentions and policy."[7] The first decision about the allocation of ministerial portfolios was taken at that same meeting when Collins "indicated that he would take charge of the financial arrangements and that Mr. Cosgrave would be associated with him", although the general allocation of departmental responsibilities was postponed.[8]

When the provisional government met the next day it discussed the appointment of a "Financial Advisory Committee" — the kind of body, presumably, that Darrell Figgis had proposed — but deferred the matter "for future consideration". It also deferred consideration of its financial policy to another, special meeting next day,[9] but the only decision then taken was "to ask the Bank of Ireland to act as the financial agents of the Government and to endeavour to negotiate a credit up to £1 m. from that Bank". On this occasion, however,

Collins did say that "his idea was to have a main [financial] committee of four or five, and to draw advisers from amongst reliable advisers of the big revenue departments" but further consideration of the matter was again deferred and there is no record of the proposals being subsequently resurrected.[10] The emphasis on revenue is revealing. Raising revenue had, as we have seen, been Collins's principal preoccupation as Dáil Minister of Finance in 1919–21 and it seems that it was still central to his approach to his Finance responsibilities.

At the same meeting, the provisional government again discussed the policy statement which they planned to issue that evening but, after a number of drafts had been considered, they decided "that the statement to be issued . . . would be confined for the most part to the allocation of the existing services amongst the members of the provisional government — it being made clear that the Government was acting as an Executive Committee and that definite portfolios were not being issued."[11] But individual portfolios *were* issued at this meeting and published in a press statement next day: namely Finance (Collins), Home Affairs (Duggan), Local Government (Cosgrave), Labour (McGrath), Economic Affairs (O'Higgins), Education (Lynch) and Agriculture (Hogan). It was at this meeting, too, that the first division and allocation was made of the former departments of the "Irish government" and the branches of the United Kingdom departments functioning in Ireland.

The lion's share of these departments and functions were assigned to Finance under Michael Collins — no formal reference linking Cosgrave to any Finance responsibilities appears despite Collins's earlier declaration of intent. Collins's department was on this occasion formally designated not as "Finance" but as "Finance and General". This, together with Collins's special role in deciding the allocation of departments, suggests that he and his colleagues perhaps thought that some offices at least were being assigned to him personally rather than departmentally.

To this Department with the title of "Finance and General" were assigned not merely the five Treasury departments hitherto functioning in Ireland but also two of the twenty-five departments of the Irish government (the Office of the Commissioner of Charitable Donations and Bequests and the Office of the Public Trustees) and nine of the seventeen branches of United Kingdom departments then functioning in Ireland.[12] Nor did the allocation of services to the new Department of Finance stop there: the title of "Finance and General"

was immediately dropped and never seems to have been used other than on the single occasion referred to here, but the responsibilities initially assigned under that title increased. On 7 February, Finance took over two offices originally assigned to the Department of Economic Affairs under Kevin O'Higgins — the Registry of Business Names and the Registry of Jointstock Companies and Newspapers. Before the final arrangements for departments were published in the British Order-In-Council of 1 April moreover, Finance had added two further and much more important acquisitions to its already rapidly expanding empire — the Stationery Office and the Office of the Civil Service Commissioners. These had been the only offices originally assigned to the Department of the Secretariat under Diarmuid Ó hEigeartaigh.[13]

All decisions on the allocation of British offices and departments were, it must be stressed, the prerogative of the provisional government. The British did not regard it as any of their business and their only contribution was to inquire about how the provisional government had decided to assign functions as between its new departments in order that they might print that information as part of their own legislation.[14] This neutral, pragmatic approach may have infected the provisional government who, clearly, did not approach the transfer in any spirit of radical change. In their eyes it was not an administrative revolution, merely an administrative takeover: hence their reluctance to tamper with the administrative framework as embodied in the organisation of the various British offices and departments. Their anxiety for the smoothest possible transition was made manifest in their public statement of 19 January which accompanied the announcement of how offices were to be allocated. "The provisional government", they declared,

> is at the present time engaged in completing the details of taking over the existing Departments and Offices hitherto administered in Ireland by the British Government.
> These services will, during the transition period, be administered by the Provisional Government acting as an Executive Committee or Council. It is the desire of the Provisional Government that as little inconvenience as possible shall be caused to the public during this period, and they have accordingly directed that all existing Departments will continue to perform their normal functions except in so far as changes may be ordered from time to time in the public interest.[15]

The solitary reservation expressed about the British system — that "it

will be obvious that under the altered circumstances certain of the Departments . . . will be no longer required, and the present activities of [such] Departments will be concluded as soon as possible"[16] — was couched in terms so anodyne as scarcely to cause public alarm.

On 1 April 1922 Winston Churchill and Michael Collins, as the representatives of their respective governments, signed an agreement declaring that the transfer of powers would take effect from that day.[17] The agreement was given statutory force by the (British) Irish Free State Agreement Act, 1922, and by the Provisional Government (Transfer of Functions) Order-in-Council ordered at Windsor Castle on 1 April. The twelve page order laid down the powers (and the limitations upon those powers) of the provisional government and the attached schedule listed the departments of the provisional government and the assignment of functions between them as decided by the provisional government at its meeting on 18 January and subsequently. The functions assigned to Finance were listed as follows:

Departments of Provisional Government

Ministry of Finance

Functions assigned

The financial business of the Provisional Government, including functions hitherto performed by the following existing Government departments and officers: —

The Treasury;
The Commissioners of Inland Revenue and Special Commissioners of Income Tax;
The Commissioners of Customs and Excise;
The Commissioners of Public Works in Ireland;
The Irish Insurance Commissioners and the National Insurance Audit Department;
The Commissioner of Valuation and Boundary Surveyor for Ireland;
The Registrar of Friendly Societies;
The Registrar of Business Names;
The Registrar of Joint Stock Companies;
The Commissioners of Charitable Donations and Bequests for Ireland;
The Paymaster General and Deputy Paymaster for Ireland.
The Treasury Solicitor for Ireland;
The Superintendent of the Teachers' Pension Office;
The Civil Service Commission;
The Stationery Office.

That the list was three times as long as the list of functions assigned to any of the other departments reflects the broad range of responsibilities which were to fall to the Department of Finance in the years ahead. The second part of the schedule, moreover, dealt exclusively with matters of finance, and specifically with the regulations governing the exchequer of the provisional government; it was given as a public notice on 31 March and published in *Iris Oifigiúil* on 7 April:[18]

> All sums paid into the Exchequer of the Provisional Government shall form the Consolidated Fund of the Provisional Government and shall be applied to meet the expenditure on the public services administered by the Provisional Government.
>
> The existing law relating to the Exchequer and the Consolidated Fund of the United Kingdom, including the provisions of the Exchequer and Audit Departments Act, 1866, (a) and the Acts amending that Act shall apply, with the necessary modifications, in respect of the Exchequer and Consolidated Fund of the Provisional Government.
>
> Provided that until the first meeting of the Provisional Parliament and for a month thereafter any sums required for defraying the cost of any public service administered by the Provisional Government certified by the Minister in charge of a Department by which the service is administered, to be so required and (except where the Minister is the Minister of Finance) approved by the Minister of Finance, shall be payable out of the Exchequer of the Provisional Government in like manner as if the cost of that public service were payable out of and charged on the Consolidated Fund of the Provisional Government or the growing produce thereof.
>
> The Minister of Finance of the Provisional Government may borrow from any person, and the Bank of Ireland may advance to the Minister of Finance, on the credit of the sums so authorised to be paid out of the Exchequer of the Provisional Government, any sum or sums not exceeding the amount so authorised.

II: Problems of Staffing

The first indication of the provisional government's intentions with regard to the takeover and staffing of the civil service is contained in their Proclamation of 16 January 1922.[19] Having declared that they had taken up the duties and functions of the provisional government, they directed that

> . . . all law courts, corporations, councils, departments of state, boards, judges, civil servants, officers of the peace, and all public servants and functionaries hitherto acting under the authority of the British Government, shall continue to carry out their functions unless and until otherwise

ordered by us pending the Constitution of the Parliament and Government of Saorstát na hÉireann, and without prejudice to the full and free exercise by that Parliament and Government, when constituted, of all and every one of its powers and authorities in regard to them or any of them.

And in the meantime we do hereby prohibit the appointing or altering of the status, rights, the perquisites or stipend, or the transfer or dismissal of any officer, or servant, employee or functionary of the State, without the specific authority in that behalf of this Provisional Government, or the Minister thereof having authority from us in the particular case.[20]

These prohibitions seemed to augur ill for the prospects of civil servants then employed in Ireland, but it seems likely that A. P. Waterfield was correct when he suggested that the new government

> . . . do not intend to apply the prohibitions contained in the Proclamation as rigidly as might appear at first sight. Their main object is publicity. They wanted to make a display of having taken over control as completely and effectively as possible as soon as they were installed. Their second object is to prevent themselves from being compelled by an enemy Treasury to accept liability for salaries at rates which they had not approved and thirdly they want to prevent the Northern Government from having the pick of the best men in the South before they get into the saddle and can see that both sides have a fair dip into a common pool.[21]

The arrangements for staffing the new government's departments were indeterminate and, about a week later, Waterfield wrote that he had

> not yet been able to ascertain what line the provisional government wish to take in dealing with the filling of vacancies of the authorised permanent establishment.
>
> I understand however that they have no objection to the taking of people in a temporary capacity in such a way as will not prejudice their future action, and it is of course obvious that we must not allow the efficiency of the department's working to be impaired by too strict adherence to the final terms of the Proclamation . . . I may add that as far as I understand it, the view of the provisional government is that Irish Departments are in the main overstaffed, and that they want to preserve as many vacancies as may exist at present in order to absorb such staff as they may judge to be redundant.[22]

The period between 19 January 1922 and 1 April 1922 was a curious kind of false dawn in the history of the Department of Finance. It was a time when the Department was beginning to exist but when it had not yet formally acquired the powers later assigned to it. This interregnum not surprisingly gave rise to many anomalies and much

confusion. While 1 April was in many cases the date upon which civil servants who transferred to, or were lent to Finance, officially took up duty and became the responsibility of the new government, some of them had transferred some weeks earlier. This, and the fact that their salaries were paid until the end of the financial year by the British, for obvious reasons of administrative convenience, and the inevitably confused and fragmentary state of departmental records during the interregnum, make it almost impossible to discover the exact date upon which particular civil servants took up their duties in the new department.

Take, for example, the case of William O'Brien, sometimes described as the first Secretary of the Department of Finance. No formal record of his appointment as Secretary has survived, if, indeed, one ever existed.[23] O'Brien himself subsequently wrote that he had held "the Secretaryship of the Treasury . . . the highest position in the Civil Service . . . since 2nd February 1922."[24] On 28 February 1922 Michael Collins wrote to the Board of Inland Revenue in London officially informing them "that the Provisional Government has decided to appoint Mr. William O'Brien (Principal Inspector of Taxes, Jury's Hotel, Dublin) to be Secretary to the Treasury." Collins stated that, "pending definite arrangements", it had been agreed with Sir John Anderson that O'Brien would be released from revenue work and lent to the provisional government, and that he was now making formal application for the confirmation of this arrangement.[25]

The nomenclature alone reveals something of the uncertainties and ambiguities of these early days. The formal title of what became the Department of Finance, as proclaimed in the Order-in-Council of 1 April and as inscribed on official notepaper, was, as it had been under the first and second Dáil, "Ministry of Finance (Aireacht Airgid)"; and an inscription at the head of some of this early notepaper ordained that "Any reply to this communication should be addressed to:— The Secretary, Ministry of Finance", but neither title was used consistently. On 1 February 1922, for example, the Postmaster General, J. J. Walsh, was authorised to put P. S. O'Hegarty "in charge of the General Post Office as Acting-Administrator" and it was agreed that this term would be used generally for similar appointments in the different offices. Yet the term never seems to have been generally used and, on 3 April, the minutes of the provisional government reveal that O'Hegarty was described as "Secretary" without further ado.[26]

The minutes reveal no similar reference to the appointment of a Secretary to the Department of Finance, nor, indeed, to the majority of the other departments; and it is remarkable that neither the provisional government nor the first government of the Free State ever seem to have formally recorded the names of the various civil service heads of their departments of government until after the enactment of the Ministers and Secretaries Act of 1924. Such records of decisions as exist before that point seem to occur on an *ad hoc* and arbitrary basis: on 2 June 1923, for example, the Minister of Defence nominated a Captain O'Connor as Secretary of his Department and this was formally approved by the Executive Council at a meeting on 19 June.[27]

Nor, as we can see from the extracts quoted from Collins's and O'Brien's letters, was the title of "Ministry of Finance" used consistently. The provisional government minutes for 4 May, for instance, record Collins reading a letter "which he had issued to all Ministers advising them that the Ministry of Finance would be responsible for transfers of staff necessitated by the formation of new Departments and the reorganisation of old ones and that the decision of the Secretary to the Treasury in regard to such transfers should be regarded as final."[28] The text of the letter in question, however, contains no reference to "the Secretary to the Treasury" but refers instead to "the Secretary of the Ministry of Finance". Incidentally, the letter also serves as important early evidence of Collins's anxiety that his ministry should have general control of civil service staffs.[29]

The title of the Treasury, then, died hard and it recurs frequently throughout the provisional government minutes. However, by the end of the provisional government and the establishment of the Free State government on 6 December 1922 it was less and less used and on 17 December, the first reference appears in the Executive Council minutes to the Finance Department (as opposed to Ministry). But the change is gradual and occasional references to Finance officials as "of the Treasury" recur throughout the early twenties.[30]

One last point might be made about nomenclature. The Department of Finance formally acquired that title under the Ministers and Secretaries Act of 1924 when "Department of Finance (Roinn Airgid)" finally replaced "Ministry of Finance (Aireacht Airgid)", although not without a curious rearguard action by the senior Finance officials against the change.[31] It was then, too, that the ministerial title was changed from "Minister of Finance" to "Minister for Finance".

A fine disregard for nomenclature and other formalities were among the first impressions of Joseph Brennan when he left the Treasury (Ireland) office of Dublin Castle to join Collins's department of which he was shortly to become Secretary. Brennan's early civil service career, after an education at Clongowes, University College Dublin and Cambridge, had been impressive. His original appointment, as a First Division Clerk in the Customs and Excise Department in London at the age of twenty-three, was quickly followed (in June 1912) by his transfer to the Chief Secretary's Office in Dublin Castle where we have already seen something of his tribulations against the background of the "Protestant/Unionist" versus "Catholic/Nationalist" feuds which rent that office. Effectively he was superintending clerk of the office's finance division while G. C. Duggan was seconded to the Ministry of Shipping in London during World War I and he and Duggan were the only two members of the office favorably to impress Sir Warren Fisher's team who reported on the Castle administration in May 1920. Brennan was made a principal officer under the new Anderson régime the next month and he had begun thinking about the possibility of transferring to the Irish civil service, under the terms of the Government of Ireland Act 1920, since at least September 1921, when he sought certification as an "Irish officer" under the terms of the Act.[32] Only towards the very end of his life did Brennan reveal an extraordinary conflict of loyalties into which he was drawn during his last months in Dublin Castle. In October 1921, when the Treaty negotiations were in progress, the Irish members of the conference sub-committee allocated the task of drawing up the financial clauses of the agreement were hamstrung by a lack of expert financial advice. Patrick McGilligan, a former schoolmate of Brennan's at Clongowes, advised Michael Collins to seek Brennan's help and arranged a secret meeting between the two men. Brennan, although in what he himself later described as "a very ticklish situation", agreed to help and, working at home at night under great pressure, produced a series of ten memoranda for Collins's use on the strict understanding that their authorship would not be revealed. Brennan's memoranda enabled the Irish delegates effectively to counter the original British financial claims and it was agreed that the settlement of financial differences should be postponed until after the establishment of the Free State.[33]

Brennan's transfer finally took place in early February 1922 when Collins asked Cope, then in charge of the British administration

being gradually wound down in Ireland, whether there were any suitable Irishmen working in the Castle who might help him establish his new department, and, in particular, set up an exchequer. There was no discussion of what Brennan's official title or salary would be, although from 1 April until he became Secretary of the Department the following February he is recorded as continuing to hold the rank of principal officer.[34]

Brennan's was a key appointment. His technical knowledge of financial procedures was greater than any of his colleagues in the Department under the provisional government and he was to play a major role in laying down the guidelines of proper financial and accounting procedures in 1922–23. The absence of suitably qualified and experienced civil servants to man the new department was a serious problem, although Brennan did succeed in obtaining the services of three of his former colleagues from Dublin Castle. The most notable of these was Walter Doolin, a son-in-law of James MacMahon, the under secretary, and a contemporary of Brennan's; he was the only other First Division man transferred to the new Department and like Brennan, came in as a principal.[35]

Staffing problems were more acute in Finance than in most of the other departments of the provisional government because Finance was a *new* department which had had no precise equivalent under the former British administration. Most of the other departments (Economic Affairs, Labour, Agriculture, Education, Local Government and the Post Office) simply took over the functions and the staff of boards or offices already in existence. A. P. Waterfield felt that the office of which he was head, Treasury (Ireland), might fill a similar role for Finance. "If the Provisional Government ask the Treasury, as I think they probably will," he wrote, "(O'Brien certainly wishes it, and has told me that he will press his request on his Ministers very strongly and that he does not anticipate any objection on the score of our nationality), then the personnel of Treasury (Ireland) becomes merged in the larger question of the constitution of the new Treasury of Southern Ireland."[36] But O'Brien seems to have underestimated the dilemma that such a solution might have created for ministers, and Waterfield pressed in vain for a quick decision on whether his staff would be required on loan after 1 April, stressing "that any proposal must emanate from the Provisional Government."[37]

Financial as much as political considerations caused provisional government ministers to hesitate. At a meeting on 20 March 1922 they

decided to send their Law Officer, Hugh Kennedy, to London to try to persuade the British to agree to an alteration in the clause of the draft Order-In-Council relating to the transfer of civil servants,[38] the relevant clause of which read as follows:

> All officers who are on the day of transfer engaged or employed in the discharge of functions transferred under this Order to the Provisional Government shall be transferred to and become officers of the Provisional Government.[39]

The provisional government wanted this clause "to be altered to provide for transfer on loan pending the establishment of the Free State with a provision against alteration in terms of service without the consent of the Provisional Government."[40] The first alteration was designed to prevent them being saddled with a civil service establishment bigger than they needed and more expensive than they could afford; the second, to protect them against heavy claims for compensation which might arise under Part 2 of the same clause.[41] On 24 March Kevin O'Higgins, who had accompanied Hugh Kennedy to London, reported that their efforts had been unsuccessful but that they "had secured the insertion of a proviso to the effect that no transfers of officers made in pursuance of that article should affect prejudicially any claim in respect thereof on the part of the Irish Free State in the ultimate financial settlement."[42]

This compromise dissolved the impasse and, on the following day, Waterfield reported that he was now able to give "a more definite idea of the future of Treasury (Ireland). The Provisional Government have asked verbally that as many of us as can and will stay on, will do so for at least six months. I have said that Gilbert, Matthews, Getliff and myself are all willing to stay on for a period not exceeding six months from 1 April." Waterfield had some qualms about the proposed arrangement: he felt that there was "some danger of our finding it difficult to serve two masters, particularly in the initial period" and thought "that for the first month at any rate, it would be well that the whole Treasury (Ireland) staff should have their salaries paid from Whitehall."[43] He returned to the same theme later when, speaking about the confusion that might arise from serving two masters, he suggested that there were "bound to be cases in which it will be almost impossible for us to give the Provisional Government even *advice* impartially, much more to give an unbiassed *decision* qua Ministry of Finance."[44]

In the event Waterfield's forebodings were unfounded. Treasury (Ireland) remained a separate office until the period of the provisional government was over and, while its members undoubtedly helped smooth the transition for the officials of the new Department of Finance, they were not as important in this respect as two officers whom the Treasury lent to the new Department (at the latter's request) and who formed part of, and worked out of, the Department itself. The first of these was T. K. Bewley whose loan was arranged as early as 4 March 1922 and who first took up service in Dublin ten days later, remaining there until his return to the Treasury on 27 January 1923.[45] Bewley and Brennan worked closely together throughout the period of the provisional government and it was recognised that the former's "service and Treasury experience were of exceptional value in the creation of the Ministry" and it was "with regret that the Minister [of Finance] acceded to Mr Bewley's request to return to his own Department."[46]

The other important appointment was that of C. J. Gregg. Gregg, who came from Kilkenny, had been educated by the Christian Brothers there and subsequently at Blackrock College and University College Dublin where he took a BA of the old Royal University. By 1922 his civil service career had brought him to the point where he was an Assistant Secretary to the Board of Inland Revenue in London, and it was with that rank that he came on loan to the Department of Finance on 3 April 1922. He remained there until 1 October 1924 when he resumed duty with the Inland Revenue in London — he subsequently became Chairman of the Board of Inland Revenue from 1942–48.[47] Gregg's major responsibilities were on the establishment side of the new Department and he, more than any other single man, was responsible for the organisation of the Department and, indeed, of the new civil service.

III: Early Policies

The limitations upon the powers of the provisional government clearly limited the authority, and therefore the policies, of the new Department of Finance. The most important of these limitations was that the new government had no power to impose taxation, the British Taxing Acts being applicable to the financial year 1922–23, although, as Hugh Kennedy pointed out, "subsequently it will be open to the Dáil and Government of the Irish Free State, if estab-

lished, either to adopt or to reject such provisions. The Free State Parliament will have absolute authority in the matter."[48] While this might at first sight appear a rather irksome restriction upon the powers of the new Department, it was only temporary and had the advantage of allowing the handful of officials manning the new Department to devote their energies to matters of organisation, staffing and the establishment of proper procedures of financial administration throughout the other departments; to set up, in short, the system of Treasury control, or, as it was increasingly to be described henceforth, finance control.

That this was a paramount concern of the Department of Finance was unequivocally spelt out in a circular letter issued to all other departments on 16 March 1922, a fortnight before the transfer of functions formally took place. The letter began by pointing out that after 1 April "the Irish public services, with a few exceptions, will be directly administered by the Provisional Government":

> . . . the duties at present performed by the English Treasury will, therefore, be carried out as from that date by this Ministry . . .
>
> In view of the great uncertainty of the financial situation it is essential that the existing financial control should not be relaxed, and that the rule should be strictly observed that no proposal involving fresh expenditure of public money should be put into effect without the prior concurrence of this Department.
>
> It is, moreover, particularly important that expenditure should not be incurred for which provision has not been made in the Estimates for the forthcoming year already submitted by your Department, and this Ministry should of course be consulted beforehand if circumstances arise in which it is considered necessary to depart from these estimates.
>
> In cases where limits have been fixed in the past within which expenditure might be incurred without special Treasury sanction, these limits will not be altered for the present.[49]

This letter, drafted by T. K. Bewley, the official on loan to the Department from the Treasury, and issued over the signature of William O'Brien, illustrates the determination of Finance officials not to relax the control of other departments which they had inherited from the British administrative system. The fact that the powers of the provisional government were administrative and not legislative, greatly facilitated this aim. In effect it meant that the Department of Finance got a head start in that it could, and did, establish a rigorous system of controls before the new government was empowered to

legislate; the powers of the Department in the critical area of financial control were not circumscribed as were the powers of their political masters. The administrators were free to administer but the legislators could not legislate.

The financial position after 1 April was complicated, moreover, by the initial assumption (before it was decided that the provisional government would be vested with the legal powers it acquired under the Order-In-Council and the Irish Free State Agreement Act) that "a Block Vote would be taken in the Imperial Parliament to cover the services under the control of the Provisional Government for the first few months of the financial year." Under the altered circumstances, however, Waterfield suggested that

> . . . it would be desirable from every point of view to drop the idea of a Block Vote, and to take the necessary powers to enable the Provisional Government as from the 1st April next to defray expenditure out of its own Exchequer by its own executive authority. The procedure would probably be that in the interval before the new Irish Parliament can be elected and can vote its own estimates, issues would be made from the Irish Exchequer to the credit of the Irish Paymaster General from time to time on the strength of a certificate by the Lord Lieutenant, acting on the advise of the Minister of Finance of the Provisional Government, that such and such a sum was necessary to meet the expenses of the Provisional Government in administering the public service under their control within a given period, such expenditure of course being within the average over the same period of the estimated receipts from Irish revenue during the year. The question is whether the Provisional Government will be able to set up the necessary administrative machinery, consisting mainly of an effective system of Treasury control in time.[50]

It was with such considerations in mind that Joseph Brennan composed a memorandum, which was circulated to all ministers and their departments on 16 March 1922, on the principles necessary to secure efficient financial administration in the Irish Free State:

> The supreme direction of the financial as of other activities of the State will reside in the legislature. The legislature will decide what public services are to be maintained, what provision should be made for them and from what sources and in what manner the necessary funds should be raised. Proposals on these subjects will be introduced in the legislature only by the Government of the day through its Minister of Finance.
>
> With a view to securing that all dealings with the public funds are in accordance with the enactments of the legislature there will be a

parliamentary officer, the comptroller and auditor general, to supervise the receipts into and issues from the Exchequer and to audit the public accounts.

The main functions of the Executive Government in regard to finance will be vested in the Minister of Finance. On him and on his advisers will devolve the duty of preparing the various financial measures that will require to be submitted to the legislature.

The Ministry of Finance will be primarily responsible for the maintenance of financial order and regularity in all the Accounting Departments of the State and in the exercise of this function it will be its duty to lay down or require to be laid down in the various Departments such regulations as provide for the exercise of proper checks and precautions. It will have the responsibility of controlling all other Departments in regard to all matters involving charges upon the public funds and no such charges must be incurred or increased without the previous sanction of the Ministry. Thus no action should be taken by any Department in such matters as initiating a new service or altering the pay, numbers or conditions of service of any members or sections of its staff or otherwise pledging the public purse until the written approval of the Ministry has first been obtained.

In exercising the function of control the Ministry will concern itself with securing that proper regard is had by several departments to the intentions of the legislature respecting expenditure as expressed in the various Votes. The framing of these Votes, the definition of the purposes to which they are applicable and the designations of their several sub-heads are matters specially in the province of the Ministry. In this connection it will exercise on behalf of the legislature the important and necessarily delegated function of sanctioning the use of savings on some sub-heads of a Vote from meeting excesses on others within the limits of the total Vote.

In order that responsibility for all financial transactions of Departments may be capable of being definitely fixed, every account or Vote will be in the charge of an Accounting Officer who will be designated in every case by the Ministry of Finance and will be personally responsible for all the transactions of his account. If any disbursement appears to have been made from his account without the requisite authority it will be liable to be called by the Comptroller and Auditor-General and if a satisfactory explanation is not forthcoming the Accounting Officer will be answerable to such Committee of the legislature or other body as deals with the matters arising on the Comptroller's reports. In view of this peculiar personal responsibility of the Accounting Officer, that officer will be normally the ultimate authority within his own Department in deciding whether a particular charge is permissible against his Vote.

The vital position occupied by the Ministry of Finance in the conduct of Government and the fundamental importance of the matters with which it deals render it very desirable that it should as a rule be directly represented on government commissions which may have to consider problems involving possible charges on the State. The experience gained by the Ministry's officers through being engaged on such work will also enhance the value of these officers' services in dealing with further problems.[51]

Included with this memorandum was a request from the Minister of Finance to all the other ministers of the provisional government for a short report on the departments for which they were responsible; this is but one of the many examples of Finance's early concern to coordinate the workings of all provisional government departments. Early in April, the Minister of Finance circulated all other ministers with a memorandum on the procedures to be adopted in regard to communications between departments, especially in regard to Finance matters.

In this way Finance began to establish its right to communicate directly with other departments rather than with the ministers responsible for those departments.[52] Finance continued its regularisation of financial procedures with another memorandum, prepared by Brennan in consultation with Diarmuid Ó hEigeartaigh, the secretary to the provisional government, and circulated on 7 April. After reaffirming the importance of the memorandum of 16 March, this laid down the procedure to be followed in any department which wished to proceed with a proposal necessitating additional expenditure. The first step, it was prescribed,

> . . . should be to embody the proposal in official written application to the Secretary, Ministry of Finance. This application should normally give all the facts essential for its full consideration by the Ministry of Finance, setting out the existing facts in regard to the matter in question, the grounds upon which a change is proposed and the precise nature and estimated cost of the proposal. The Ministry of Finance, having examined the application and taken any necessary direction from its Minister, will in due course send an official reply which will normally be taken as a final ruling. If the decision arrived at through this normal procedure is unsatisfactory to the Minister concerned it will be open to him if necessary to consult the Minister for Finance further on the subject, and if the matter is one of sufficient gravity the ultimate consideration of it may be referred to the Provisional Government as a body. In any case the final official

decision should be issued as a letter or minute from the Ministry of Finance. This letter or minute, if it conveys sanction for new expenditure, is essential as evidence to be produced by the Department concerned to the Comptroller and Auditor-General in support of the expenditure incurred. Accounting Officers of the Votes for the several services are prohibited from issuing any moneys from these Votes unless they are in possession of such a written sanction to rely upon as their authority.[53]

This memorandum prompted Patrick Hogan, the Minister of Agriculture, to inquire whether the procedure had already been adopted or whether it was merely proposed; ministries, he noted, were not asked for their observations.[54] Finance's reply — by return of post — was illuminating: "as the procedure in question is only in accordance with recognised principles of public finance," wrote the Secretary, "it was not considered necessary to ask for any observations in regard to it."[55] There the matter rested and there is no evidence that so crucial an issue was ever considered by the provisonal government or that, in the event, any matters were considered of "sufficient gravity" to be referred to it as a body.

The establishment of proper accounting and auditing procedures was another early concern of the Department of Finance. On 31 March 1922 (the day when the provisional government's Exchequer and Consolidated Fund came into being), Joseph Brennan was appointed Comptroller and Auditor-General. In the light of previous and future practice it seems highly unorthodox that the Comptroller and Auditor-General should have been an officer of the Department of Finance rather than an officer of the Dáil. The anomaly arose because the provisional government was not then responsible to the Dáil nor, of course, to any other parliamentary body which could make the appointment. The appointment could not be postponed because the establishment of an Irish Exchequer was contingent upon certain procedures being carried out by the "Comptroller and Auditor-General" as enacted by the relevant British statutes. So Joseph Brennan — who always stressed that the reason he was appointed to the service of the provisional government was to set up an exchequer — was appointed on the authority of a letter signed by Michael Collins. Once the provisional government became responsible to the Dáil and the Constitution was enacted (25 October 1922), Article 62 of which provided for the appointment of a Comptroller and Auditor-General by the Dáil, Brennan's appointment effec-

tively lapsed. Hence we find the Executive Council minutes of 20 December 1922, a fortnight after the Irish Free State had come into existence, recording that "Mr Brennan of the Treasury reported that the funds withdrawn from the Exchequer on the eve of the passing of the Constitution were now almost exhausted and that it would not be possible to obtain further funds from that source except on the authority of the Comptroller and Auditor-General." Since this appointment had yet to be made, President Cosgrave was authorised to seek a bridging loan from the Bank of Ireland. The situation was finally regularised when the Comptroller and Auditor-General Act became law (on 1 January 1923) and when, on 12 January, George McGrath (Collins's Accountant General in the Dáil Department of Finance) was appointed as the first Comptroller and Auditor-General of the Irish Free State, a post he held until 1944.[56]

In the meantime Brennan had already established on a firm footing what now became the Comptroller and Auditor-General's department. By the end of April 1922 he had already obtained William O'Brien's agreement to his "getting together the beginnings of an audit staff." Brennan was particularly concerned with early auditing as he thought it would help Finance "to establish proper order in our financial system and may give us useful information . . . for example, if funds of the provisional government are found to be applied for purposes for which the British or Belfast Government is properly liable." Brennan subsequently consulted Sir Malcolm Ramsay, the British Comptroller and Auditor-General, in London about the problems of setting up a proper system of audit and was promised his full support and cooperation; early in June, he was authorised to go ahead with the work of auditing the monthly departmental accounts then beginning to be available, as well as instituting "a concurrent audit in any case where that seemed to be desirable, e.g. the case of the Army where heavy expenditure has already taken place without any strict financial control having been applied."[57]

From the beginning problems of Army expenditure had caused Finance officials especial concern. On 3 April Bewley and Brennan discussed financial matters affecting the Army with the Minister of Defence, and they were subsequently shown the system of accounts. They reported that they thought it essential that, as in any satisfactory system of public accounts, "one man shall accept responsibility for all the expenditure out of any given Vote, and that he shall obtain

authority from the Ministry of Finance to cover such expenditure." On the problem of whether that man should be a military officer or civilian, they said that the former would be quite acceptable if it was thought desirable on other grounds provided that he would be "of equal rank to the heads of the Army, whose schemes he was criticising" and they were especially concerned that "the financial control of the Army should be kept distinct from executive military control."[58]

Finance's anxiety about Army expenditure did not arise merely from the Department's desire to institute proper procedures in all quarters; equally important was the necessity for economy in view of the financial crisis then confronting the provisional government. On 4 May the Secretary sent the Minister a memorandum, prepared by Bewley at his request, on the financial position. It was calculated that the total expenditure for the current year would be £26½m.: £16½m. for the ordinary administration of the country by the established government departments, and another £10m. for the Army, Civic Guard and the scheme of Reconstruction. No provision was made in these figures for possible additional expenditure which might be recommended by the Postal and Railway Commissions; for the cost of reinstating civil servants who had refused to take the oath, or of pensioning off those who now wished to resign; or for the payment of compensation to those injured in the War or to their dependents. Bewley calculated that the cost of all this might amount to another £3 to £4 million. Revenue, on the other hand, calculated on the basis of the revenue returns for April, would probably not amount to more than £20m. Nor did Bewley think it was relevant that some of the expenditure was capital expenditure; he thought it improbable that, given the prevailing political instability, money could be borrowed at a reasonable interest rate from the banks. He suggested, moreover, that "the present would . . . probably be a very inopportune moment for floating a public loan and it is hard to conceive of anything which would be politically more unfortunate than an unsuccessful attempt to float such a loan."[59]

Bewley's recommendations for correcting the imbalance between revenue and expenditure included the following: the collection of arrears of income tax and the better defence of revenue offices from attack; a decision not to apply the recent reduction in postal charges introduced in England; an end to all government building except on reconstruction schemes (which schemes should also be carefully

checked); a decision not to employ any more civil servants until the existing surplus in some departments had been absorbed; that no announcement be made of a separate cost of living index for the Free State without Finance first being consulted (Bewley was soon afterwards appointed as Finance's representative on the Cost of Living Index Committee, established by the provisional government as he had recommended[60]) and, of particular interest in the context of the impact of the civil war upon the Department's early development, that major economies be effected in the administration of the Army and of the Civic Guard.

IV: The Financial Provisions of the 1922 Constitution

The 1922 Constitution and, later, the 1937 Constitution

> . . . enshrine what have been called the 'fundamental principles' of the British financial system. These principles cannot be found in any single British statute or codification of laws. Some of them, indeed, rest on constitutional usage and not on specific statute, as for instance the doctrine that it is the sole prerogative of the Crown, through Ministers, to put proposals for expenditure before the Commons. But so far as the system depends on statutory provisions, these are ordinary laws, liable to repeal or amendment . . . In our case we have taken the main principles of the British financial system into our Constitution and obviously we would have to go to some trouble if we wished to change them.[61]

So Sarsfield Hogan, who joined the Department of Finance of the Irish Free State shortly after its inception, has written. The main details of the British system, Hogan continues, have been sumarised by Hilton Young in his book *The System of National Finance*, a work which deserves special mention in so far as it was commended to all young officials when they first entered the Department of Finance in the twenties and thirties as an indispensable guide, almost, indeed, as their bible.[62] Young's

> . . . first principle is that no money can be got and none spent save on that purpose to which Parliament has appropriated it; the second is that (subject to minor exceptions) all money got must be paid into a single Fund and that all money spent must be paid out of that Fund; and the third is that the unit of time in financial administration is the year, with the intention that current expenditure for the year shall be met out of the current receipts of that year so that neither debts nor surpluses shall accumulate on current account.[63]

The third principle was enshrined in Articles 36 and 54 of the 1922 Constitution; the second in Article 61; and the first in Article 37. The other financial article of the Constitution (62) provided for the appointment of a Comptroller and Auditor-General "to act on behalf of Saorstát Éireann. He shall control all disbursements and shall audit all accounts of moneys administered by or under the authority of the Oireachtas." This principle of audit, similarly, was based upon British Acts of 1866 and 1921.

But, as Sarsfield Hogan has observed in his summary of the Irish system of financial administration, the principles underlying the financial provisions of the Constitution were "more numerous than those enunciated by Hilton Young in relation to the British system"; they were, however, "natural extensions of, and not novel additions to" Young's principles. Thus the government had the exclusive right to submit financial proposals to the Dáil.[64] Clearly then, the Irish system of financial controls was,

> . . . in all its essential features, the British system. This is not surprising seeing that the period of over 120 years from the Act of Union until 1922 coincided, or nearly so, with the most important period of evolution in British financial administration, from the reforms of Pitt down to the Exchequer and Audit Department Act of 1921. Even if the framers of the Irish Constitution had not, as they apparently did, regarded the British system as being suitable for a parliamentary democracy, it was much easier to adopt well-tried principles with which the transferred administrative staffs were familiar than to experiment in innovations.[65]

Nor did the provisional government react against the Constitution's close adherence to the British model and they gave their final approval to the financial articles of the Constitution without demur in May and June 1922.[66]

The limitations upon the kind of independence sought by Irish revolutionary nationalists in 1919–21 have been well demonstrated by Brian Farrell who has argued that, while Sinn Féin sought to "build a rival structure of government", their new, rival structure as embodied principally in the First Dáil was "based on the same values as the old. The same sources of legitimacy were claimed, the same representative functions exercised, the same model of cabinet government with its conventions of parliamentary responsibility and answerability adopted."[67] What was true of the First Dáil, founded in the first flush of revolutionary ardour, was unlikely to be less true of the provisional

government, confronted by the spectre of civil war and more concerned than ever to establish order in its affairs rather than with launching innovatory experiments in financial administration.

V: The Impact of the Civil War

Fear of civil war and, later, civil war itself dominated the political thinking of the provisional government throughout its existence. One major consequence of this was the prolongation of the abnormal constitutional circumstances when the provisional government was not responsible to the Dáil. "This is the Parliament of the Irish Nation", declared Michael Collins in the Dáil on 28 February 1922, and "it is by virtue of the majority of this Parliament that the Treaty was passed. Now I am responsible as Minister of Finance to Dáil Éireann for everything I put before Dáil Éireann. I am accountable in my position of Minister of Finance in Dáil Éireann, but I am not responsible for things I do in another capacity, I am responsible to the electorate who put me into the position and I will be amenable to that electorate."[68]

This situation prevailed for almost nine months, far longer than had originally been intended, as is clear from the proposal made during the Anglo-Irish talks on the implementation of the Treaty at the end of January when it was proposed that the Dáil should dissolve in March and that fresh elections should be held on or about 25 March with a view to the Third Dáil (or "Provisional Parliament") assembling on 3 April.[69] Fears that an early dissolution might exacerbate the schisms which might lead to civil war caused the postponement of elections until June. But the assembly of the Third Dáil, called first for 1 July, was again postponed when war finally began and it was prorogued by successive proclamations issued on 30 June, 13 July, 26 July, 12 August and 26 August. When it finally met, on 9 September, and when the provisional government was reconstituted and became responsible to a parliamentary body for the first time,[70] civil war was raging and both Collins and Griffith were dead.

Just as ministers were not responsible to the Dáil, neither were their individual departments; the many seminal administrative proposals of Finance were subject to no intensive public scrutiny in the Dáil — they had simply to satisfy their minister and, in the most unlikely event of his colleagues raising objections (something nowhere recorded in the minutes of the provisional government), the other ministers in the government. The absence of public or popular

examination of Finance's proposals under the provisional government was reinforced by the diminution in powers of the Dáil and of its ministers during this period. Although separate in theory, the process of fusion between the Dáil Ministry and the provisional government began at a very early stage; three Dáil Ministers — Arthur Griffith, Richard Mulcahy and Michael Staines — were present by invitation at a provisional government meeting on 27 February 1922, and, at all subsequent meetings of the provisional government, "Ministers of Dáil Éireann were invariably in attendance." The invitations were returned and two provisional government ministers were present on 28 April 1922, the last recorded occasion when the Dáil Cabinet met as a separate entity.[71] But although "the composite nature of the body meeting officially as the Provisional Government, and the large measure of identity of personnel of the two cabinets tended to obscure, in practice, the theoretical distinction between their functions, with the result that some decisions that were properly the functions of the Dáil Cabinet were recorded in the minutes of the Provisional Government",[72] it was the members of the provisional government who were placed at the head of the new departments and who exercised *administrative* power.

One immediate effect of the outbreak of civil war was to increase the already considerable dependence of ministers, particularly in administrative matters, upon the senior officials of their departments, although it should be emphasised that, even before the civil war began, the policies advocated by Finance officials were strongly endorsed by Michael Collins as the Minister of Finance. At a meeting of the provisional government on 10 May, Collins spoke forcefully of the need for economy and specifically commended Brennan's seminal memorandum of 16 March on financial procedure to the attention of his colleagues.[73] This ministerial support was crucial in enabling Finance officials to implement their policies in 1922. That Collins (who tended to give Brennan a free hand in making major decisions)[74] had the power and influence consequent upon his being chairman of the provisional government, to say nothing of the popularity and reputation he had established in 1919–21, powerfully reinforced the Department of Finance's claim to primacy *vis-à-vis* other departments.

The next Minister of Finance, W. T. Cosgrave, inherited many of the same strengths. He was appointed acting Minister of Finance at a meeting of the provisional government on 12 July 1922 (because of Collins's absence on military duties) and at the same time was made

acting chairman of the provisional government.[75] At that meeting Cosgrave "emphasised the necessity for adhering to the instructions already given to Ministers that no scheme involving expenditure should be proceeded with until it had been first considered and approved by the Treasury."[76] On 30 August, following Collins's death, Cosgrave assumed the two positions on a permanent basis, becoming in addition President of Dáil Éireann on 9 September and, on 6 December, President of the Executive Council; he did not relinquish the Ministry of Finance until September 1923.

These abnormal circumstances, arising, first from the fact of the provisional government and, second from the fact of the civil war, conferred inestimable advantages upon Finance in its endeavours to implement its policies throughout 1922 and 1923.

Another effect of the civil war upon the Department of Finance, in its role as the department with overall administrative and financial responsibility, merits special attention in that it illustrates the near coincidence between Michael Collins's concern for propriety in civil service matters and traditional British practice. This was the decision to ask all civil servants to take a declaration of fidelity to the provisional government. On 13 July Collins, by then commander-in-chief of the Army, with Cosgrave, now the acting Minister of Finance, sent a memorandum to the government which listed a number of questions which he favoured circularising to all members of the civil service:

1. Do you promise faithfully to serve the Government elected by the Irish People in your position of_____?

2. Have you taken any part directly or indirectly in the armed conflict against the Irish Government?

3. Have you helped in any way or aided or abetted any forces levying War against the Irish Government?

4. Are you in any way using your official position for the purpose of conveying information to the Opponents of the Government, or are you in any way conveying information regarding official matters to any persons outside the Government service?

5. Have you read the Official Secrets Act, and are you prepared loyally to abide by the terms of same?

C. J. Gregg, although acknowledging that the matter was one "of policy", felt that the vast majority were "completely loyal" and that the test was aimed "against very few", and he doubted "very much whether the standard of honour of the few will restrain them from giving glibly any assurance of loyalty they may be called upon to give." Proceeding by questionnaire was, he argued, "really of very little use if it is intended against the gentleman who takes a general oath or makes a general declaration with mental reservations, for the mental gymnastics that evolve mental reservations are quite capable of dealing with the whole litany of questions." Gregg therefore argued in favour of a simple formal declaration. Although the provisional government at first decided that Collins's proposal was "not desirable", he pressed the matter in a further letter; he was especially concerned about the loyalty of prison staffs (attached to the Department of Home Affairs) and the officials in Customs and Excise. The provisional government then gave way and it was at Collins's suggestion that the matter was referred to the "Treasury" to be examined and issued. Gregg's arguments were accepted and the declaration finally issued on 11 August to be taken by the members of all ministries and departments was as he had drafted it:

> I declare that I have not taken any part with or aided or abetted in any way whatsoever the forces in revolt against the Irish Provisional Government and I promise to be faithful to that Government and to give no aid or support of any kind to those who are engaged in conflict against the authority of that Government.[77]

The episode is instructive, first, for what it reveals of Collins's readiness to follow British precedent (in this case the Official Secrets Act) when it suited his purpose; and, second, for what it shows of the confidence he reposed in the officials of the Department of Finance or, as he then called it, the "Treasury". The rupture caused by the Treaty and the civil war undoubtedly contributed to Collins's reliance upon his new officials and made it much less likely that the provisional government would contemplate establishing their civil service upon the old Dáil departments rather than upon the civil servants who transferred from the British administration. For one thing, the Dáil departments were too small and rudimentary to serve new purposes; for another, they, like the Dáil itself and all the other bodies of the revolutionary nationalist movement, were split by the

Treaty and their loyalty to the new government was, at best, less than unanimous. The point is underlined by the final figures on the composition of the new Free State civil service: the transferred civil servants numbered about 21,000 of whom eighty-eight had left or been dismissed by the British for political reasons; those "who had served under Dáil Éireann in the pre-Treaty period" numbered only 131.[78]

Nor should the impact of the tragic circumstances of Collins's death be overlooked. It was not inappropriate that financial as well as military considerations prompted his fateful trip to Cork where he hoped to recover some of the monies commandeered from the banks by the anti-Treaty forces. The same mission brought Joseph Brennan to Cork and to London, where he was endeavouring to block bank accounts containing government monies diverted by anti-Treaty forces, when he got word of Collins's death.[79] Given Collins's immense standing with his colleagues in government and the trauma of his death, it was unthinkable that they should subsequently have questioned the financial and administrative policies which he had supported and which the officials of Finance had already begun to implement. What was true of ministers was true also of a Dáil composed largely of Collins's supporters and friends. Waging and winning the civil war and ensuring the survival of the new state absorbed all their energy and attention. There was neither time nor opportunity critically to examine the many proposals brought forward by Finance throughout 1922. If there had been no civil war, it is conceivable that ministers might have contemplated major administrative reforms and questioned, perhaps, the administrative model bequeathed them by the British. For example, at a meeting of the provisional government on 15 May, Collins had asked all ministers to prepare summaries of their departments' work "with an outline of the policy to be adopted after the elections, including reforms, economies, extensions and improvements" and he promised to circulate a memorandum on the subject.[80] But the course of events after the elections was not conducive to the writing of memoranda on administrative matters, for, within weeks, the civil war had begun.

The civil war, by exacerbating animosities among Irishmen, may have done something, too, to temper the antipathy with which the supporters of the provisional government might otherwise have viewed the administrative legacy of their erstwhile British opponents, opponents now supporting them in their efforts to win the civil war.

The new enemy in 1922 was chaos and anarchy, the possible collapse of governmental authority, and all the other fears hinted at by the very name "Irregular". It was not a time for contemplating the overthrow of an administrative system simply because that system had been used by the British. What the government wanted was to prove that they could govern. To attain that end, they were willing to take the advice of men whose administrative experience and capacity far exceeded their own. Civil servants, particularly in Finance, were thus free to construct the administrative fabric which they deemed most appropriate without that interference from their political masters which might otherwise have been expected to follow in the wake of a political revolution. The story of the first months of the Department of Finance is in large measure the story of how they availed themselves of that opportunity.

CHAPTER THREE

The Search for Stability 1923–24

I: Reorganisation and Recruitment

The inauguration of the Irish Free State on 6 December 1922 removed the restrictions upon the legislative powers of government departments which had existed under the provisional government. The consequent substantial increase in the volume of work in the Department of Finance inevitably led to a demand for more staff and the first few months of the new government witnessed a complete reorganisation of the upper echelons of the department.

The most important addition to the administrative staff was J. J. McElligott. McElligott, who came from Tralee, had entered the civil service at the age of twenty-three as a first division clerk in the Local Government Board, having earlier obtained a BA in Classics. He was, however, summarily dismissed for political reasons on the recommendation of a committee set up to investigate cases of civil servants suspected of complicity in the Easter Rebellion. More than suspicion attached to McElligott who had fought in the GPO and was subsequently imprisoned in Stafford Jail. On his release he enrolled as a medical student in University College Dublin where he became the first president of the Student Representative Council. But his interests turned increasingly to financial journalism and in March 1919 he was employed by the London financial journal, *The Statist*, for a trial period of three months which led to his becoming acting editor in July 1920 and managing editor in March 1922.[1]

McElligott's talents had not escaped the attention of Dáil ministers and, early in 1921, Collins wrote of him as a suitable person to undertake a series of articles attacking British trading policy in Ireland.[2] Earlier still, in September 1920, Ernest Blythe had proposed to the Dáil ministry that McElligott should be asked to become secretary to

the Economic Council, then being established, at a salary of £500 a year. But that job went instead to Erskine Childers and there is no evidence that it was ever offered to McElligott.[3] But McElligott was clearly anxious to return to Ireland and, on 21 January 1922, after the provisional government had been set up, he wrote to the Association of Victimised Civil Servants in Ireland seeking reinstatement and compensation. In the following November he received a letter from Brennan saying that the Minister of Finance was "anxious to secure the services of suitable Irishmen for the conduct of the administrative side of the financial work of the new government"[4] and inviting him to become an assistant secretary in the Department of Finance at a salary of £1,000 a year and to resume his status as an established civil servant. McElligott accepted the offer and took up duty on 1 January 1923. From then until September 1927, when he succeeded Brennan as Secretary of the Department, the close alliance and cooperation between the two men was of crucial and continuing importance in the direction of the Department's affairs.

McElligott's arrival was swiftly followed by another important change in the Department when, on 22 February 1923, William O'Brien left to take up his appointment as the first chairman of the Revenue Commissioners.[5] The way was now clear for Brennan to be appointed to "a post which he had been effectively filling",[6] that of Secretary of the Department of Finance. He is recorded as having held that post from the same date although his appointment did not come before the Executive Council for approval until 8 March,[7] which again reveals something of the informality of the government's approach to such appointments in their first years. The circumstances of O'Brien's change of post were complex and in the first instance arose from the fact that the Revenue Commissioners were not set up at the same time as the Department of Finance. The provisional government, as we already seen, was not empowered to impose taxation and, during its lifetime, the duties which subsequently fell to the Revenue Commissioners in the Free State were carried out by the Commissioners of Inland Revenue and the Commissioners of Customs and Excise of the United Kingdom. This situation terminated with the end of the provisional government and, on 21 December 1922, C. J. Gregg (who was primarily responsible for setting up the Revenue Commissioners in addition to so much else of the structure of financial administration of the Free State) sent a minute to W. T. Cosgrave, as Minister of Finance, setting out the

arrangements he believed necessary for the administration of taxation in the new state. Gregg pointed out that

> . . . under the Order-in-Council transferring functions to the Provisional Government the functions of assessment of taxation were transferred to the Minister of Finance, and as matters now stand the powers of taxation in the Free State are vested in the Minister of Finance. The big question of policy therefore arises whether the Executive Government of the Free State is to be charged with the task of assessing taxation or whether arrangements should not be made to divest the Minister of these powers and set up a Body to be endowed with them. If the powers of taxation are vested in the Minister who is responsible to the Dáil, you immediately place the assessment of taxation under the direct control of the Dáil and this course is, I think, wrong in principle and is very inexpedient here in Ireland where the Minister would undoubtedly be subject to all kinds of representations, appeals, influence, etc., on behalf of individuals who will seek favourable adjustments of their liability. It is submitted, therefore, that we ought to set up some Board to carry out administration of taxation on the same lines as obtain in the British system . . . [where] the collection of all the taxes is under the complete control of the two Bodies of Commissioners and the argument adduced above for placing the assessment of taxation under an independent and not a ministerial control applies with equal force to the collection of taxation which should be a matter for which Ministers as such should hold no personal responsibility. The two Bodies of Commissioners are charged by Statute with the general care and management of the particular taxation which they administer. As pointed out above, they hold a position of independence in respect of their duties of assessing taxation. They are of course officials subject to governmental control in all other matters such as expenditure, staff, etc., and in particular the taxation codes prescribe certain matters in respect of which Treasury authority is required. If it is conceded that we should adopt the system of a Board or Commissioners for the administration of taxation, I think the two taxation Departments of Inland Revenue and Customs and Excise should be combined and placed under one Revenue or Taxation Board. There can be no fusion between the general staffs of the Customs and Excise and Inland Revenue Services whose duties are more or less in water-tight compartments, but considerable economy can be secured by combining the two under one Board. I suggest that the Revenue Board consist of a Chairman and two Commissioners who would also be Secretaries, one on the Inland Revenue side and one on the Customs and Excise side. I suggest a salary of £1,500 for the Chairman and salaries on the scale of £1,000 to £1,200 for the Secretary Commissioners.[8]

Cosgrave accepted Gregg's recommendations which were approved by the Executive Council on 30 December.[9]

O'Brien seemed the obvious choice for the new position: he had been a Principal Inspector of Taxes in Dublin before his appointment as Secretary of the Department and it may well be that Michael Collins offered him the latter post because his own previous experience as Dáil Minister of Finance predisposed him to equate revenue and finance. But although O'Brien fully appreciated "the difficulty of the present situation as regards Revenue" and agreed that the new post demanded "extensive technical knowledge which cannot be acquired without years of study and experience of Revenue work,"[10] he was less than happy about the original proposal and, in a personal memorandum to Cosgrave, sought to make his appointment subject to certain important conditions. O'Brien wrote that when Cosgrave had first broached the matter with him

> I understood . . . that you were not aware that in the ordinary course of the civil service life the new position would be regarded as a lowering of rank for me. The Secretaryship of the Treasury is the highest position in the Civil Service, and I have held that position since 2 February 1922. I may say that I never sought the position directly or indirectly and that I was not personally known to any of the members of the Provisional Government.
>
> Before giving up my present position I think it is only reasonable that all suspicions of a degradation or unfairness should be removed. A good deal of unpleasant gossip has already arisen on the subject. I should be quite satisfied if the Government make a definite order and place it on record that *as long as I hold the position of Chairman of the Revenue Board* the following conditions shall have effect:
>
> 1 the position is to be regarded as of equal rank with that of Secretary of the Treasury.
>
> 2 the remuneration attached to the post is not to be less than that payable to the Secretary of the Treasury.
>
> 3 I should have direct access to the Minister of Finance on all important questions relating to Revenue staff and administration generally without having to submit proposals to officials in the Treasury who are now my subordinates.[11]

O'Brien won his point and his conditions were accepted, word for word, at a meeting of the Executive Council on 5 February 1923, subject only to the rider that they would apply only while O'Brien held the position and would not be "regarded as creating any precedent."[12]

January 1923 also saw the return to the Treasury of T. K. Bewley, who had played such an important part in the history of the Department under the provisional government. Bewley's work was taken over by two men. The first, C. F. Ryan, was obtained (like Bewley) on loan from the Treasury in London by Gregg. Ryan's work was mainly on the establishment side and his loan (originally for six months) was extended to 31 October 1923.[13]

The second man, Arthur Codling, was to play a much larger part in the Department's affairs for the next twenty years. An Englishman by birth he had entered the civil service as a first division clerk in 1900 at the age of twenty-three and served in the Department of Local Government in Ireland for the next twenty years. A Methodist, he shared many of the attitudes of Gladstonian liberalism and he remained in Ireland after the Free State had been set up.[14] In January 1923 Codling, as an officer of outstanding qualifications, was specially chosen by a selection board set up to review the qualifications of civil servants for appointment in the new ministries of the Free State. He was duly transferred from Local Government to Finance on 25 February 1923 and was placed in charge of the supply division. In September 1923 he was promoted principal officer, and in January 1928 assistant secretary, a post he held until his retirement in 1944.[15]

The Civil Service Commission

The necessity for quickly establishing a civil service commission had long been evident to the officials of the Department of Finance. Their apprehensions about the abuses relating to civil service appointments were evident even before the transfer of functions of 1 April. "The Provisional Government direct me to request you to be good enough to impress upon your staff that they are forbidden to make any application, directly or indirectly, for appointments or promotions except through the Head of their Department", stated a circular letter from William O'Brien to the heads of all departments on 16 March 1922. "Any departure from this regulation will in future render the applicant ineligible."[16] Some months later, on 20 July, the provisional government found it necessary to make "a ruling . . . that Ministers should not canvass on behalf of any person or persons seeking appointments or preferment."[17] The problem was again discussed at another provisional government meeting a few days later when it was decided "that Civil Service appointments may not be made

without the consent of the Government", and, in mid-August, P. S. O'Hegarty, the Secretary of the Post Office, and T. A. Ó Murchadha, of the Lord Chancellor's Office, were "provisionally selected to act as a Committee to advise on appointments in the Civil Service."[18] Although this proposal came to nothing — the proposed advisory committee never seems to have functioned — it highlighted the necessity for quickly setting up proper procedures for civil service appointments.

In early October C. J. Gregg again expressed his concern to his minister about the problem of canvassing for civil service appointments. He drew his attention to a circular which the Treasury in Whitehall had just issued on the subject, and, on 18 December 1922, a further circular was issued by the Department of Finance to all ministries and departments reiterating the warning contained in the March circular and complaining of breaches which had since occurred. Any future breach, it declared, "will not only render the applicant ineligible for the appointment or promotion which he is seeking, but will in addition render him liable to disciplinary action."[19]

In the meantime the first decisive step towards the setting-up of a civil service commission had already been taken: on 3 November, the provisional government approved a memorandum from the Minister of Finance urging that such a commission be established and appointing Dr Henry Kennedy of the National University of Ireland as secretary responsible for bringing proposals before the government.[20] On 5 January 1923 Dr Kennedy presented his report on the recruitment policy for the future Irish public service.

Kennedy's report emphasised the growing tendency in the British public service, first in the MacDonnell Commission Report of 1914 and again in the Haldane Committee Report at the end of the war, to favour the coordination of the general supervision and control of the civil service under a special, establishment branch of the Treasury. Kennedy contrasted this tendency with existing practice in the British Dominions and in the United States of America "where the Civil Service or Public Service Commissioners have vested in them very wide powers of control of the public service both as to recruitment and promotion of the personnel and as to organisation of the machinery of administration." While he believed that the British methods of recruiting the administrative class by selection boards (the basis of selection being the academic achievement and personal

qualities of the candidates) should be adopted, he went on to point out that recruitment to this class in Ireland would be very small. Nor did he see any objection to using public school examinations for recruiting the clerical and executive classes. In general, Kennedy concluded that

> . . . there seems no good reason why recruitment should be considered such a distinctive feature of the employment problem to warrant a separate and distinctive organisation for its control. Especially is this so in a small service, where the establishment of many separate small departments with periodic or seasonal activities is to be deprecated.
>
> In a small service such as ours the problem of promotion from one class to another seems to be essentially the same as that of recruitment. Success in all competitions depends on being able to provide a large field of suitable candidates from which to choose. In the British system, with but few exceptions, each department on account of the magnitude of the service could rely on a sufficiently extensive field from within itself to enable it to recruit suitable officers for promotion. An equal degree of success can only be acquired in a small service by making the field cover the entire service.
>
> Limitation of competition to the Department concerned will be prejudicial to the service, and unjust to able and ambitious officers in Departments where there is little scope.
>
> If this contention be admitted, it follows that the functions of promotion must be vested in a centralised authority and the obvious authority is that which controls recruitment also . . . Common to the British and Colonial systems is the tendency to effect efficiency by expert attention from some centralised authority. But in the appraisement of candidates in competitions for promotion the central authority must have available in a coordinated form the history of achievement and the efficiency records of the candidates. It would seem, therefore, that the supervision of the service should be vested in the same body as the duties of promotion and recruitment. The question then arises as to the nature of the central authority which should recruit and control the Public Service. British tradition places recruitment in the hands of the Civil Service Commission and a somewhat loose control in the Treasury. Universal procedure in America and the Dominions vested all these functions in a Public Service Commission.
>
> It seems to me that with our small service, unified control is the simplest and most economical. The complete control may rest with the Treasury or may be vested in a Public Service Commission. There is the theoretical objection that control of recruitment should rest with an independent and judicial body. This argument, if upheld, must apply equally to promotion and transfer. I therefore recommend
>
> (1) that careful consideration be given and further enquiry directed to the

> system of control which is universal among English speaking peoples outside of Britain. That the enquiry should further be directed to the desirability of revision of the present classification of the Public Service in Ireland, and of the employment of expert assistance to advise on classification and organisation. . . .
> (2) that in the meantime and as a permanent procedure if no change seems desirable as the result of enquiries under (1) above, general control including recruitment be vested in the Finance Department. That as far as possible the public school examinations conducted by the Ministry of Education be used as competitive examinations for the Public Service. . . .
> (3) In case it should seem to the Government that the argument for recruitment independent of the Finance Department is insurmountable and that the time is not ripe for the establishment of the Public Service Commission on Dominion lines, I recommend:
> that a Public Service Commissioner be appointed to carry on the functions similar to those of the British Civil Service Commission and that a clear definition be given in the case of appointment to professional and technical positions whether (a) the appointment is made on the responsibility of the Minister concerned on the recommendation of a Selection Board or otherwise, or (b) the Commissioner has a veto on the appointment.
>
> There seems to be no justification for more than one Commissioner. New Zealand and Australia until the recent legislation carried on their much greater duties with one Commissioner and the British Civil Service Commission itself has from time to time carried on with two and sometimes with one effective Commissioner.[21]

Kennedy's report provoked an important discussion of principle among the senior officers of the Department. Gregg felt that the report raised "the issue as to whether a Civil Service Commission will have any responsibility for the organisation of departments, for the promotions occurring in departments and for the maintenance of discipline of departments." He declared that he was "very strongly and definitely of the opinion that it should not have any such responsibility." His contention was that the organisation of departments involved decisions about numbers and salaries and he felt that it was

> . . . essential that the controlling power in these matters should be in the hands of the Minister of Finance as the Minister with general financial control. Over 7 millions of present expenditure (including over 3 millions for teachers and education) is represented by salaries and wages (excluding the Army and the Civic Guard) and expenditure of this kind is of a

permanent character and therefore calls for more stringent control than practically any other. Moreover, expenditure in salaries and wages is a field of expenditure in which economy ought to be obtained in the future, and the Minister of Finance who will have in the immediate future the problem of making ends meet should have the complete power to take such measures as he may consider necessary for the purpose.

Gregg further argued that promotion and discipline were "the two most signal marks of executive authority in a Department, and a Minister must have the powers if he is to govern and be responsible for his Department." He therefore concluded that the functions of the Irish Civil Service Commission should be confined to recruitment. While he accepted that, in an ideal world, Dr Kennedy's suggestion that recruitment and control of staff should be combined in Finance for reasons of economy, he thought that under existing conditions the Department could not possibly take the onus of responsibility for recruiting for the civil service as a whole.[22]

Bewley, in his minute on Kennedy's report, took up the central issue of Treasury control, the nature of which he felt Kennedy had misunderstood. In theory, he wrote, the Treasury exercised almost all the functions exercised by the Civil Service Commissioners in the Dominions and he felt that whether or not these functions were exercised by the Treasury itself or by some independent or semi-independent body was not the main issue. Bewley thought that the fundamental difference between the two systems was "that in England financial control is really in the hands of the Treasury, whereas in the Dominions (and in many other countries, e.g. France) financial control is in the hands of the Parliament, either by parliamentary committees or otherwise." The fundamental Irish problem, Bewley argued, was

> . . . whether Treasury control or Parliamentary control is to be introduced. Personally I am strongly in favour of the former. Apart altogether from the personnel of the present Dáil, I think the permanent official, because of his permanence and because of his remoteness from external influence, is bound to be a better administrator than the Parliamentary Committee man. I do not think, therefore, that a Civil Service Commission with wide powers should be introduced here except directly under the Ministry of Finance, whether as a branch of the Ministry or as a semi-independent body is of small importance . . . I should, therefore, be inclined to recommend a Civil Service Commissioner responsible to the Minister of Finance with no powers to settle establishments or to reorganise offices.[23]

But Joseph Brennan's minute on Kennedy's report,[24] is even more illuminating. After regretting that he had not time to discuss the report in any detail, Brennan declared

> . . . that radical departure from the system of Treasury control would in my opinion be not only inexpedient, but calculated in some respects to conflict with the general conception of Government embodied in our Constitution. The Executive Council is specially responsible for the conduct of administration especially on its financial side and the Minister of Finance must necessarily be its chief instrument in controlling expenditure and matters akin to it. In fact, it is a special trouble at the moment that control through the Minister of Finance is not being applied as effectively as is necessary. The Minister cannot exercise a real control if some independent kind of Public Service Commission is created which shall have among its functions that of 'control as to organisation of the machinery of administration'.

Finance's reaction to Kennedy's report was decisive. Cosgrave had expressly sought their views on the report and had postponed consideration of the matter by the Executive Council until those views became available.[25] Moreover, the only ministers who appear to have accepted the President's invitation to submit memoranda on the report, shared Finance's doubts about the departures from British practice that Kennedy had mooted.

The Post Master General, J. J. Walsh, thought Kennedy's report "interesting" but "too heavily based upon what Canada or Australia or the United States does . . . it gives no consideration to the practical aspects of the revolutionary administrative change which it suggests." Walsh argued that the recruitment and certification of civil servants, as under the British system, were the only true functions of a Civil Service Commission. The Irish civil service, Walsh continued, was

> . . . in the making stage; it is not a time to experiment with schemes which have been born of the experience and the conditions in other countries. The British Civil Service system has operated in this country for the past 60 years, and no matter what our views may be on the institutions of Britain generally, its Civil Service Commission is without a doubt one of the finest and most impartial institutions of its kind in the world. And an Irish Commission conducted on similar lines would best fit in with our new Civil Service and would steer clear of any risk of disturbing or disorganising the building-up work of all Departments which is going on. . . .

On the question of centralised control, it is quite certain that at least as much control and restriction as should reasonably be exercised over Departments is at present exercised by the Ministry of Finance. It controls expenditure, it controls staff, and it butts into everything. I am not complaining of that because I realise that it is essential that there shall be a drag on expenditure, and that such supervision had better err on the harsh side — which it does — than on the easy side. But to extend it as suggested by Dr Kennedy would make administration impossible and would materially impair service efficiency.[26]

Eoin MacNeill, the other minister to submit a memorandum, expressed his "complete agreement" with Walsh's views and argued that "the duties of the Civil Service Commission should conform to the excellent model of the British Commission, of which, so far as I know, there has been no complaint as to efficiency and suitability." MacNeill also stressed the "crucial importance" of an Irish Civil Service Commission as "a determining factor in the future of Irish education. It can be used as a powerful instrument in carrying out a national policy of education, or its power to that end can be neglected, or it may even continue the denationalising influence of the British Civil Service." As Minister of Education, MacNeill was particularly concerned with this point and contended that "to give the public confidence, the new Commission must be so constituted as to be a guarantee of its purpose for the established national policy in education. If there be only one Commissioner, he should be a person associated with that policy and desirous by his own convictions and not merely in conformity with Governmental aims, of giving that policy the maximum effect." MacNeill further believed that an Irish Civil Service Commission, unlike the British, should perform the same functions for local government as for central government.[27]

MacNeill reflected the general views of ministers expressed at a meeting of the Executive Council on 16 February at which he had not been present, when a decision on the matter had been postponed pending the submission by ministers of names of persons who might be suitable for appointment as Civil Service Commissioners.[28]

There the matter rested until the first week of April when Cosgrave and Gregg discussed it further with Michael Hayes, the Ceann Comhairle, on the basis of setting up a Civil Service Commission consisting either of the Ministers of Finance and of Education and Hayes himself (either apart from or by virtue of his

office) or of a representative from Finance, a representative from Education and Hayes as Chairman.[29] At this stage Cosgrave again sought Gregg's advice and Gregg recommended that the Civil Service Commission should be "responsible for all examinations conducted by the State, including examinations in connection with the police and army", but that they should "have no responsibility as regards promotion or grading in the Service . . . which would remain a matter for Ministers" and "would in no way abrogate the responsibility of the Minister of Finance in regard to grading and numbers."[30]

Gregg's memorandum also reveals that, by this time, the Executive Council clearly favoured the appointment of a Commission rather than of a single Commissioner, and it was quickly followed by a final and conclusive memorandum from Ernest Blythe, then the Minister of Local Government but shortly to become the Minister of Finance, to Cosgrave.[31] Blythe understood that

> . . . in fixing the educational standard, and in prescribing the subjects of examination, and the marks to be attached, the Civil Service Commission would act under regulations which would require the sanction of the Ministry of Finance. In view of these facts, and in view of the part which should be played by the Civil Service examination in nationalising and Gaelicising education in the country and in view of the political uncertainty of the future, it seems to be essential that the chairman of the Civil Service Commission should be a man whose personality and whose record would give strength to this position. It will be very important that, in future, a Finance Minister whose views in regard to, say, the Irish language, were undefined, should not be able, without a struggle, to procure the adoption of examination regulations which would give the Irish language a position of no importance. It is important also that when the recruitment of professional and technical civil servants is being dealt with, we should have at the head of the Commission somebody who would be able to make his weight felt in securing that, where possible, people conversant with the national language were appointed. It seems to me that we would not easily get the type of man who would exercise the requisite influence by promotion from the ranks of the existing Civil Service. I suggest that the Civil Service Commission consist of the Secretary of the Ministry of Education, and a representative of the Ministry of Finance, with the present speaker of Dáil Éireann as chairman.

At an Executive Council meeting on 4 May Blythe succeeded in obtaining a decision in favour of his proposals[32] (which were fully in

line with what had been discussed a month earlier by Cosgrave, Gregg and Hayes). At a further meeting on 8 May the Civil Service Commission was duly appointed: it consisted of Michael Hayes (Ceann Comhairle), as Chairman of the Commissioners, with J. O'Neill (Secretary of the Department of Education) and Gregg of Finance as his fellow Commissioners.[33]

The legislation embodying these decisions, acknowledged Blythe in the Dáil, had "no new features", but its strength was that it continued

> . . . the system with which we are familiar. It has worked well with the British and has given them an efficient and very capable civil service. It has done the work of administration exceedingly well, on the whole. I believe with us the system will also work well, and as time goes on we will be able to get a good civil service at as cheap a rate as will be consistent with requirements. The system will give a chance to all who may aspire to enter the civil service and it will give fair play all round.[34]

The outcome, as embodied in the Civil Service Regulation Act of 1924, proved of enduring importance in determining the Department of Finance's relationship with, and power over, other government departments. For, while the appointment of the Commissioners themselves fell to the Executive Council, the appointment and remuneration of the other officials of the Commission was the responsibility of Finance, and the regulations which the Commissioners were empowered to frame (with regard to competitive examinations, permanent and temporary admission and professional appointments to the civil service) were all subject to the agreement of the Minister of Finance. Especially significant was section 9 of the Act which stated that "The Minister for Finance may from time to time make regulations for controlling the civil service of Saorstát Éireann and providing for the classification, remuneration and other conditions and terms of service of all persons employed therein whether permanently or temporarily; and may at any time revoke or vary any such regulation."

The implications of all this were revealed by an exchange of letters centring on the appointment of Michael Hayes as the first chairman of the Civil Service Commissioners. Hayes's appointment was conveyed to him in a letter signed by the acting secretary of the Executive Council and "Gregg at the time objected to this procedure and stated that the appointment should have come through the Ministry of Finance." Hayes, however, insisted that he felt "no

responsibility whatever to the Finance Department or to the Minister of Finance as such."[35] Although subsequent correspondence shows that Hayes's stand was due to a misunderstanding, and harmony was soon restored between him and Blythe, Gregg's comment on the episode shows that the product of the government's legislation on the civil service might have been very different. "As you will remember from the discussions at the Committee over which you presided", Gregg wrote to Blythe,

> there was a school of thought which — from the premises that the Executive Council was responsible collectively,[36] and that the President was the head of the Executive Council — reached the conclusion that the President should be surrounded by a band of super-men who would be kept cognisant day to day of any important development in Departments and would weigh and measure all proposals put before the Executive Council so as to advise the President of the attitude he should adopt when the matter came before the Council for discussion.[37]

Such a theory, if implemented, might seriously have threatened financial control. But it was not to be and Gregg was content with the outcome. "You may be interested to see our Civil Service Regulation Act of which I enclose a copy", he wrote to a Treasury colleague in London from whom he had sought information concerning British practice; "it is practically a reproduction of the British Orders-in-Council."[38] The system endured. Apart from Gregg's replacement by H. P. Boland, his successor as establishment officer in Finance in September 1924 when he returned to London, there were no changes in the personnel of the Commission before 1932. From then onwards it became the practice to appoint the secretary to the government rather than the secretary of the Department of Education as a commissioner but the other two positions continued to be filled by the Ceann Comhairle and a leading official of the establishment (or personnel) section of Finance: the stability and durability of the system is perhaps best illustrated by the fact that fewer than twenty individual appointments of Civil Service Commissioners have been made since the Commission was first set up half a century ago.[39]

The Ministers and Secretaries Act 1924

Another major concern of Finance during this period was the redistribution of ministerial functions and the reorganisation of government departments — the whole complex of changes which was eventually

given statutory form in the Ministers and Secretaries Act of 1924, by far the most important single Act governing the central administration of the state.

The investigation to determine how these changes might be best effected appears to have had its immediate origins in a letter from J. J. Walsh, the Postmaster General, to President Cosgrave, suggesting that an interdepartmental committee with representatives from Finance, Industry and Commerce, Local Government and the Post Office be set up to consider what "economical rearrangement" of departmental responsibilities might be undertaken.[40]

Gregg again appears to have played a key role in advancing matters. In a memorandum of 12 January 1923, which he sent to his minister, he declared that "the distribution of functions and services among the various Ministers affected by the Transfer of Functions Order requires immediate revision." Before proceeding with any Ministries Bill, he felt it essential "that there should be a review of all State services and that the grouping of services under Ministries should be decided upon. The review itself is not a difficult problem and will not necessitate very much time or inquiry. It should, I suggest, be dealt with by a small committee of 3 or 4 civil servants of the Head of Department rank under the chairmanship of a Minister."[41]

William O'Brien, on the other hand, was unfavourable to the idea of a reorganisation: "apart from the question as to whether the proposed changes would lead to economy or efficiency", he wrote, "and on this point there is plenty of room for doubt — such changes cannot be contemplated now when there is so much important work to be done on urgent Revenue matters." But O'Brien's objections were overruled, and the Executive Council, at its meeting on 13 January, approved Gregg's memorandum. The Minister of Local Government, Ernest Blythe, was appointed as the chairman of the new committee whose other members were Eamon Duggan, Gregg, and the secretaries of the Departments of Industry and Commerce (Gordon Campbell) and Home Affairs (Henry Friel).[42]

The committee (known as the Blythe Committee) reported within two months — on 6 March 1923 — a striking example of the speed and vigour with which the most far reaching administrative reforms were prosecuted in the early years of the new state. The principle upon which it proceeded, its report stated, was

> . . . that it is better in the interest both of the public and the service to

> determine how the broad basis on which the Governmental machinery of An Saorstát should be established than to deduce the machinery from the appointment of Ministers whose number and functions are decided on transient political considerations. It is considered essential to effective administration that as early as is possible the main divisions of the public service should be established once and for all so that the public may become familiar with these divisions and persons employed in or contemplating admission to the public service may know with fair certainty how the various functions of the Government are distributed, what the nature of their work would be for a reasonably long period, in what direction special knowledge will find its best opportunity and what the prospects and conditions of life in the public service are when compared with other occupations. Changes in the organisation first adopted should, of course, be adopted as experience dictates but it is considered undesirable so to arrange the allocation of administrative functions as to make it dependent on too frequent changes in the political atmosphere.[43]

A fortnight later, on 20 March, the Executive Council approved the report without demur and ordered the preparation of a bill based on its recommendations.[44] The details of that bill, enacted as the Ministers and Secretaries Act 1924, fall outside the scope of this work and we need but note its implications for the Department of Finance. These were, first, a further reassertion of the principle of Treasury control, spelt out in the prelude to the description of the specific functions assigned to Finance which charged the Department with "the business and functions formerly discharged by the British Treasury in Ireland"; and, second, the strengthening by statute of the twin principles of administrative efficiency and economy. Hence Joseph Brennan, the Secretary of the Department, welcomed the opinion of the Blythe Committee "that the general administrative work of the country could effectively be done by nine Ministers"[45] and, stressing the need for economy, argued that "separate Ministries dealing with aspects of the same matter means unnecessary staff, overlapping with duplication of work and extravagance. Nothing is more extravagant than small administrative units" which, he felt, militated against coherent administration and would lead to public confusion.[46]

It would be wrong, then, to interpret Finance's attitude to the Ministers and Secretaries Act as a desire to expand their empire. Indeed, under the Act, some of their responsibilities were transferred to other departments: the National Health Insurance Office was transferred to Local Government, the Office of the Commissioner for

Charitable Donations and Bequests to Justice, the responsibilities of what had been the Treasury Solicitor's Office to the Attorney General and the National Gallery to Education.[47] Moreover, even before the Blythe Committee had completed its deliberations, in at least one important instance Finance had resisted a proposal that would have considerably increased its jurisdiction when it was proposed that the Post Office should be amalgamated with and placed under the Department's control. Gregg rejected the proposal out of hand, for reasons that were fundamental to the Finance conception of its proper role in central administration, in a memorandum which clearly reveals why the Department did not find it necessary to seek powers or responsibilities greater than it already possessed. "It is objectionable in principle", wrote Gregg,

> to bring large staffs under the immediate jurisdiction of the Minister of Finance. It is the Minister of Finance's duty to control the numbers and remuneration of staff in the Public Service and his independence of control would be endangered if he were made directly responsible for the large staffs of the Post Office — staffs well organised and by no means docile. The control of the power of the purse is much more effective when the man who holds the purse has that job only and looks at every bill from the point of view as to whether or not there is enough money to pay the bill and not from the point of view of the attractions of the items in the bill.
>
> The Minister of Finance has complete financial control at the moment and could make it as stringent as he pleases so the proposed merging could not be justified on the score of financial control.[48]

The Administrative Class

Nineteen twenty-four saw one other development in recruitment and organisation procedure which is of special significance for the early history of the Department of Finance: the inauguration of a special competitive examination to fill administrative posts in the Department. Yet again we must turn to a memorandum from Gregg to his minister for an account of the background to this development:

> The British Civil Service Organisation contemplates in all the principal Departments three general Civil Service classes, the Administrative class recruited from University material at ages 22–24, the Executive class recruited from secondary school material at 18–19 and the Clerical class 16–18. All the big London Departments have an administrative machine at headquarters based on the administrative class . . . in Belfast the Northern

Government had adopted the grade for its principal Ministries. In Dublin on application of the Reorganisation Report all Departments, with the exception of the Chief Secretary's Office, were graded by the British Treasury as requiring only the executive and clerical grades and in fact the staffs of all the Dublin Departments at the moment consist of officers of the Executive and Clerical grades. While a case might be made out for the introduction of the Administrative class into important Free State Ministries there are enormous practical difficulties at the moment which can be summed up in the statement that the Departments are in fact staffed with the Executive classes and the adoption of Administrative grades would not give us the Administrative material but would simply result in paying Administrative scales of salaries for Executive material. The Finance Ministry occupies a peculiar position. Being the Department responsible for control of expenditure it is brought into contact with all other Departments and has to deal with questions which range over the whole gamut of State activity and require for their treatment a general acquaintance with other Departmental activities. If the control of expenditure is to be wise and proper it is essential that the staff should be recruited from the best possible material. The Finance Ministry is a brand-new Department which has to create its own staff and while everything has been done to attract into the Finance Ministry the best material available in the Service it is felt that the time has now arrived when steps must be taken to recruit therefor material of the type best fitted for administrative control. It is proposed, therefore, that we should recruit from university material, that is from men who have taken an honours degree in the universities, six Junior Administrative Clerks and it is proposed that the scale of salary for the posts should be £150 to £500 plus bonus which was the scale obtaining in the British Civil Service for class I clerkships up to some years ago. The proposed examination for these six clerkships would be an open competitive examination of the Honours Degree University standard and with such age limits as would provide competition amongst university graduates of the past few years. There would be a special extension of age limits for men who have served in the Army or for men who have been in the Public Service and in addition a number of service marks would be added automatically to any candidate who has served in the army for, say, a period of six months.[49]

Gregg's memorandum was duly approved by the Executive Council and the first such examination was scheduled to take place on 10 December 1924. Under the original terms of the advertisement, however, women were prohibited from entering for the examination and the ensuing protests (both from individual women and from the Irish Women Citizens and Local Government Associa-

tion) caused the examination to be postponed.[50] H. P. Boland, who had by then succeeded Gregg as assistant secretary in charge of establishments in Finance, was especially apprehensive about the prospect of women entering Finance through an examination which was essentially envisaged as the entry route for potential heads of government departments.[51] But, on 31 December, the Civil Service Commission was informed that the Minister for Finance had decided that both males and females should be eligible to enter for the examination which was then rearranged to take place on 14 April 1925. The successful candidates took up their appointments in August 1925. No fewer than three out of these seven subsequently became heads of government departments: Leon Ó Broin, John Garvin and Maurice Moynihan; and another, Louis Fitzgerald, was to succeed to Gregg's and Boland's old post as assistant secretary in charge of establishments in Finance, the equivalent of a secretaryship in any other department.[52]

The Departure of C. J. Gregg

One other change in the personnel of Finance in 1924 must not pass unrecorded, namely the final departure of C. J. Gregg from Dublin and his return to the Board of Inland Revenue in London. Gregg's appointment on loan in March 1922 had originally been intended to last for only six months but, following semi-official representations from William O'Brien to the Treasury, it was agreed that Gregg should stay on, first until June, and then until August 1923.[53] In the meantime, after Brennan had succeeded O'Brien as Secretary of the Department, President Cosgrave showed his special esteem for Gregg by laying down that he be given special rank "as Secretary for establishment matters" and that he should be directly responsible to himself as Minister of Finance pending his return to the Board of Inland Revenue.[54]

The British also were fully aware of Gregg's extreme importance to the Irish government and the extension of his loan was discussed at the highest level. On 1 August 1923, Masterson-Smith (the Permanent Secretary to the Colonial Office) took the matter up with Warren Fisher (the Permanent Secretary to the Treasury). He explained that Cosgrave had made further private representations for the extension of Gregg's loan for another year and that he believed Gregg himself was "not anxious to remain in Ireland . . .

but, at the same time, would be prepared to do so" if the Board of Inland Revenue or the Treasury thought it desirable or necessary. Masterson-Smith thought it was desirable on the grounds that "the efficient administration not merely of the Ministry of Finance but of the Civil Service generally in the Free State is of very great importance to this country. I know well . . . that the new Government Departments (the Ministry of Defence, the Ministry of Home Affairs and the Ministry of Finance) are very weak, and I am convinced that anything we can do to strengthen them will not only be a friendly act towards the Free State but one which should be greatly in our own interests."[55] Fisher supported Masterson-Smith's request and was content to leave the matter to the Board of Inland Revenue and the Colonial Office;[56] they agreed to extend Gregg's loan to the end of the financial year 1923–24.[57]

The arrangement was indicative not only of the value placed upon Gregg by the Free State government, and by Cosgrave in particular, but also of the sympathetic understanding with which the permanent officials of the British civil service viewed the Free State's problems in the early years. Nor did the matter end there. At the end of February 1924 Gregg wrote to the Inland Revenue in London explaining that the new Minister of Finance, Ernest Blythe, who had only taken up his position in September, had not realised until Christmas that Gregg's departure was imminent. Blythe, Gregg explained,

> . . . regards it as essential in view of the personal factors that operate in establishment work here that my successor should have something in his composition of the stony-hearted Treasury type and he finds it very difficult in the material at his disposal to get this. I have put forward the name of B. *[sic]* who is willing to come and his name is under consideration . . . so far as my personal wishes are concerned I am willing to stay the summer and no further. I do not wish to leave here with any suggestion that I have left them in the lurch and Mr Blythe now understands beyond all question that my return has to be faced.[58]

Gregg's letter led to a further and final extension of his loan, and he was duly succeeded as assistant secretary in charge of establishments in Finance by H. P. Boland on 15 July 1924.

Perhaps the most significant tribute to Gregg's contribution to the Department of Finance in its first years was made by P. S. O'Hegarty, then Secretary of the Department of Posts and Telegraphs. His reaction is especially interesting since he was the first head of a depart-

ment appointed by the provisional government who, unlike the great majority of his colleagues, had not transferred from the British administration. O'Hegarty, who had worked closely with Gregg and had discussed his return to London with him, thought him,

> . . . a long way the ablest civil servant in Ireland . . . He is a man of absolute integrity and of outstanding ability, who possesses character, punch and courage. He will tackle any problem which is put before him and give a sound judgement on it, and he is not a stickler for red tape.
>
> For the work which he is at present doing he is the ideal man. He will say 'No' as firmly and as definitely to a Minister or to a Head of a Department as he will to a charwoman if it is a case where 'No' has got to be said. And if his scrutinising of staff schemes is rather on the severe side, that is exactly what the country wants at the present time. I have quarrelled violently with him on staff schemes but I recognise that his principles are right and his general effect all to the good. He has the ability to handle people and more tact than would appear.
>
> The next few years will be vital to the Irish Civil Service. There are all sorts of questions to be decided. It is essential that the Establishment officer of the Finance Ministry should be a man of Gregg's type, who would deal with the Staff Associations strongly and fairly and who shall have the special equipment and the special sort of ability he possesses. There is nobody else in the Irish Service who could replace him . . . in any event there should be no question of his leaving at the end of this month as contemplated. He should be told he cannot go. (If necessary, intern him in Merrion Street.)

O'Hegarty expressed the view that Gregg was prompted to return to England

> . . . by a mixture of things. In the first place, he did not make allowances for the special difficulties of the first Irish Government in the matter of appointments, and although far fewer jobs have been made than any similarly situated government would have made, some of them irritated him. In the second place, he did not receive that support which he should have received in preventing existing civil servants from using political influence to secure promotion. In the third place, during the progress of the Irregular campaign he began to doubt whether Ireland was a country in which it would be possible to bring up children properly. But I think the thing which really rankled with him and which really decided him was intelligence he received of a meeting of the pro-Treaty party at which some members attacked him for having been Hamar Greenwood's Private Secretary . . . that the Government at that meeting more or less apologised for him . . . was the thing that really hurt him. 'If these people', said he,

'apologise for me what can I expect from others.' So far as that is concerned it is true that Gregg came here as Greenwood's Private Secretary, but he came on the understanding that a new policy, a policy of conciliation and the abandonment of coercion, was being adopted, and when that was not adopted, he resigned the Private Secretaryship. I think that what he really feels is the implied slur upon his patriotism, and that it is a feeling that the slur will always be there that really moves him.[59]

Gregg's successor, H. P. Boland, was to play no less significant a role in the history of the Department over the next decade. Boland was rather older than Brennan and McElligott. Born in 1876, he had entered the Office of Public Works in Dublin in 1895 as a second division clerk, and later served in the Treasury Remembrancer's Office (1897–1902) and in various other Irish offices, notably the Board of Works, until 1915 when he was appointed personal assistant to the Director General of the newly established Ministry of Munitions in London. He remained there until 1920 when he became a principal in the Treasury.[60] The Treasury thought highly of him and, in June 1921, recommended him to Sir James Craig for appointment to a senior post in the new Northern Ireland civil service as an official with "a wide and varied experience of civil service administration" who had been "intimately concerned with the reorganisation of several large departments", and who had "an exceptionable knowledge of the various problems of civil service organisation." But Boland, a Catholic, was turned down on what seem to have been sectarian grounds. "The answer of the Northern Government", the Treasury were informed, "is 'Thank you very much, but no.' I believe you know the reason why."[61] Three years later, Boland accepted the opportunity to serve the Free State in a capacity for which he had been found unacceptable in Northern Ireland.

II: The Establishment of national credit

One of the most daunting problems confronting the Free State government and its Department of Finance was putting the national credit of the state on a sound footing. In 1922, under the provisional government, which was not yet empowered to impose taxation, the problem was not so acute; although, even then, one can clearly detect Finance's intense anxiety about the new state's financial standing in the eyes of a City of London confronted with the spectacle of the Irish civil war. The British, too, were fully conscious of the difficulties

over credit that the new state might experience. On 15 September 1922, Waterfield, the head of Treasury (Ireland), reported to a senior Treasury colleague in London that he had seen the Governor of the Bank of Ireland the day before and had taken

> the opportunity to ask him privately what he thought of the credit of the Provisional Government if they should require to borrow largely in order to meet heavy disbursements such as compensation payments. He said that he had been discussing the question recently with his colleagues and their general opinion was that the Government's credit at present was 'nil', that the market would lend them nothing without a guarantee from the British Government — he did not see what other security would satisfy creditors.[62]

About a month afterwards, the Governor of the Bank of Ireland, Howard Guinness, proposed (informally and unofficially) a tentative scheme whereby the government might raise money outside the state. Cosgrave, who had received the scheme from Oliver St John Gogarty, passed it on to Brennan with a comment that he did not like foreign loans, and it came to nothing.[63]

Shortly afterwards, certain American financial concerns (the National City Bank of New York and the Guaranty Trust Company of New York) wrote to Finance expressing interest in helping the Irish government out of its financial difficulties. But although American interest was sufficiently keen to lead to conversations in Dublin, Finance's response was extremely cautious and lukewarm and can best be summed up by Brennan's minute of a meeting he had with a representative of the National City Bank on 20 April 1923 when he observed that "internal borrowing would naturally precede external borrowing".[64]

By that stage Finance had begun to come to grips with the problem: it had been one of the major tasks allocated to J. J. McElligott from the time he took up his appointment in the Department at the beginning of January 1923, and Brennan had outlined his own views in a memorandum to McElligott, stating that

> . . . the question of raising money by borrowing is about to become of practical importance for us. As far as we can see the Exchequer issues required in the current financial year for Supply and Central Funds Services will be substantially in excess of receipts from revenue. In addition an Exchequer advance of perhaps £750,000 may be required to enable the Unemployment Fund to meet its obligations and it is estimated

that there must be an issue of about £100,000 to provide Telephone Capital.

Our present Exchequer balance of about £800,000 should, together with receipts in the meantime, probably enable us to provide for essential issues over the end of this month, but it is possible that we may have to resort to a Ways and Means advance . . .

In the circumstances confronting us we cannot merely rely on short-term borrowings such as Ways and Means advances or bills of three or six months. All the indications are that for this and the next financial year at least there is not the slightest hope of avoiding expenditure which must largely exceed revenue. For some time to come we will have an increasing deficit and our position would be precarious as regards meeting short loans at maturity.

From the point of view of the banks our short dated securities would not form reliable liquid asset assets, partly by reason of the improbability of their being paid off on maturity without renewal but especially because they might not readily be convertible into legal tender currency by discounting at the Bank of England. It would be a different matter if we were in a position to maintain a currency system of our own and we could create a currency in an emergency. Perhaps, indeed, it is as well that we should be compelled by circumstances to conduct our financial business on a basis that excludes the possibility of resorting to an arbitrary creation of legal tender.

The difficulties that would arise at maturity of short dated securities would seem to tend, when borrowings had reached a certain point, to bring us into a position which would leave us very much at the mercy of the banks about terms. But we would no doubt be protected to some extent by the fact that the several banks would have an interest in competing to obtain or retain Government business. This protection would, however, be worth less according as our needs were greater.

Both the nature of our expenditure and the improbability of soon having a revenue in excess of normal charges afford ground for resorting to long-term borrowing. While we may hope to be able to defray part of the compensation charge by payment in the form of bonds we must undoubtedly also raise large amounts of cash under this head, and this is a burden which will not be borne entirely by current revenue but may fairly be spread out over some years. Part of the great cost of restoring order may be similarly regarded and the same applies as regards the redemption of the Republican loans issued in America and at home.

It has been represented that the Government can borrow successfully in the United States. In particular the Guaranty Trust Company is anxious to have an opportunity of underwriting a loan and we are assured that the

terms would be favourable. Although we have not actual power to borrow in America it is well to have this offer in mind in case of emergency, and no doubt if necessary new powers could be sought from the Dáil. But in general it seems preferable to try borrowing at home first. The advantage, incidental to this, of giving our own citizens a special interest in the stability of the country is of particular importance now: also an internal loan has advantages over external borrowing as regards income tax and death duty.

On the whole I am disposed to think that we ought immediately to sound our own banks as to the part they would be willing to take either by underwriting or otherwise in helping us to issue a loan.[65]

McElligott, replying to this memorandum on the following day, emphasised the urgency of the problem when he declared that it was almost certain that the government would have to borrow before the end of February. "This limitation as regards time", wrote McElligott, imposes an obstacle in the way of a public issue which requires a large amount of preliminary work and propaganda. This consideration applies particularly to a large scale long term borrowing operation. Another factor affecting the prospects of such an issue is the political and military uncertainty and the general feeling of insecurity, tending to make people reluctant to place their money in an issue sponsored by the Free State. On the other hand that there is a large sum of money available for investment in Ireland is apparent from the accounts of the Irish Banks. Further, a period of industrial and commercial depression, such as we have at present in Ireland, leaves free for investment funds which would otherwise be locked up in business. Reluctance to invest on the score of insufficient security might be overcome if the British Government offered a supporting guarantee as to both principal and interest, but apart from the political objections to this course the present attitude of that Government in financial matters does not indicate any likelihood of their consenting to a guarantee. Moreover, even if such a request were conceded it would mean for us a period of financial tutelage, while considerably hampering our freedom in regard to the settlement of outstanding financial questions . . .

If for a large issue we go outside the country, a simultaneous offering in Dublin and the other centre, say London, would be desirable and allocations could then be made as desired, giving preference to Free State applicants. The consent of the Dáil would be necessary beforehand, and further it might be unwise to run the risk of a rebuff from the London Market while it would certainly be to our advantage to get as many Irishmen as possible financially interested in the stability of the Free State . . .

> Long-term borrowing to cover a revenue deficit is in itself highly objectionable and permissible only in times of exceptional stress. Normally, even short term borrowing for such a purpose is to be condemned except where it is strictly in anticipation of revenue. In our case the borrowing would be for a fairly long period and for this reason . . . raising money by means of Treasury Bills of three, six or even twelve months currency would not prove exactly suitable. There is the further consideration that much of the deficit will arise in respect of capital outlay on reconstruction etc — a fact that in itself justifies borrowing for a fairly long period. Compensation will no doubt be paid in part by Bonds, but this will not obviate the necessity of raising a large sum in cash. Bonds 'on tap' or Savings Certificates afford a continuous means of bringing in cash, the latter particularly helping to encourage thrift. Conditions throughout the country may hamper the success of Certificates but they deserve a trial.
>
> An issue other than certificates would be necessary and in regard to this, at a preliminary conference with Bankers the discussion would be primarily concerned with (1) Underwriting Commission, (2) price of issue and (3) rate of interest, these three points being largely inter-dependent.[66]

These memoranda, with their full discussion of the numerous problems relating to Exchequer borrowing in the Free State, were sent by Brennan to his minister with the comment that they could not continue for much more than a few weeks by a ways and means advance. He therefore asked for ministerial authority for himself and McElligott "to have a preliminary talk on the subject generally with Mr Guinness and afterwards with a few of the other Bankers individually." Cosgrave's consent was immediately forthcoming and a meeting at the Bank of Ireland was duly arranged for the morning of 26 January 1923.[67]

The discussions at this meeting were tentative and inconclusive. The Bank's representatives raised no difficulties about short-term loans on ways and means in multiples of £100,000 for a fortnight at a time (interest being reckoned at the end of the fortnight at 1 per cent under the Irish bank rate subject to a minimum rate of 3 per cent). But the Finance officials were less successful on the major issue, although, in Brennan's words, "we tried as far as possible to leave it to the Governor to give us his own impressions without telling him what was in our own minds." When pressed as to what sort of sum they envisaged for the longer-term borrowing, they replied that "this

depended very largely upon the prospects of the restoration of order but that . . . it might not be unreasonable to say £5 million for the next six months, although this might possibly be exceeded." The apprehensions then expressed by the Bank's representatives fully justified the forebodings of Brennan and McElligott in their earlier exchange of memoranda. "The main conclusion reached . . . seemed to be that the Bank, while not unnaturally somewhat apprehensive about taking up securities of the Free State Government in the present state of affairs, would be quite prepared to do so to a reasonable extent as a duty to the Government." However, the Bank's representatives then raised the question of a British guarantee and also threw cold water on the prospects of the general public being willing to participate in any issue to which they might be invited to subscribe. The meeting ended with the understanding that further discussions would be held and that "everything said was entirely confidential and without prejudice."[68]

A month later, McElligott again took up the central issue of public participation in the proposed loan in another memorandum which declared that

> . . . while it is highly desirable to have the public financially interested in the stability of the Free State it might be possible, and there is scarcely any doubt the Banks would agree, to finance our requirements by means of bank loans for the next six months, at the end of which period we will presumably be able to fund our bank indebtedness or float a loan on much better terms than now. We ought then to be in a position to get a larger measure of public support as the stability of the Free State would be more assured. Whether a loan is raised now or at a later date, unless it be for a term of six or twelve months, it will be necessary to bring in the public. Banks continually change their investments, and though our proposed issue is a small one they may not wish to hold it until maturity . . .
>
> In inviting the public to subscribe, if we do so, we must avoid the risk of failure. This may be done by increasing the attractiveness of the issue, e.g., by emission below par, by the offer of a premium on redemption, as well as by announcing that all the banks in the Free State had taken blocks firm. The bonds should also be negotiable with the Banks, that is, in effect, acceptable as collateral for a loan. The addition of certain attractions such as some of those above mentioned makes the issue more expensive to the State, but this is unavoidable, especially as the Irish public puts most of its money either on deposit receipt or into cattle and land, and is reluctant to place it elsewhere. Besides, those who have their money in British Government securities can earn 5% and will not change,

except in special cases where income tax and other considerations arise, into a Free State security yielding, say 6%. There is also at the present time fear of investing in a Free State issue because (a) of attentions from Irregulars, (b) of political instability.

If the issue is made to the banks the full amount of the particular bonds could be paid up at once, and bonds need be issued only according to our requirements. In an issue to the public it would be desirable to have a definite opening and closing date for the subscription list, and a publicity campaign on the right lines would be essential. There is now little time for this, seeing that our needs compel us to borrow before the end of the financial year.[69]

McElligott's memorandum caused Brennan again to ask the minister to approve another meeting with the banks and this took place on 13 March. Following this meeting, Brennan outlined the probable borrowing requirements of the state in a letter to the Governor of the Bank of Ireland. These consisted, firstly, of a loan of approximately two and three-quarter million pounds to meet the deficit between revenue and expenditure for the current financial year; and, secondly, in the likelihood of the deficit continuing to grow, of another three-quarters of a million to a million pounds per month for the first eight or nine months of the next financial year. Finance felt "that their borrowings from the Banks in present circumstances would best take the form of twelve months Bills." Brennan also said that they were considering "making available for public subscription on tap 5% Bonds with provisions for redemption by drawings within a maximum period of five years. The issue of such Bonds would cease as soon as the Bonds to be issued in discharge of compensation awards begin to go out.[70] The terms of both Bonds would probably be identical."[71]

The banks immediately baulked at the extent of the government's requirements, and the secretary of the Irish Banks' Standing Committee informed Brennan that, at a meeting on 14 March, they had been unable to come to any [firm] decision even about the conditions which should attach to the loan of two and three-quarter million pounds immediately required by the government, and that the matter had been deferred until a further meeting on 21 March.[72] At this second meeting, the committee, having expressed its regret that it had not been given "more time to consider in all its bearings this definite application for their financial assistance" which necessitated transactions "outside the range of legitimate banking business", never-

theless decided ("in view . . . of the pressing necessities of the Government and with a desire to assist it in its immediate financial difficulties") to advance the two and three-quarter million pounds immediately required. But it also decided that it was "not prepared to make further advances to the Government of the Irish Free State unless such conditions are attached as would make the loan readily negotiable", a proviso which again confirmed the private fears of the Finance officials. The Banks' Standing Committee also availed itself of the opportunity to press the government to introduce immediate legislation allowing for the more equitable distribution of the government's statutory banking accounts and urged that such accounts as could be redistributed without legislation should now be so disbursed without further delay. Such redistribution, the committee said, had been specifically pledged by Brennan as precedent to its loan.[73]

Yet Finance, their embarrassment about borrowing notwithstanding, refused to accept this interpretation. The location of the government's more important accounts *were* subject to statutory provision, replied Brennan; and he further stated that the banks must appreciate that, while the reallocation of accounts not affected by statutory provision was under review, "radical changes in this vital part of the financial organisation of the State could not be effected hastily or during the prevalance of the difficult administrative conditions which the Government have experienced since the transfer of functions from the British authority."[74] Finance's obdurate defence of existing practice (and, in effect, their defence of the Bank of Ireland's privileged position in holding government accounts) under circumstances when the standing committee expected concessions, was to continue for over twelve months. Indeed at times (in June and October 1923) the committee had the greatest difficulty even in obtaining replies to their repeated inquiries on the subject. At the beginning of February 1924 it was agreed by Brennan and McElligott that "no action should be taken for the present",[75] and, some months later, Finance shelved the issue more permanently when they pointed out to the committee that, under the 1923 Land Act, the National Land Bank had become government property and that "in the circumstances it would be readily understood that this constitutes a material change in the position and in any alteration of the existing disposition of public Accounts so far as such is feasible the interests of the Land Bank cannot be overlooked by the Minister." The committee's willingness to accede a place to the Land Bank in any scheme

of reallocation did not evoke a favourable response from Finance who stood equally firm against letters canvassing suppport from ministers on behalf of the National Bank in particular, the bank which in the eloquent words of one plaintiff, "was established by Daniel O'Connell, the Liberator, for the Irish people."[76]

The Origins of the First National Loan

The episode testifies not merely to the strained relations between the banks and the Department in 1923–24 but, more significantly, to the determination of Finance to adhere to what they believed to be the orthodoxies of proper procedure, their indebtedness to the banks notwithstanding; and it is against this background of growing disenchantment with the banks' attitude that we must consider the shift in Finance's thinking about government borrowing at the end of March 1923. Brennan felt that "the attitude of the Banks towards us on the borrowing question appears to make it specially desirable for us to make a more effective effort than would otherwise be required to raise money from the public in the immediate future." He suggested a 'tap issue' which would secure public support "on terms that do not contemplate redemption for some considerable time — 5% Bonds issued at par which the Government would have the option to redeem at par after twenty years and must redeem after thirty years." He felt the loan should only be for a reasonable amount at first "until we see how the market treats us."[77]

In a reply which demonstrates the changing Finance thinking on the problem of borrowing, McElligott agreed that

> . . . in view of our increasing deficit it is desirable that we should as far as possible be independent of the Banks and essential that we should interest the public in an issue of Free State securities, apart from Savings Certificates, Treasury Bills and any Bonds that we may issue in compensation for damage. The financial prospects for several years to come not being very bright, a short-dated security would only postpone our embarrassment. Further we must be in a position to meet our engagements to the Banks in twelve months time, engagements that within a week or two will total two and three-quarter millions and are bound to expand. We will have additional obligations to meet if compensation bonds fall for redemption annually and are to be finally retired in a short period.
>
> In regard to an issue of 5% Bonds at par redeemable in twenty–thirty years, I think that our credit will deteriorate to above the 5% level in the coming year and still more so if we are called upon to shoulder a substan-

tial burden as a result of the ultimate financial settlement.[78] The policy of fiscal and economic isolation which is, rightly or wrongly, attributed to our Government will also tend, until we prove that we can stand alone, to affect our credit both at home and abroad. At home because apart from the Banks we have no big financial institutions, and the Banks are largely influenced by opinion in London where they keep their reserves, their floating balances, and practically all their investments and whereto they must look for the supply of legal tender. Abroad because our political difficulties will be magnified and because the mantle of British credit has fallen from us. Despite these considerations and given the restoration of order in the country in the next twelve months, I think that when our compensation has been settled and our liability to England determined, our credit may improve to a figure below 5%. It is probable, however, that by that time some sort of a trade revival will have set in which will stimulate the flow of money into industrial and commercial channels and by raising the yield obtainable from securities of that description as well as from railway and other stocks would render it more difficult for the Government to borrow on easy terms. By then we may of course have introduced a currency of our own, and our credit both internal and external will be largely determined by the policy we pursue in regard to that currency. Inflation by reducing the commodity value of the interest tends to depreciate all fixed-interest-bearing securities while deflation has the opposite effect. The pursuance of a middle course would increase confidence in us without adversely affecting business, and will tend to stabilise our credit on a lower basis than it is likely to be for some years to come . . .

A public issue requires a large amount of preliminary work and propaganda, and its success depends on the active support of Bankers and Stock-brokers. The former we have already approached and we should now enlist the services of the Dublin and Cork Stock Exchanges. At the same time publicity on our part and the stoppage of publicity on the part of others are required. Nothing can be more fatal to the success of Free State issues than the prominence given by the Irish press to Irregular threats, etc., and the free and extensive publicity given to all their *ipse dixits,* some papers even going to the length of publishing interviews with them. Acts of this kind which are exceedingly detrimental to the placing of any loan no matter how attractive should be stopped.[79]

But this last, crucial factor gradually became much less important as the civil war drew to a close. By mid-April, following the death of Liam Lynch, the chief of staff of the anti-Treaty forces, on 10 April, the situation had sufficiently altered for Brennan to refer to "the more favourable turn that events in the Free State have taken during the past fortnight."[80]

At the end of May Brennan and McElligott interviewed the Committee of the Dublin Stock Exchange about the prospect of an early issue of Free State securities, and, in a minute to his minister, Brennan declared that

> . . . the time has now arrived when it is necessary to proceed with preliminary arrangements for making such an issue as if we delay any longer we are in danger of reaching a point when the Exchequer will be unable to meet the demands upon it. It is true that we have at present a balance of about £2 million to credit but a great part of this is already earmarked for accrued liabilities.

The Finance representatives had told the Stock Exchange Committee that they would probably need to borrow not less than £25 millions within the next year. The committee were sceptical "as to the probability of the Irish Market being able to absorb issues amounting to £25 millions in the year . . . [without] active cooperation on the part of the Banks", and urged the necessity of seeking a British guarantee for the loan. This, as Brennan freely admitted, would almost certainly remove any obstacles that the banks might place in the path of the loan. Brennan said that he did not think that

> . . . the fact of our looking for a British guarantee should be any embarrassment to us in our other financial dealings with the British Government. It would be quite understood that the debt for which we sought the guarantee would have been incurred largely for the maintenance of the Free State within the terms of the Treaty.
>
> It would be desirable now to get a definite indication of the considered views of the Government on the subject of a British guarantee, as further progress cannot be made without having this aspect of the matter definitely cleared up. If the British Government were willing to give the guarantee, *and we are not without indications to that effect,* a convenient opportunity of having this done will be provided when they bring forward the Bill by which they are preparing to grant the guarantee in connection with Land Purchase Bonds. The principle of accepting a British guarantee has of course already been definitely admitted in the latter case and it is difficult to see that any vital objection can be brought forward in the present case that would not apply in the other.[81]

There is abundant evidence in support of Brennan's contention that the British government, and the senior officials of the Treasury in particular, were more than sympathetic to the Free State's difficulties

in floating a loan. As early as March one such official, O.E. Niemeyer, had taken the trouble to send to the Secretary of the Colonial Office a note of a conversation he had had with one of the London representatives of the Guaranty Trust Company of New York when the latter had asked him whether the British government would raise any objection if the Free State were to try to place a loan in the United States. Niemeyer replied that "in general he might regard our attitude to loans to be raised by the Free State as one of benevolence . . . Speaking entirely for myself I think it might not be impossible for the Free State to obtain an agreement with the Imperial Government by which the service of any loan raised by them for the payment of compensation in Ireland might rank before the Imperial claim for debt. He seemed to think this was a very helpful suggestion."[82]

The Treasury made an even more striking intervention in support of the Free State in the following month, following an interview between the parliamentary-under secretary to the Colonial Office, W. Ormsby-Gore, and one of the directors of the Bank of Ireland, Sir Andrew Jameson, on 26 April. Jameson, noted Ormsby-Gore, was

> . . . very nervous about the immediate financial outlook . . . He says the Banks have gone to the limit of what they can advance to the Government and that he doubts whether a Free State loan would be taken up internally except possibly by means of premium bonds . . . Mr Cosgrave would be forced either to come to the British Treasury for assistance or else to adopt some expedient that may be financially disastrous to Ireland . . . Mr Cosgrave will not wish to go to the British Treasury if he can possibly avoid it because of loss of prestige and the political handle it might give to both Republicans and the intransigent Unionists . . .
>
> Relations between Cosgrave and the Bankers Committee headed by Henry Guinness [the Governor of the Bank of Ireland] started by being intimate but are so no longer and . . . the Bankers have no idea where the Free State Government are now looking and they are rather apprehensive.

It was for these reasons, Ormsby-Gore said, that Jameson had asked him whether the British Government would be prepared to nurse the Free State government over the crisis.[83]

But the Irish banks would have found cold comfort in the Treasury's reaction to their entreaties. In a special memorandum, which was forwarded to Ormsby-Gore with the specific approval of the Chancellor of the Exchequer, Niemeyer dismissed the Irish banks' fear of inflation as exaggerated — this was one particular fear which Jameson had stressed in his interview with Ormsby-Gore. The figures

of the Irish banks, Niemeyer believed, revealed a trend no different from the British position. He also pointed out that it would be impossible "for Ireland to have a *currency* inflation unless she legislates to increase her fiduciary note issues or takes to a State issue of her own. Hitherto she has shown no signs in either direction." Nor did Niemeyer see any signs of a credit inflation in Ireland. In any event, he argued that

> . . . it would be a *fundamental* mistake for us to intervene in the matter. We have no power to do so effectively if we wanted to; and our interference would probably have quite the opposite effect to what we wished. The Free State is now a dominion. It must make its own experience in currency matters as in others. The business of the Irish Banks is to make their influence felt by *their own* Government and to give that Government sound advice. The Government will need the Banks' assistance and will probably be not at all unwilling to listen to them.
>
> On the other hand, if the Irish Banks come over here and particularly if they are known to be coming over here, they will at once deprive themselves of exercising their proper influence in their own country.
>
> The Free State has its financial troubles before it and it would be foolish to pretend that they are not considerable: but they are by no means insuperable and in fact are far less than those of the greater number of countries in Europe. On the whole, the Free State has hitherto shown no inclination to panic legislation and their own interests seem to me to be entirely in favour of reasonably sound monetary policy. But they clearly must be left to run their own affair.[84]

Niemeyer's was a shrewd assessment of the Irish government's attitude. On 26 May Cosgrave brought Brennan's memorandum of the 24th before the Executive Council when it was discussed with special reference to the possibility of seeking a British guarantee, and when "it was decided that Mr Brennan should ascertain at what rate a loan could be secured in the London Money Market in the absence of a British Government guarantee and that he should circulate a further memorandum embodying the result of his enquiries."[85] In fact, as the President reported to the Executive Council on 28 May, it was McElligott who went to London where he had a succession of conferences over two days with the heads of the Bank of England and the other leading joint stock banks. Neither the Governor nor the Deputy Governor of the Bank of England, McElligott reported,

> anticipated that an issue of Free State securities would be looked upon with favour in the London market. London Banks would not participate

in any way unless they were ultimately in a position to pass the securities on to the British Public, and the latter found it hard to get away from the conventional idea that Ireland is a disturbed country, and that the unsettlement will persist for some time. Our Government has not yet, in their view, been sufficiently long established, and its ability to restore complete peace to the country and to facilitate an effective return on the part of the whole population to economic pursuits was not yet sufficiently demonstrated. It was agreed that our Revenue was coming in well but the size of our probable deficit was very great.

Other key points stressed by the representatives of the British banks, McElligott continued, were:

> (1) to get the good-will of the Bank of England, which was the only way to ensure negotiability, all the other Banks looking to it for a lead and accepting its judgement in matters of this kind as absolutely sound; (2) to prove conclusively to outsiders that there is no danger of the Irregular movement again raising its head.
>
> . . . it is clear that some backing other than our own credit is needed to enable a Free State issue to be made in London or to make it negotiable there after issue in Dublin. None of the people to whom I spoke said it would be possible to help it by underwriting or supporting the market and they did not consider, on the basis of the proposal I put forward, that any measure of assistance either towards placing the loan or helping it subsequently could be granted. Lack of confidence in our political stability, the unsettled boundary question, the unknown extent of liability in respect of UK debt and the priority which should be given to it when decided were, in the view of my informants, the chief factors at present adversely affecting our credit.[86]

The Executive Council discussed McElligott's memorandum on 11 June when both he and Brennan were present. Confronted with Brennan's statement that expenditure would exceed revenue by some £25 millions in the current year, it was agreed in principle to issue two or three internal loans, but it was also decided that the issue of all loans should be postponed until after the general election (planned for early September). In the meantime, however, Brennan was authorised to ascertain the views of the Irish Banks' Standing Committee on the possibility of immediately floating "a small 5% loan of say $2\frac{1}{2}$ million pounds issued at 95 and with the first half yearly dividend payable at the end of three months, or as an alternative, a similar issue at 93 without any concession in the matter of an early dividend."[87] Brennan

was also authorised "to apply for the necessary accommodation to carry over until after the Elections, by means of bills, subject to the Banks agreeing to accept Government securities in redemption of the Bills on maturity."[88]

The second alternative provided an interim solution. The banks *were* accommodating, and on 19 June President Cosgrave reported to the Executive Council on a meeting held with directors of the Bank of Ireland the previous day when arrangements were made for further advances "amounting to £3,000,000 to enable the Government to carry on until after the Elections, with other small advances, if necessary, for short periods subsequent thereto."[89] "The effects on the Banks of the Election — very great", Richard Mulcahy noted cryptically.[90] His comment was amply borne out by subsequent events since, from this point onwards, the air of uncertainty and crisis about the Free State's financial position was greatly reduced.

The improved situation was reflected by the more confident tone of another memorandum drawn up by Brennan which was

> . . . intended to explain in a general way some considerations of importance which should be borne in mind in deciding matters which affect the finances of the Irish Free State.
>
> The borrowing necessary to provide the Exchequer with cash for meeting the issues that are required for the public services can be effected within the country in two forms, namely, either (a) by the transfer on loan to the Government of savings at present actually available in the hands of private owners or (b) by the granting of loans to the Government by the Banks.
>
> Borrowing in form (a) is that which will prevail in the normal circumstances of a well governed State. It places at the disposal of the Government capital which as a rule has actually been accumulated by efforts already made. . . . As total deposits are not increased no immediate addition is made to the purchasing power of the Community, in other words there is no direct inflation . . .
>
> In case (b), that is, where the banks make loans to the Government, the immediate consequence is an expansion of bank deposits equal to the accommodation given. The fresh deposits are at the disposal of the Government and the deposits of private customers remain undiminished. Increased purchasing power has thus been created without effort by a mere book entry. Thus prices tend to rise or, what is the same thing, the value of the currency as measured by its purchasing capacity tends to depreciate . . .
>
> The foregoing remarks have reference to internal borrowing. Some points about external borrowing may now be considered.

A Government having power to control its currency can, notwithstanding poor credit, borrow at home on a large scale if it chooses to pursue a course of reckless inflation. But when it goes to borrow abroad it can in general only raise money to such an extent on such terms as its credit in the foreign market justifies. Thus a needy Government cannot hope to rely long upon external borrowing unless it establishes for itself a sound credit, and the practical test of that is a satisfactory budget position.

If the Government succeeds in borrowing abroad the proceeds may either be used to discharge foreign debts or else brought home to meet internal expenditure of the State. Insofar as the former alternative is adopted there is no direct inflation in the Free State. The second alternative, however, involves an addition to purchasing power in the Free State and, therefore, is inflationary. The inflation so produced increases the currency requirements of the country but in this case the currency requirements can be met by the use of the resources acquired in the foreign borrowing centre. While such resources are available the Government can avoid the arbitrary creation of its own legal tender.

External borrowing in any form is of course a weakening factor in our future exchange position. Moreover, with such borrowing we lose the taxes which arise in the case of internal borrowing. . . .

To obviate the evils that are certainly to be apprehended from this position there is only one plain and effective course of action and that is to terminate all abnormal public expenditure at the earliest possible moment and, what is even more important, to bring normal expenditure within the limits of revenue. The present condition of the public finances is really critical from this point of view and appears to demand drastic action. The fact that new proposals for expenditure without any compensating reductions daily make their appearance seems to indicate a serious lack of appreciation of the situation on the part of a number of Departments. This unsatisfactory budget position, which is well understood by outside critics such as the banks, is of course very prejudicial to our credit. If this were remedied or if obvious steps were taken in that direction there seems to be every reason to believe that our financial prospects and credit would quickly improve.

The Banks have now intimated their willingness to grant accommodation to the extent of not more than £3,000,000 until after the General Election and they state that until the results of the Election are known they will give no further accommodation and they give the £3,000,000 only on condition that no appeal for any loan is made until after the Election.

If the Election will not be over until after the end of August the limit of £3,000,000 is such that expenditure will need to be checked with great care if the Exchequer is to be able to meet the demands upon it.[91]

Brennan took the trouble to send a copy of this memorandum to Niemeyer in the Treasury, a step which serves to demonstrate two of the major factors which enabled Finance to weather the crisis: first, the close, harmonious relationship between senior officials in Finance and their counterparts in the Treasury; and, second, Brennan's determination to uphold the strictest principles of financial orthodoxy in running the financial affairs of the Free State. Niemeyer's reception of the memorandum was wholly favourable: "I really have nothing to add to the memorandum", he replied, "which appears to me to be entirely on sound lines. So long as you borrow from the investor you are removing from him purchasing power and no inflation occurs."[92]

Brennan's policy of keeping the Treasury fully informed of his ideas thus paid handsome dividends and Niemeyer in particular continued to play a key role in easing Finance's way during the critical pre-election period. He deemed the matter sufficiently important to send Brennan's memorandum to the permanent secretary, Warren Fisher, whose reaction was equally favourable and who minuted that Brennan's memorandum "should help to keep them straight, as it seems quite sound." Niemeyer also took the trouble to inform the Colonial Office, which was formally responsible for Irish affairs. He had seen Brennan, he reported, once or twice since May and had made it clear to him that he would give him whatever help and counsel he could. He had offered him expert British assistance on setting up saving certificates and on external borrowing, and had urged him,

> . . . personally as a Treasury official, to make a point of seeing a leading Irish banker privately (*not* a Committee of Bankers which is entirely useless) say two or three times a week and I have indirectly encouraged the Bank of Ireland to give him these private consultations. This is quite essential as the technical equipment of the Free State Treasury is terribly deficient.
>
> I think they will come to me for advice when in trouble and I have encouraged them to do so. Through the City here I can probably help them a good deal. There is nothing to despair about in their situation — but they have everything to learn and all their bankers are rabbits. If the Election goes right they ought to pull through.[93]

The election did go right and Finance did pull through in a more dramatically successful fashion than they could possibly have anticipated during the early months of 1923. In the election, held on

27 August 1923, 102 supporters of the Treaty were returned, and the preparations for the first national loan (£10 millions of redeemable stocks issued at 95 per cent) subsequently went ahead as planned. Particular attention was paid to the question of publicity which was directed by McElligott working in close alliance with the government's Director of Publicity, Seán Lester.

However, the Irish banks continued to pose problems when they refused to agree to the Minister of Finance's request that they should take up whatever amount of the loan might remain unsubscribed (not exceeding an amount of £4 millions) when applications closed, unless they first obtained certain safeguards, including an underwriting commission of 2 per cent.[94] This latter proposal particularly incensed Finance, since it meant "that the banks declined to make any subscription whatever to the Loan on the terms on which it will be issued to the general public." "The Minister cannot help feeling", wrote Brennan in his reply,

> that this is a very extraordinary attitude for the Banks to take up and he is disposed to assume that it must represent a decision arrived at without adequate consideration of all that it implies. He prefers not to comment on it further at this stage beyond suggesting that your Committee should consider it at their earliest convenience . . . The Minister is anxious not to ask the Banks to do anything more than can fairly be expected from them in prevailing circumstances, but he would remind the Boards of the Banks that while they are undoubtedly charged with the obligation of safeguarding in every proper respect the interests of their shareholders and depositors they are nonetheless under serious obligation to the State itself, upon whose stability and protection all credit institutions are in the last resort dependent.[95]

But, in the event, the matter was of merely academic interest: when the list closed on 7 December 1923 the loan had been over-subscribed by some £200,000.[96] The Irish public clearly had confidence in the credit and financial stability of the state even if their banks did not. For Brennan, McElligott and the other senior officials of Finance, the uphill haul, lasting almost twelve months, had ended in a resounding triumph. The magnitude of that triumph did not become fully apparent until 7 January 1924 when the first dealings in the loan on the Dublin Stock Exchange took place and it rose 4 points to 99.

The significance of the success of the first national loan was as evident in the United Kingdom and abroad as it was in Ireland.

"Great effort was made to ensure the success of the issue", commented *The Times,* "and it would be easy to make too much of the great strength of the Loan on the first day of dealing; but it is certainly a remarkable achievement for the Loan to be raised to within a fraction of the price of the British 5% War Loan. Provided that the Free State follows sound financial principles, there is no reason why Irish credit would not rise to a high level and remain there."[97] There was, indeed, no reason why Finance officials should now desert those sound financial principles which had served them so well; as later events in the twenties were to show, having won the first, epic battle they were not now going to risk losing what they conceived of as a continuing war.

III: The Shaping of Policy

The organisation of the first national loan, together with the inauguration of the Civil Service Commission and the Revenue Commissioners and the other developments discussed in this chapter, provide us with a sufficient volume of evidence to draw certain general conclusions about the formulation of policy in the Department of Finance in these first years.

The preliminary conclusion which most forcibly impresses itself upon the mind of the historian examining the earliest departmental records is how few men made so many big decisions — decisions, moreover, which, because they became part of the central administrative structure of the new state, proved extraordinarily enduring, if not, indeed, irrevocable. Gregg, Brennan, Bewley and, after Bewley's return to London, McElligott had a different kind of responsibility than the men who were to succeed them in later years. The absence of trained junior staff — the fact that there were so very few first division men in the administration taken over from the British and that the first junior administrative officers recruited to supply that need did not take up duty until August 1925 — meant that these few men made what seems in retrospect to have been an exceptionally large number of seminal decisions. Upon them also fell the burden of initiating policy, doing the preliminary research and drawing up all the memoranda and minutes which in due course gave rise to the enactment of legislation and other major decisions — the early exchange of memoranda between Brennan and McElligott, without reference to any of their subordinates, on the first national loan is one

such example. Subordinates could not be entrusted with such work, first, because the issues were too serious and too delicate; second, because they did not possess the necessary technical competence or experience.[98]

However certain advantages followed from the fact that the decision-making process was in these first two years so heavily concentrated in the hands of so few men. In particular, it made for a coherent and cohesive departmental view of a widely disparate range of issues. In practice, the departmental policy on any of the innumerable issues which came up for decision in these first years was the policy handed down by one or two men at the top. These men, moreover, enjoyed a remarkable freedom of action in decision-making in circumstances in which the government seems to have had neither time nor, indeed, inclination to consider financial policy. "We have never discussed anything about finance except the Army estimates", commented an unidentified minister at an Executive Council meeting on 25 April 1923, when the question of the government's relations with the banks was informally reviewed;[99] and one of his colleagues, again unidentified, observed pessimistically that "we have no person at all here; except our own Treasury officials, who have no experience at all. It would be quite easy to make a mess of it."[100] This account, however fragmentary and disjointed, even in its very lack of appreciation of the expertise of men like Brennan and McElligott, fairly reflects the diffidence and uncertainty which characterised the approach of ministers to financial policy. Both the minutes of the provisional government and of the Executive Council (in its first years in particular) confirm that, apart from the noted exceptions, matters of finance *were never* discussed.

One obvious reason for this was the civil war — it was McElligott's opinion in later life that the one beneficial effect of the civil war was that it enabled senior civil servants to construct the fabric of administrative government in the Free State without interference from the politicians.[101] Very occasionally the Executive Council did take decisions which, if they had been implemented, might have had important consequences for economic and financial policy: on 21 December 1922, for example, they decided to set up a commission on reconstruction and development; again, on 10 October 1924, they agreed to establish a council or committee to advise them "on matters relating to the general economic development of the State."[102] But neither initiative ever seems to have amounted to much more than a statement of intent.

Michael Collins had been the one member of the pro-Treaty side who had armed himself with at least a certain financial expertise; his premature death left a gap which was never filled. Further mention should be made of the prolongation of the period when W. T. Cosgrave was Minister for Finance as well as President of the Executive Council until Ernest Blythe finally took over the Finance portfolio on the occasion of the appointment of the second Executive Council. That the head of government should also be Minister of Finance, as Cosgrave was from December 1922 to September 1923, is unique in the history of the state and, while this might seem a short time, it was in these first months that a host of decisions had to be taken which proved crucial to the state's subsequent development. That Brennan's and McElligott's minister was the head of the government cannot but have been of cardinal importance in enabling them to carry out their policies. Such matters as the government's relations with the banks and the first national loan, and the army estimates and Anglo-Irish financial negotiations (both of which will presently be discussed) ranked among the highest of the government's priorities. The mantle of authority worn by the senior officials of the Department of Finance, upon whose advice the government depended in these matters, was shown, too, by their occasional presence at Executive Council meetings when such issues were being discussed — a privilege which, although rare and abolished in 1924, was bestowed upon the officials of no other government department.[103]

Cabinet Procedure and the Consolidation of Financial Control

One critical area in which the special relationship of the senior officials of the Department of Finance with the President of the Executive Council in 1923 was especially significant was the procedure to be adopted for drafting legislation. In a circular letter to all ministers on 29 January 1923, the secretary to the Executive Council declared that that body had decided upon the following procedure: that the final draft of every bill must go to the Executive Council for approval before being introduced in the Oireachtas, a copy of the draft having been circulated to ministers and to the law officer and the general secretariat in advance; and that no bill introduced in the Oireachtas could subsequently be amended without the prior consent of the Executive Council. But the interests of Treasury

control, Finance felt, were inadequately protected by the proposed procedure and Cosgrave asked Gregg to send him a minute on the subject which he could circulate to ministers.[104]

Gregg's minute began with the objection that the secretariat's circular letter "makes no provision for the duties and functions of the Ministry of Finance in relation to Bills", and continued:

> The Minister of Finance is the keeper of the public purse and the controller of expenditure from that purse and he therefore occupies a peculiar position in regard to Bills and legislation. It is obvious that where a Bill specifically makes a charge on Public Funds the propriety of that charge and the expediency of admitting such a charge having regard to the state of the National finances are matters which must be closely scrutinised and considered from a financial point of view by the Minister of Finance in order that the Cabinet may be apprised of the financial consequences of the measure as well as all the departmental consequences which the Ministry promoting the Bill will no doubt expand. Even where a Bill does not specifically make a charge on Public Funds the Minister of Finance is as a general rule intimately concerned from the financial point of view, for legislation of any kind involves administrative expenses and may leave the Exchequer open to charges resulting from the operation of the Bill; a Census Bill, for example, may prescribe that the census for the future is to be taken in a way which may double the work of taking it and may double the administrative expenses of taking the census without a single word in the Bill indicative of a charge on Public Funds, and so on.
>
> The procedure laid down in the Circular letter of the 29th January short-circuits the Finance Ministry by allowing the Bills to go direct from the Parliamentary Draftsman to the Cabinet there perhaps to be decided upon before the Finance Ministry can get in a word.
>
> The procedure in London is as follows:— Any proposals for legislation involving expenditure of any kind are the subject of departmental correspondence between the Department concerned and the Treasury and the Treasury's concurrence is obtained for the promotion of legislation. When the proposals have been fully thrashed out and agreement arrived at the Department writes formally to the Treasury for sanction to ask the Parliamentary Draftsman to draft a Bill. The Parliamentary Draftsman is an officer of the Treasury. When the Parliamentary Draftsman has put his draft Bill into print it is sent simultaneously to the Department concerned and to the Treasury (it should be mentioned that in drafting the Bill the Parliamentary Draftsman is in direct touch with the Department concerned). When the draft Bill reaches the Treasury it is examined by the Division of the Treasury that deals with the subject matter of the Bill and that Division, either directly with the Department in ordinary matters, or

through the Financial Secretary to the Treasury (a Minister) in matters of policy or high moment, effects such amendments as are considered necessary from the point of view of Finance. Where, as sometimes happens, the Minister promoting a Bill does not see eye to eye with the Chancellor of the Exchequer the views of both are circulated in memoranda at the time of circulation of the Draft Bill to the Cabinet and the Cabinet then settles the question.

It will be observed that in the British machine the Parliamentary Draftsman is an officer of the Treasury and this fact enables the Treasury to exercise a close financial control on the provisions inserted in Bills. The Saorstát Parliamentary Draftsman was appointed as an officer of the Ministry of Finance but was attached from the outset to the Law Officer and placed under his instructions. Although it is sound in principle that the Parliamentary Draftsman should be an officer of the Finance Ministry it is probably expedient for the present that he should be attached to the Law Officer. Much of our legislation is of the emergency character. Practically all of it involves in some degree or another questions of policy connected with the change of Government. All legislation has to be in alignment with a written Constitution which covers a very wide field. These considerations, it is suggested, make it expedient that there should be intimate relation between the Parliamentary Draftsman and the present Law Officer, who is particularly acquainted with Government policy and the ramifications of the Treaty and the Constitution.

The attachment of the Parliamentary Draftsman to the Law Officer deprives the Ministry of Finance of the control which the British Treasury exercises on British Bills by reason of the Parliamentary Draftsman being its officer. It is all the more important, therefore, to establish well defined procedure that will secure Finance Ministry control. It is suggested that in normal cases the consent of the Finance Ministry should be obtained before the Parliamentary Draftsman is asked to draft a Bill; that in no circumstances should a charge on Public Funds be inserted in the Bill without the consent of the Minister of Finance; that the draft of the Bill, before being submitted to the Cabinet, should be sent to the Finance Ministry as well as to the Ministry promoting the Bill for their consideration and examination; and that it should be a general rule of the Cabinet that there should be circulated, before consideration of the Bill by the Cabinet, a memorandum giving the views of the Minister of Finance on the Bill. For emergency legislation where there may not be time to correspond with the Finance Ministry, Ministries can easily arrange for conferences.[105]

Gregg's proposals were approved in principle at an Executive Council meeting on 14 April 1923 and were duly implemented in the

procedural instructions issued by the Attorney General, Hugh Kennedy, in 1924 and reissued in 1930 (because, apparently, the original instructions had been mislaid).[106] The 1924 instructions were even more explicit and favourable to Finance than Gregg had requested. They ordained that any government department promoting a bill should submit a general scheme of that bill "to the Ministry of Finance for consideration, accompanied by a minute directing special attention to matters of finance arising upon the proposals." It was also laid down that "the proposing Department should indicate in a covering minute that the sanction of the Ministry of Finance has been obtained" before the scheme of the bill was sent for drafting to the Attorney General. In the 1930 scheme, it was again laid down that any department proposing legislation should send a general scheme of the bill to all concerned departments "and *always* to the Department of Finance", and that Finance, in addition to being sent three copies of this scheme, should also be sent three copies of a further memorandum showing:

(a) the need for, and aim of, the Bill,
(b) the relationship between the Bill and existing legislation,
(c) the estimated cost to the Exchequer of the proposed Bill.

In addition, any amendments before or after the bill was introduced in the Oireachtas had to be sent to Finance which was the department responsible for printing the draft bill.[107]

Nor did Fianna Fáil's advent to power in 1932 seriously diminish Finance's control of proposed legislation. Indeed, the revised regulations pertaining to cabinet procedures, were if anything, even more explicit. They stated that

> . . . where a proposal affects the interests of any other Department and especially where questions of finance are involved, steps should be taken before submitting the matter to the Executive Council to arrive at agreement between the Departments concerned, and to secure the formal sanction of the Minister for Finance for any expenditure involved . . . The scheme outlined above will normally secure that financial sanction, where it is necessary, will have been secured before the matter is submitted to the Executive Council, but even where such is not the case it must be clearly understood that a decision of the Council does not absolve a Department from the necessity of obtaining formal sanction from the Minister for Finance in respect of any expenditure which may be involved.[108]

The episode is a particularly striking example of how a battle over

procedural policy, fought and won on the principle of financial control in the first months of the Free State's existence, conferred a powerful and permanent advantage upon the Department of Finance in its dealings with all other departments. The cabinet regulations were an important line of defence in the armoury of the Department of Finance in its unending struggle to curtail the proposals for expenditure put forward by other departments.

Further evidence of the determination of Finance officials to place the doctrine of financial control upon the firmest possible footing is found in a special memorandum, entitled "The Nature and Method of Financial Control", which Joseph Brennan circulated on 6 March 1923. Brennan's concern was that "the law, as found in the Appropriation Act, defines only in very general terms how public money is to be expended." While the estimates provided more detailed information as to how the government intended to use moneys voted, Brennan pointed out that

> . . . these are chiefly for information and are not, as regards the details, given any statutory force.
>
> It is manifest that that in these circumstances it is vital for the efficient conduct of financial administration that machinery for detailed control within the limits of the total vote must be provided. Under the existing law this machinery is supplied by the Minister of Finance. The Minister of Finance, acting, of course, on behalf and with the concurrence of the [Executive] Council which has a collective responsibility and of which he must be a member, is the agent whose function it is to secure that the extensive and valuable discretion left by the Oireachtas with the Council is exercised according to sound financial principles. Unless the Minister of Finance is put in a position to discharge this function effectively it would not be in the public interest that the Executive Council should be given the discretion it now possesses in this connection. The alternative to detailed control through the Minister of Finance is probably an attempt at detailed control by Committees of the Dáil. It is unlikely that the latter control would be scientific or systematic and the best expert opinion seems unquestionably to be against it. . .
>
> At the present time there is reason to fear that considerable public expenditure is being incurred in cases where no official letter of sanction can be produced to satisfy the Comptroller and Auditor General. It is evident that in such cases no guarantee exists for effective control by the Executive Council of the expenditure of the department concerned and that no proper system of public finance can be conducted on such lines.
>
> It is essential for an improvement of the existing situation that strict

compliance be secured with a correct procedure in these matters. If a department, after the necessary consideration by its own Minister, wishes to give effect to some arrangement involving public expenditure, it should at first have the proposal communicated to the Minister of Finance by a minute addressed officially to the Secretary of the Ministry of Finance. Such a minute should explain the proposal in full detail giving the grounds which are considered to justify it and the estimated financial effect. The reply of the Ministry of Finance will be communicated officially in due course. As a rule, there will be no necessity for the Executive Council to be troubled with the matter, as most applications would relate to the current every day work of Government, e.g., appointment of two extra typists, etc. If the Ministry of Finance regards the matter as of sufficient consequence he will no doubt bring it before the Executive Council before directing the Secretary of his Ministry what official reply to make to the proposal. Possibly the Minister responsible for the proposal in the first instance will take the initiative in raising the matter at the Executive Council, but he will presumably in such a case have caused the proposal to be communicated to the Minister of Finance beforehand according to the proper official procedure. Otherwise the Minister of Finance is not afforded before the time of discussion an opportunity of having the proposal examined by his advisors.[109]

Brennan's memorandum was complementary to the proposals approved for the procedure whereby bills would be brought before the Executive Council, and it further tightened Finance's control over the expenditure of other government departments.

IV: The Campaign for Retrenchment

Insistence upon the necessity for the most rigid economy and retrenchment was another major theme in the policies propounded by the officials of the Department of Finance in 1923–24, as Brennan's memorandum on financial control made plain. The same theme was spelt out still more forcefully in a circular letter of 14 March 1923 sent to all heads of departments at the express wish of President Cosgrave when discussions were taking place in Finance about the possibility of launching a loan. "The condition of the public finances of Saorstát Éireann", stated the circular, "is a matter of very serious concern in view of the present circumstances of the country. According to the best estimate which can be formed the revenue paid into the Exchequer for the current financial year will fall short of expenditure by about £2,750,000 and this deficit should be increased by a further

sum of £1,750,000 but that the latter liability is being deferred for settlement in the next financial year." Brennan requested that "immediate and earnest consideration be given to the whole field of administration with which your Ministry or Department is concerned, with the object of exploring every feasible means of effecting economies, and . . . that the views of your Minister will be communicated to him [the Minister of Finance] without delay."

Brennan returned to the subject in another memorandum on the general financial situation at the end of April which was

> . . . intended to explain the need for securing that existing and proposed schemes involving public expenditure should be specially scrutinised in the light not merely of their intrinsic utility to the community but also of the capacity of the State in present circumstances to support the financial burden that they involve. As a rule the schemes which are put forward from time to time by the several Ministries and Departments contain some feature which would constitute a *prima facie* case for aid from public funds. But the general state of the finances, as explained below, nevertheless makes it essential to refuse help for services which in other times or circumstances ought to be assisted, or in more pressing cases to grant help only on the condition that the Minister or Department concerned agrees to meet the cost by sacrificing some other service of less consequence.

Brennan then proceeded to examine the problems inherent in deficit financing and argued that,

> . . . while the deficit in question has been estimated by excluding altogether from our expenditure the amount of items which from their nature might be regarded as justifying recourse to borrowing, it is right to bear in mind that a government which conducts its financial administration in a prudent manner would not be satisfied actually to rely on borrowing to meet the whole of such items but would endeavour to find some fraction of the money out of current revenue. The British Government, for example, deferred nearly 40% of the cost of the Boer War out of current revenue during the War.
>
> It is unnecessary to insist on the obvious evil of permitting an avoidable deficit to occur on the working of the ordinary services of government. Even in normal times such an occurrence is indefensible; there is a special obligation not to permit it at a time such as the present when an abnormal strain is imposed on the national resources . . .
>
> To deal with this deficit two courses open are either to impose an increased taxation or to adopt a determined policy of cutting down expenditure. The country is not in a position to stand increased taxation

and the maintenance for any length of time of the present conditions under which our taxation is at higher rates than the British will tend to become embarrassing. The second alternative of strict economy, therefore, becomes imperative. An effort has already been made to procure a review of departmental expenditure . . . in which the Minister of Finance has asked for the views of other Ministers as to the feasibility of effecting economies in their several services, but with two exceptions no reply has yet been sent to this very important communication.

Besides dealing with existing expenditure it is still more necessary, while present circumstances continue, to adopt a policy of rigid opposition to any extension of State activity which involves a burden on the Exchequer and is not of proved urgency in the public interest. Much more definite recognition than heretofore must, it is submitted, be given to the fact that our resources are strictly limited and that we must aim at living within them. No real benefit to the country can result from the extension of public expenditure without regard to the means available for meeting it but the ultimate economic effects of oppressive taxation or continued inflation.[110]

These pungent criticisms of the prospect of the new state living beyond its means were indicative of Brennan's approach to public financing throughout his career. Deficit financing, for him, was anathema, even if it were designed to finance schemes which, as he put it, were of "intrinsic utility to the community". His success in persuading his political masters of the rightness of his opinions was remarkable, although here again we must remind ourselves of the contemporaneous concern with national credit prospects and the need to launch a loan.

On 12 May 1923 the financial position was the first item on the agenda of a fully attended meeting of the Executive Council at which both Brennan and McElligott were present. Brennan submitted a further statement "on the present financial position of the State" which showed that,

> . . . after making due allowance for such items as
> (a) the cost of the war with the Irregulars, including compensation for destruction of life and property etc.
> (b) non-recurrent expenditure entailed by the setting up of the new State
> (c) other charges and adjustments of an exceptional nature,

there emerged the serious fact that the cost of conducting the ordinary

> operations of government for the year 1923–24 was estimated to produce a deficit of £1,203,684.[111]

There is no evidence that Brennan's strictures upon the financial performance of the new state provoked resentment or resistance from ministers on political or other grounds. The conclusions of this meeting, indeed, appear to have been Brennan's own. When he insisted that, to meet the deficit, "every possible saving should be effected", the Executive Council simply decided that Brennan "should confer on the subject at the earliest possible moment with the executive heads of the various Ministries, the end of the coming week being named for this purpose. In the meantime, Ministers are to discuss the matter with their Departmental heads, with a view to ascertaining in what services economies can be effected."[112] While Cosgrave's unswerving support for the head of his department was doubtless decisive on this as on many other occasions throughout this period, it is nevertheless noteworthy that little or no discussion, let alone criticism, of Brennan's viewpoint occurred.

Cosgrave was not the only minister to afford Brennan comfort and support at this time. A remarkable memorandum by Eoin MacNeill on the subject of national finance reveals how important a role he ascribed to what Brennan thought of as sound financial principles. "The real political crisis for Ireland at present", MacNeill wrote,

> is the problem of national finance.
>
> Up to now, we have dealt with finance as a disagreeable necessity, and we have discussed it only from the point of view of pressing needs.
>
> We should now approach it differently and regard it and teach the Dáil and the public to regard it as part of the structural edifice of national power and national liberty . . .
>
> It never helps a Government or a Party much to appeal to what it has done. What people want to know, and rightly, is what it intends to do and has a prospect of doing.
>
> What has been done? The Treaty has been secured, the Constitution has been secured, the Irregulars have been beaten, the organisation of public services has been achieved etc. etc. Still we feel ourselves and the public feel that the State is not yet on firm ground. The reason is the unsound condition of national finance . . .
>
> My firm belief is that the solution of the financial problem can be made the chief aim of the public as well as of the Government . . . The financial policy of the Government should consist of two items. 1. Controlled expenditure, full revenue, a clear account with the balance on the right

side. 2. The nation to be its own creditors . . . Here above all we need a national policy on a national scale. Our credit dealings heretofore are like those of a private firm in difficulties.

The Irish nation is a solvent concern. Ireland is in fact a lending country, a creditor country not a borrowing country. If Ireland has to borrow it should borrow from itself. For Ireland to be lending to others at low interest and borrowing from others at high interest would be a sign of national incapacity and imbecility . . .

We must take the high line and the public line on this matter. The success of the Saorstát depends on it. We must make it a big and universal public interest. If we do, I am confident of success. If we don't, I see nothing for it but a poor face all the time and pulling the devil by the tail.[113]

The general acceptance of the need for drastic economy as a major aim of government is clearly reflected both in these discussions and in the deliberations which led to the first national loan. It represents a major triumph for the Finance philosophy at a particularly crucial moment in the history of the young state. As we have already seen, the spring and early summer of 1923 witnessed the end of the civil war and the slow return of political stability. The government's sense of relief, its (admittedly muted) sense of victory, could have led to a quest for new and expensive goals satisfying to national prestige. One might, perhaps, have expected to see expansion rather than retrenchment. But, given the early and persistent warning note sounded by Finance, there was little prospect of the government succumbing to such temptation.

What, then, did the acceptance of the principle of retrenchment mean in practice? A detailed list of the economies implemented under the aegis of the Department of Finance in 1923–24 would be otiose. The temper of the times may be judged in the light of two or three outstanding examples of the Department's endeavours to curtail expenditure. The first of these — the reduction in old age pensions in 1924 — is, perhaps, the most celebrated instance in the public mind of the consequences of the retrenchment programme. The other two have been singled out because they exemplify proposals for additional expenditure which were important to the sense of national pride and prestige of a new state trying to find its feet — expenditure which, if relatively costly economically, was eminently desirable politically: namely the inauguration of a broadcasting service and the control of expenditure and establishments in the armed forces.

The Reduction in Old Age Pensions

In 1924, John Murphy has written, "the old age pension rate was actually cut by a shilling a week!"[114] and his exclamation mark testifies to the political reverberations of a decision for which the Cumann na nGaedheal government was ever afterwards bitterly reviled by its opponents. Yet that decision must be related to circumstances in which, as another authority, James Meenan, has pointed out,

> . . . the objects of state expenditure were . . . a legacy from British rule. The expenses of the civil war provided obligations of expenditure on defence and compensation for property. These, however, were non-recurrent items of expenditure. The new state was faced with one heavy burden which would not be so easily shaken off. The social legislation of the last Liberal government added considerably to the volume of public expenditure. The structure of the Irish population, in which the older age-groups are proportionately far greater than in any other part of the United Kingdom, entailed that old age pensions were exceptionally heavy. That did not matter when they were paid out of the Treasury of the United Kingdom; it mattered a very great deal when they fell to be paid out of the modest resources of the Irish Free State. In the early years, they were one of the largest single items of state expenditure—some £3·3 millions, in fact, out of total estimates for 1922–23 of £20 millions.[115]

Old age pensions, then, were clearly a prime target for a retrenchment programme. On 27 October 1923, little more than a month after its triumph in the general election, the new Executive Council approved the recommendation of the new Minister of Finance, Ernest Blythe, that the pension should be cut from ten to nine shillings a week "subject to the concurrence of the Government Departments";[116] and, on 2 November, Blythe publicly nailed his colours to the mast of retrenchment in a comprehensive financial statement in the Dáil. "Whatever justification may exist for going outside of revenue to meet the abnormal expenditure on Compensation and the Army", he declared, " — and the justification in those cases is obvious — the Government are quite convinced that the normal public services must be financed out of revenue."[117]

Pensions fell into this category and the government's conviction seems to have been sufficiently resolute to prevent heartsearching or delay about the proposal; in any event, it was unlikely that one of the first major proposals of a newly appointed Minister of Finance would

be resisted by his colleagues in government. The main objects of the draft Old Age Pensions Bill, duly approved by the Executive Council on 21 January 1924, were to provide

(1) for an immediate all-round reduction in the rates of pension by 1/- a week,
(2) for the introduction of a revised scale of means for old age pension purposes and for the review of existing old age pensions,
(3) for an amendment of the method of calculating the means from capital and property not personally used, and
(4) for an amendment of the law in regard to calculation of means from property or income which has been assigned or transferred.

The total saving which these measures would permit in a full year, concluded a Department of Finance minute, was some £600,000.[118] The enthusiasm with which the Department's officials supported the proposed cuts, moreover, was shown by one notable difference between the bill as enacted and their original scheme which had provided for the reduction of pensions by *two* shillings instead of one, although there is no evidence that the Executive Council seriously contemplated adopting the two-shilling cut.[119]

The Department of Finance and Wireless Broadcasting

The Postmaster General's White Paper on wireless broadcasting was debated in the Dáil on 14 February 1924, and the next day Gregg minuted that

> . . . the real point is whether this suggestion of State enterprise should be adopted or not. I think it would be utterly wrong for the State to build wireless stations and carry on the enterprise itself. I think the Post Office idea is essentially right that some outside body should undertake the enterprise. State enterprise is always more extravagant and less likely to succeed and develop than private enterprise and we have not got sums of £20,000 to play with in the present state of the national finances.[120]

The debate which followed is of particular interest in view of the subsequent growing reliance upon state enterprise towards the end of the nineteen twenties and afterwards. The final report of the special Dáil Committee set up to consider the subject took a directly contrary view to Finance and recommended that "broadcasting should be

a State service purely — the installation and working of it to be solely in the hands of the Postal Ministry . . . no new principle would be introduced. The State has for a long time subsidised national culture combined with entertainment through its National Library, National Gallery" and other institutions. If the Dáil rejected this recommendation, then the committee proposed, as an alternative, that "broadcasting should be developed by means of a company in which the State would have, directly or indirectly, a controlling interest."[121]

Finance found these proposals objectionable for three reasons: first, because it was freely admitted that such a company would run at a heavy loss; second, as Gregg had argued, because the state could not operate as economically as a private firm; and, third, because the proposal would swell the numbers of civil servants.[122] The quest for economy even caused Brennan to suggest that if a station were to be set up, it should broadcast for only two nights a week and that, on other nights, programmes might be relayed from the BBC to supplement such a service.[123]

Finance's opposition was one factor which postponed the decision for over a year, but eventually the Department felt obliged to concede when, at a meeting with Posts and Telegraphs officials attended by both ministers in May 1925, they dropped their proposals for curtailing broadcasting to two nights a week and for relaying BBC programmes, and accepted the "principle of complete State control".[124] Later the same month, under renewed pressure from Posts and Telegraphs, McElligott acknowledged that he did not "think we can at the moment press the question of economy any further."[125] McElligott's remark reflected a recognition of the inevitable, rather than any change of heart. Some years later, in October 1929, Finance objected equally strongly to new proposals of the Department of Posts and Telegraphs to erect a 60 kilowatt high power broadcasting station at an estimated cost of £70,000. "This heavy expenditure should not be incurred on a luxury service", they then argued, "at a time when money is scarce and dear (costing the Exchequer practically 7%), and when, because of the great uncertainty as to the future, it is essential that the credit of the State should not be impaired by unnecessary additions to the short-term or floating debt."[126]

Although the Wireless Telegraphy Act of 1926 illustrates the powerlessness of the Department of Finance successfully to resist new expenditure when political considerations affecting national prestige were adjudged paramount, the episode is also of interest in a quite

different context. This had to do with the nature of the relationship between the Department of Finance, as the premier government department, and Dáil committees. The matter arose with a letter from the Clerk of the Dáil, on behalf of the special committee, to the Secretary of the Executive Council, asking for "all documents and files in the possession of the Executive Council bearing on the Wireless Broadcasting Report." The next day, 12 January 1924, C. J. Gregg replied that his minister had directed him "to state that while he will at all times be prepared to give to any committee of the Dáil the fullest possible information in his possession . . . he must regard Departmental files as confidential and not available for production to Parliamentary Committees." This uncompromising statement of principle formed the basis of the reply to the committee as approved by the Executive Council and, apparently, went unchallenged.[127]

Army Expenditure

Control of army expenditure was an especial concern of the Department of Finance even before the civil war had begun. "While it may not be possible at the present time to reduce either the strength of the forces or the rates of pay", acknowledged T. K. Bewley in his memorandum of May 1922 to the Minister of Finance, "more men should not be attested, and the possibility of reducing the number of separation allowances paid would probably also bear close examination." Nevertheless, the memorandum continued, some economies were possible, since

> . . . apart from these major matters it has been brought to the notice of this Ministry that expenditure from public funds has been incurred on such things as armchairs, cardtables, bedroom carpets, electric light installation in barracks, etc. which may be desirable in normal times, but which we think ought to be dispensed with at times like the present. We are disposed to question also whether a considerable economy is not possible in the expenditure on motor transport, petrol, etc.[128]

The relative magnitude of army expenditure is evident in the fact that more than 25 per cent of the total estimates for 1922–23 (excluding the £10 million allocated for property losses compensation) was earmarked for the army — some £7·2 out of £27·7 millions.[129] But it was in preparing the estimates for 1923–24 that Finance officials made a really sustained effort to slash army expenditure. A meeting of the Executive Council on 21 March 1923 was, most unusually,

exclusively given over to considering the army estimate of £14·75 millions for the coming year; after a prolonged discussion, a final decision was postponed pending a further report from the Department of Finance. The Council met next morning when, again, the army estimate was the only item on the agenda and when, again unusually, Joseph Brennan was present. It was decided to refer the estimates back to the Minister of Defence, General Mulcahy, "for reconsideration". The revised estimate of £10·5 millions — a cut of nearly 30 per cent — was approved by yet another full meeting of the Executive Council which took place at eight o'clock that evening.[130] Such a sequence of events is unparalleled elsewhere in the records of the Executive Council. That the government approved a reduction of this order when the civil war had not yet finally ended is a further indication, if such were needed, of how seriously they regarded Finance's persistent calls for economy.

Similar sentiments motivated Brennan when, in August 1923, he questioned the Department of Defence on the necessity for the new, fledgling air force. The position of the public finances, he wrote,

> . . . is such as to render it imperative that drastic economies be effected in all services which are not immediately essential in the public interest. In this connection the Minister of Finance would be glad to learn whether the Minister of Defence sees any urgent reason for the maintenance at the present time of an Air branch in the Army. The Minister of Finance finds it difficult to believe that the upkeep of an Air Service in this country at the present time can be justified by any arguments which are not much outweighed by counter-arguments based on the grave injury being done to the economic interests of the country by the present high level of taxation and of Government expenditure.[131]

Finance raised the matter again with Defence in September, October and December, and at one stage stated that, pending a reply, payments of "additional and extra pay to Air Force personnel in certain cases are being held over."[132] But Finance did not gain their point, for when Defence eventually did reply, they pointed out that "the Air Force is now definitely provided for in the scheme of Army reorganisation which it is understood has had the approval of the Executive Council."[133] Nevertheless, the Department of Finance continued to question the need for aviation development when, in March 1925, some ministers (notably the Minister for Industry and Commerce, Patrick McGilligan and the Minister for Posts and Telegraphs,

J. J. Walsh) began pressing for an investigation of the prospects for civil aviation development. Although the Executive Council decided in October 1926 that the Minister for Industry and Commerce "should be responsible for the control and administration of civil aviation in the Irish Free State", no progress was made because of lack of funds; and, as late as January 1930, McGilligan felt compelled to resort to the expedient of bringing before the Executive Council his inability to arrive at an understanding with the Department of Defence on the question of diverting a portion of the Army air vote for civil aviation purposes — £20,000 was the sum at issue. The Minister of Finance's reaction was predictably unenthusiastic and, in July 1930, McGilligan complained to the Executive Council about what he alleged was the undue delay of the Department of Finance in dealing with correspondence on the subject. This was finally referred to the Minister of Finance in January 1931, and was never again formally discussed by the Executive Council before the change of government in 1932.[134]

Yet aviation matters, while again illustrating Finance's indifference to factors of national prestige when set against their quest for economy, were only of marginal significance in comparison with the debate about overall army expenditure; Brennan returned to this theme in a memorandum to the Executive Council in October 1923. Reduction in army numbers, he wrote,

> . . . is at present making fair progress but unless it is accelerated a good deal there would still be a large Army (25,000–30,000 men) at the beginning of next financial year. This would involve a charge of perhaps £5 millions for the Army in 1924–25 and such a charge inevitably means borrowing. Even with an Army charge of only £2 millions in 1924–25 there seems little likelihood of being able to balance that year's budget unless £3 or £4 millions can be saved on the normal public services.
>
> The strength of the Army must, no doubt, depend largely on other considerations besides that of finance, but nevertheless the time has come when it cannot be determined irrespective of the consideration of finance unless the Government are prepared to contemplate the prospect of paying the soldiers in paper money of the Government.
>
> Whatever decision be taken as to the strength of the Army this year and next, there is no reason for not taking measures to secure that whatever Army we have is run on the most economical lines consistent with military efficiency. Improvement in the administrative machinery at headquarters is one of the matters which seems to require examination, and in this connection the provision included in the draft Ministries bill for a

> Council of Defence should, it is suggested, be more fully considered. Again such questions as the proper proportion of officers to men, the numbers to be authorised for the several grades of officers, the numbers of separate commands to be maintained all involve financial issues of importance. There is reason to suppose that a substantial saving could be effected by improved control over the use of Army transport. Questions have already been raised as to the justification at the present time for maintaining an Air Service and Marine Service but the military case still remains to be made out. The heavy cost of Army bands is a matter for special consideration; in a time of crisis it does not seem too much to expect that all expenditure on such a service should be treated as non-essential, but at the very least a drastic curtailment is called for. The question of continuing *an t-Oglach* might be reviewed in connection with the similar problem of the Civic Guard: maintenance of Government newspapers of any kind, the contents of which are not strictly official, is calculated sooner or later to have embarrassing results and is a burden of which the taxpayer may not unreasonably complain.
>
> The foregoing are merely illustrations of points of varying importance where prospect seems to exist of securing legitimate Army economies. A detailed survey would certainly disclose numerous others.[135]

The government's commitment to continued reductions in army expenditure was spelt out to the Dáil by Blythe in a major financial statement on 2 November 1923. Already, he declared, an army which had numbered more than 50,000 men had been reduced to "nearly 35,000" and further demobilisations were planned. Rates of pay had been cut — a private who reattested in the reorganised army would get 2/6 as opposed to 3/6 a day — and steps had been taken "for doing away with the expensive system of dependants" allowances: a wife's allowance had been cut from 4/- a day to 1/6 and children's allowances had been completely abolished. In the light of these and other economies, said Blythe, it was proposed to reduce the Army estimate from £10·7 millions for 1923–24 to £4 millions for 1924–25.[136]

The Army Mutiny

Further details of the army reorganisation scheme of 1923–24, and of the events leading to the so-called "Army Mutiny" of March 1924, when a group of dissident Army officers, many of whom had been closely associated with Michael Collins as members of the Irish Republican Brotherhood during the Anglo-Irish War, issued an ultimatum to the government demanding, *inter alia,* an end to

demobilisation, lie outside the scope of this work. Yet the conclusion is inescapable that the Department of Finance's unrelenting entreaties for economies in the army — the demands voiced by Brennan, for example, for the drastic reduction of army numbers, for the reform of the administrative machinery at army headquarters, for a Council of Defence and for the revision of the proportion of officers to men in the army[137] — cannot but have contributed to the sense of grievance of the mutinous officers and to the traumatic course of events which led to the resignation of two government ministers (Richard Mulcahy, Minister for Defence and Joseph McGrath, Minister for Industry and Commerce).

Even in these circumstances, however, the momentum of the Finance drive for the proper ordering of army finances continued unchecked. In mid-April 1924, less than a month after the army mutiny, Brennan turned to the subject of proper financial control of the army. His fundamental point was "that the Accounting Officer of the army vote should be a person of high administrative standing subordinate to no one in the Army organisation except the Minister and protected from interference with his own functions on the part of clearly military persons."[138] The refusal of the newly appointed General Eoin O'Duffy (whom the Executive Council had placed "in complete control of the Army" at the turbulent midnight meeting when it was decided to seek Mulcahy's resignation)[139] to allow the army accounting officer to examine certain accounts, on the grounds that the moment was inopportune, raised the type of issue with which Brennan was most concerned.

Certain key principles central to Finance's conception of proper control, were duly emphasised at a meeting to resolve the dispute, at which President Cosgrave was present, when it was stressed that "it would be a very serious matter indeed if an essential civil financial duty were in any way interfered with by the military authorities." Brennan also took exception to the fact that

> . . . financial proposals had been put up by the Commander of the Forces direct to the President, and had actually been considered by the Executive Council without any reference to the Army Finance Officer. It was pointed out that all financial proposals concerning the Army were required to be considered in the first instance by the Army Finance Officer who will advise the Minister regarding them, and who will make any necessary submissions to the Minister of Finance concerning them; and it was agreed that the procedure as thus defined would be followed in future.[140]

Finance's insistence upon these principles at such a time is a measure of their determination to uphold proper financial procedures, regardless of the prevailing political opinion. Moreover, Brennan was fully aware of the serious effect of the military crisis upon national finances. In a confidential memorandum of 30 April 1924,[141] he pointed out that "the credit of the Government has suffered seriously during the last two months." Brennan's figures showed how weekly sales of savings certificates, which had consistently averaged over £33,000 between December 1923 and 8 March 1924, had plummeted dramatically following the Army Mutiny — to £23,058 for the week ending 15 March, £14,557 for the week ending 22 March and, subsequently, for the next five weeks, to under £8,000. Savings bank deposits were similarly affected, as was the National Loan, the course of which, wrote Brennan,

> . . . indicates in a striking fashion the recent decline in the credit of the State. On a number of occasions in the months of January, February and March business in the Loan was then on the Dublin Exchange at prices of 99 and over. The quotation was as high as 99 and five-eighths on the 13th February.
>
> The military crisis had an immediate weakening effect and this has operated continuously to depress the Loan further and further up to the present time. The quotation was pegged for a time at 97 by Government purchases, which amounted to about £175,000 during the last two months. Such purchases are, however, not being made at the moment and the quotation has now fallen away to 92 ex-dividend. The extent of the decline which has occurred cannot be attributed in any degree to general market conditions and in fact quotations of gilt-edged securities have been appreciating recently . . .
>
> In face of the foregoing evidence it will be obvious that we have had a very serious financial set-back by reason of recent events. Credit is a very delicate fabric which it is much easier to damage than to repair. The fact that we are certain to borrow in one form or another to a considerable extent within the current financial year renders it of great importance that in the formulation of Government policy for the future special regard should be had to the possible effects upon credit of the various courses which may be proposed. Mistakes affecting credit cannot be made good by any sort of organised manoeuvering if an impression gains ground that financial administration is unsound.[142]

The Army Mutiny is an important watershed in the history of the Department of Finance in the nineteen twenties. On the one hand it

testified to the extreme youth of the new state and revealed how thin was the crust of civil over military authority in a state born in arms and how potentially disruptive were the passions and resentments bubbling beneath that crust. On the other hand, the fact that the Army Mutiny came to nothing, that in the event the government came through the crisis without making a major concession, demonstrated that the crust, if new and thin, was also strong. It showed, too, how fully the government accepted the principles of administrative control which Finance had advocated without pause since the days of the provisional government. Admittedly, to use Brennan's own words, credit *was* a "very delicate fabric". But a fabric which the Finance officials had woven so skilfully in the unpropitious circumstances of 1923 could be rewoven when the crisis had passed. In the meantime Finance officials could rest assured that the government's resolution showed how thoroughly they had become imbued in so short a space of time with what Finance officials thought of as right principles.

In one sense, then, the Army Mutiny symbolises the frustration and bitterness of some of those elements in Irish society who resented Finance's bleak prescription for the future health of the new state. But what is really significant about the Army Mutiny is that it failed, totally and absolutely. What that failure proved was that the administration of the new state would continue to be run in the future, not in accordance with the aspirations of those men who had taken up arms in 1919–21 and who threatened again to take up arms in 1924, but in accordance with the administrative principles of the civil servants who had come to power with the provisional government and within whose councils the representatives of Finance were pre-eminent.

CHAPTER FOUR

Anglo-Irish Financial Relations 1922–26

I: Anglo-Irish Financial Relations and the Treaty

Any discussion of the financial relationship between the British and Irish governments in the first years of the Free State must begin with the Treaty of December 1921. At the second session on the opening day of the Treaty negotiations, 11 October 1921, it was agreed that a special sub-committee of the conference should be established to explore the issue of the financial relationship between the two countries. The British were primarily concerned with assessing the appropriate Irish contribution to the public debt of the United Kingdom with particular reference to the war debt. "What we want", said the British Prime Minister, Lloyd George (who "compared Ireland to partners going out of a business firm"), "is something fair between the two countries, not a Jew bargain."[1] Michael Collins, on the other hand, insisted that the sub-committee "must have an open reference — the whole ground of liability past and present to be discussed."[2] What Collins had in mind was the long-standing Irish nationalist claim for redress because of British over-taxation of Ireland under the Act of Union, which had formed as integral a part of the Irish demand for Home Rule since the days of Parnell, as of the later separatist demands of Collins and the other revolutionary nationalist leaders. On the occasion of the third public session of the Dáil in May 1919, when the Irish-American Commission (then in Europe trying to persuade the American President, Woodrow Wilson, to admit Ireland to the Paris Peace Conference) were in attendance, Collins had devoted his entire speech to the theme of over-taxation. He concluded that

> England stands arraigned with having through her financial machinations:
>
> 1. Over-taxed us to the extent of at least £400,000,000;

2. Drained our capital to the extent of (at a moderate estimate, as already set forth) £1,000,000,000;
3. Destroyed flourishing industries and generally retarded our industrial development;
4. Banished some millions of our population and made the remainder 'pay', as Grattan said they would pay, 'the price of their enslavement'.[3]

These very different British and Irish preoccupations were plainly reflected in the one and only meeting of the sub-committee on financial relations on 19 October 1921. Collins, the only Irish plenipotentiary present, was accompanied by Erskine Childers and a group of four advisers (J. J. Murphy, L. Smith Gordon, H. Mangan and Professor T. Smiddy). The British ministers present, Sir Laming Worthington-Evans (the Secretary of State for War) and Sir Robert Horne (the Chancellor of the Exchequer), were accompanied by a trio of Treasury officials (headed by Sir Warren Fisher) and by Anderson and Cope. A British memorandum before the meeting focused inevitably upon the apportionment of the appropriate Irish share of the war debt and pension liabilities and prompted Collins to remark that the British figures were "rotten". He, equally inevitably, returned to the theme of over-taxation.

One extract from the minutes of the meeting well illustrates the breadth of the gulf dividing the two sides:

> Sir L. Worthington Evans: read the following formula and asked if this would be what was wanted —
>
> 'Having regard to the relative taxable capacities of Great Britain and Ireland at the present time, what is the fair proportion which each should pay towards Debt and Pensions, and on what basis should these be capitalised?'
>
> Mr Collins: Our desire is to get a definite figure, that is our whole purpose. We want to draw a line.
>
> Sir L. Worthington Evans: When you get our figure you can raise any argument you like. We give you your 'X' and 'Y'.
>
> Mr Collins: I will put some arguments that may surprise you.
>
> Sir L. Worthington Evans: Mr Collins will never surprise me again. We would like to have a statement of your counter-claims. Could you put these in now? It need not wait for our memorandum.
>
> Mr Collins: According to my figures our counter-claim works out at £3,940,000,000.
>
> Sir Robert Horne: I suppose that dates from the time of Brian Boru. How much did we owe you then?
>
> Mr Collins: Oh no, it is the capital sum since the Act of Union.[4]

In the light of such exchanges and following the Irish counterclaims based on the memoranda secretly drafted by Joseph Brennan for the use of the Irish delegation, it is not surprising that there was agreement only to differ.[5] This agreement, effectively postponing the resolution of all disputed financial issues until after the Free State had been established, found formal expression in the two financial articles of the Treaty signed on 6 December 1921, namely:

> *Article 5*
> The Irish Free State shall assume liability for the service of the Public Debt of the United Kingdom as existing at the date hereof and towards the payment of war pensions as existing at that date in such proportion as may be fair and equitable, having regard to any just claims on the part of Ireland by way of set-off or counter-claim, the amount of such sums being determined in default of agreement by the arbitration of one or more independent persons being citizens of the British Empire; and
>
> *Article 10*
> The Government of the Irish Free State agrees to pay fair compensation on terms not less favourable than those accorded by the Act of 1920 to judges, officials, members of Police Forces and other Public Servants who are discharged by it or who retire in consequence of the change of government effected in persuance hereof.
> Provided that this agreement shall not apply to members of the Auxiliary Police Force or to persons recruited in Great Britain for the Royal Irish Constabulary during the two years next preceding the date hereof. The British Government will assume responsibility for such compensation or pensions as may be payable to any of these excepted persons.

The subsequent negotiations on the implementation of these articles, and the three agreements to which they led, form the subject of this chapter: first, the agreement of 12 February 1923 which, simply, necessitated certain financial adjustments other than those arising under Article 5 of the Treaty; second, the agreement of 3 December 1925, amending and supplementing the Treaty which, while not specifically designated as a financial agreement, contained important financial provisions; and, third, the ultimate financial settlement of 9 March 1926.

II: The Treasury and the Department of Finance

Before treating of each of these agreements, however, it would be

well to say something of the officials of the Treasury and of the Department of Finance who were largely responsible for negotiating them. In this respect at least, the quoted exchanges between Michael Collins and his British political counterparts are unrepresentative of the negotiations of 1923–26 which are characterised by a remarkable mutual understanding between the officials concerned. The account of the Department of Finance under the provisional government has already revealed the close ties between the Department and the Treasury. The practice of getting Treasury officials on loan from London for key posts in the Department of Finance, the determination to inaugurate proper procedures in all areas for which they were responsible (procedures based almost exclusively upon the British model), Brennan's readiness to keep his Treasury counterparts fully informed of his policies and to seek their advice — these are but some of the factors which testify to the continuing closeness and cordiality of the relationship. We have seen how benevolent was the attitude of Treasury officials to their Dublin colleagues: their readiness, for example, to extend the loan of C. J. Gregg and their efforts to help Finance establish the credit of the new Irish government on the firmest possible footing.

Other instances may here be cited. In 1922, for example, the British Civil Service Commission suggested to the Treasury that a request from the Department of Finance, asking them to hold a general examination for Post Office messengers in Southern Ireland, went beyond the limits of the agency-service they were then providing for the Irish government and they therefore sought further instructions. Niemeyer, the responsible Treasury official, advised full cooperation on the grounds that it would be "a wholly mistaken policy to show unwillingness to assist the provisional government in taking the proper steps to prevent corrupt appointments"; he further declared that, if necessary, he was prepared to take a token supplementary estimate.[6] Niemeyer made a similar intervention in the autumn of 1923, following an inquiry from the chairman of Barclays Bank, F. C. Goodenough, to the President of the Board of Trade, Sir Philip Lloyd-Greame, as to the British attitude if the Free State tried to borrow in the American market. The American banks, Goodenough reported, were anxious not to do anything which might offend their British banking colleagues. The Chancellor of the Exchequer, Neville Chamberlain, took the view that, "if the Free State Government are able to borrow in America, we should not desire to raise any

objection. As you know, we wish in general to support the Free State and to give them every opportunity to solve their admittedly difficult problem." Chamberlain's reply, moreover, was a watered-down version of Niemeyer's original draft which had read: "it seems to me that if the Free State Government are able to borrow in America, it is from every point of view very desirable that they should do so and it would be extremely regrettable, I think, if British bankers endeavoured to place any obstacles in their way."[7]

But British civil service sympathy for the Irish government's financial problems was not confined to the Treasury. Other British civil servants in the Colonial Office (the department formally responsible for Ireland at this time) were similarly committed. One notable instance of interdepartmental consideration of such problems had occurred some months earlier, in July 1923, when the British government had proposed to publish a White Paper on Anglo-Irish financial relations, following undertakings to this effect given in parliament in May and June by the Duke of Devonshire (the Secretary of State for the Colonies). Waterfield, the former head of Treasury (Ireland) and now back in the Treasury in London, asked the British government's representative in Dublin (M. J. Loughnane, who was attached to the Colonial Office but who then worked out of the Vice-Regal Lodge in Dublin) whether the Irish government might object to publication. Waterfield subsequently reported that "there *is* very grave objection to publication, at any rate before the elections. On the one hand the Government would be accused by the Republicans of having curbed the rebels with the aid of British guns and ammunition; on the other hand the figures would be unpalatable to Ulster and the die-hards generally." But the Treasury were unconvinced that, in view of parliamentary pledges, they could avoid publication until Niemeyer once more intervened decisively. "I do not like this at all", he wrote.

> I am not sure what your pledges are, but to publish a document of this sort just before the Free State elections and just before the Free State try to borrow in the market (in the success of which we are considerably interested) seems to me the height of folly. It should certainly not be done without full consultation with the Colonial Office, which Department, I think, should certainly secure the private assent of the Free State Government. I do not think we should publish intimate details about a Dominion without previous consultation with them; and if I were the Irish Treasury I should feel that the present publication was very nearly a hostile act from us in this Treasury. The credit aspects of what is proposed ought to

be most carefully weighed by both Governments before we rush into print.

At a meeting the next day, 28 July 1923, at which Loughnane and other Colonial Office and Treasury representatives were present, it was finally agreed that there should be no publication and that it was not necessary to consult ministers any further on the matter.[8]

But British opinion was by no means uniformly sympathetic to the financial predicament of the new state and those British civil servants who favoured benevolent policies had frequently to contend with marked antipathy to the Irish government and all that it stood for. Two men who played important roles in counteracting this antipathy were Tom Jones, a key member of the cabinet secretariat and confidant of Lloyd George and other notable British politicans, and Lionel Curtis who was immediately responsible for Irish policy at the Colonial Office — both of whom had advised the British government during the Treaty negotiations. Their difficulties arose in part from the change of government in Britain following the fall of Lloyd George's coalition on 19 October 1922 and its replacement by an exclusively Conservative government, first under Bonar Law and later, from 22 May 1923, under Stanley Baldwin.

Munition Payments

The change of government created immediate and serious problems in Anglo-Irish financial relations. On 26 September, Winston Churchill, then Secretary of State for War, had proposed a financial arrangement to Cosgrave, then still Minister of Finance as well as President, whereby Irish ministers would "apply to the British Government in the first instance for all munitions . . . Such munitions as they [the British Government] were able to supply to be furnished as at present on credit, the question of payment being left over to the general financial settlement."[9] Cosgrave's reply of 18 October, which "approved and accepted" the proposal, was received in London during the interregnum between the coalition and Conservative governments, although the new ministers (the Duke of Devonshire at the Colonial Office and Lord Derby at the War Office) also approved the scheme.

But Lord Derby then went on to propose that the provisional government should be informed that after 6 December (the date of the Irish Free State government's formal takeover) the Irish Free State

would be treated on exactly the same lines as any other dominion, i.e., that the War Office would act either as purchasing agent, or supply out of store, but in either case the goods would be supplied for cash payments only by the Free State government. The idea which inspired this recommendation was that the moment Southern Ireland became a dominion, it should no longer be accorded any special treatment.

This view, however, omits certain considerations — Curtis suggested

> 1. The Free State is fighting for its life financially, as well as politically.
> 2. The munitions which are its greatest need were purchased from funds to which the Irish taxpayer contributed on exactly the same footing as the British taxpayer. The Irish Ministers claim not without reason that cash payment should await the decision of the arbitrators under the Treaty.
> 3. While munitions to the value of £780,000 have been issued on credit in Northern Ireland, which is backed by large British forces, munitions to the value of £250,000 only have been issued to Southern Ireland, which single-handed is fighting the same elements of disorder.

On the following day, 22 November, a conference of cabinet ministers decided, "that having regard to assistance given in the past to other Dominions in suppressing insurrections, no decision should be taken at present to limit the supply of munitions of war to the Government of Southern Ireland", and that the arrangements for future payment should be considered by the Chancellor of the Exchequer and the Secretary of State for War. The result of these considerations was a Treasury decision that "issues whether to the Free State Government or to the Government of Northern Ireland should be made on the terms of immediate cash payments."[10]

In the meantime, negotiations had been set in motion for Irish Army officers to visit the War Office to discuss their "probable requirements in munitions of war for a period of several months in advance", and a tentative arrangement was made whereby General Mulcahy and other officers were to visit London in late December after they had completed the operation of taking over from the British forces. Curtis pointed out, however, that there was nothing in the correspondence about this visit which indicated a change in British policy on the matter of payment:

> Irish Ministers must have assumed and were justified in assuming that they were still to receive large supplies on credit . . . the one feature really at-

tractive to them in Mr Churchill's proposals. As things stand General Mulcahy and his officers on their arrival here will learn for the first time that this particular offer expired on December 6, eight days after our formal invitation to them to come here was sent. They will certainly reply that they had been brought here under false pretences and will probably close the negotiations and forthwith return to Dublin.[11]

Curtis, having suggested "that a financial decision appears to have been formulated between the War Office and the Treasury without apprehension of the political aspects", advised one of the following courses:

> 1. That immediate steps should be taken to procure a suspension of the Treasury decision, and to see that a certain quantity of munitions, in decreasing quantities, can be supplied on credit.
> 2. Failing that, the Government of the Free State be informed in explicit terms of the position created by the Treasury decision, before the Irish officers are sent.[12]

Curtis's representations were successful and he was authorised to take up the matter with the Treasury. He did so on the same day, when it was agreed that "the whole question of payments for arms supplied and to be supplied should be remitted for discussion at the conference on outstanding financial questions to which the Free State Government had been invited to send a Minister forthwith."[13]

Sympathy and Antipathy

But similar problems arose once more in January 1923, when the political atmosphere in Britain under the new Conservative government, coupled with the increasing indebtedness of the Free State government, had "led to a revival among the die-hards in England of hopes that the Union might be renewed; so spoke the *Morning Post* and the *Daily Mail.*" Under these circumstances, at a time when the Irish government were trying desperately to raise a loan, Curtis again urged Treasury intervention since "he was most afraid that the Free State would soon not be able to pay its troops and might lose the Civil War by default."[14]

Again, in February, against a background of renewed *Morning Post* complaints about the Colonial Office's excessively sympathetic attitude to the Irish government, Tom Jones recorded in his diary that the Irish government had "only about £644,000 in their chest" and that, at Curtis's bidding, he had spoken to the Prime Minister, in the

hope that "he would tell our Treasury to be helpful with guarantees."[15]

The kind of mutual trust and cooperation which prevailed between Cosgrave as Minister of Finance and British civil servants such as Curtis and Jones was again demonstrated at the height of the crisis between the Irish government and the banks, when Cosgrave took pains to explain to Curtis why he would not seek a British guarantee: firstly, because he felt that

> . . . it would inevitably become public and prejudice him in the elections; and, secondly, because if he was not returned to power he had no right in such a matter to prejudice his successor. He recognised the risk that if large funds were advanced by the Banks, the depositors might begin to withdraw their accounts, but that risk was not half so great to the Banks as would be the downfall of his own Government. It was when he was faced with this impasse that he had seen Loughnane and told him of his difficulty to find cash to meet the compensation awards.[16]

In the event, as we have already seen, the crisis was temporarily resolved by the Irish banks agreeing to advance a loan of £3m. Nevertheless, Curtis "begged him [Cosgrave] that if he saw a real danger of not being able to find cash to meet awards in the immediate future that he would not fail to let me [Curtis] know at once through Mr Loughnane."[17]

The benevolent financial policies, advocated and executed by such men as Jones, Curtis and Loughnane, sometimes raised eyebrows in Whitehall. After the next change of government, when in January 1924 Labour came to power for the first time, Curtis reported to Jones, after a Colonial Office conference on Ireland, that "Loughnane, our man in Dublin, put the case for the South with such conviction that Thomas [the Minister] rounded on him as an Irish Free Stater! Curtis pointed out that our representatives abroad always did tend to take the view of the State in which they were located, and that this was their great value."[18]

Of course, men such as Jones and Curtis had been associated with Irish policy ever since 1920–21, which may well explain their very marked sympathy for the Irish government during this later period. Alfred Cope, a key figure in Dublin Castle during the Truce and Treaty negotiations, shared such sentiments even when he had no responsibility for Irish policy. In June 1923, Kevin O'Shiel, then in London on business for the Irish government, reported a conversation

with Cope when, "apropos of nothing" Cope had volunteered his view of the financial relationship between the two governments. He had advised that the Irish government "should not stir hand or foot in the matter for many a day as yet — certainly not until after the Boundary Commission . . . if it is raised now the Tory Government will drive a hard bargain as they want to ingratiate themselves with their friends and Die-Hards who are beginning to be a little uneasy of them." Cope also gave his views on the prospects for an Irish loan in Britain, saying, reported O'Shiel, that "a huge effort will be made by interested and powerful financial inimical elements to force us to accept a *high rate of interest.*" Cope urged that the Irish government should not "float the loan at a higher rate of interest than 4½% as there is plenty of idle money in the world at the moment", and said that, if for some reason the government did float a loan at a higher rate of interest than 4½ per cent., they should do so "only for a very short period". Cope believed, O'Shiel concluded, that "if we are cute we will get a loan *anywhere* for 4½%, if not in Britain most certainly in America."[19]

These examples, in conjunction with those cited in the previous chapters, are sufficient to warrant some general observations about the nature of Anglo-Irish financial relationships in the first years of the Free State. The relationship between Dublin and London, both at civil service and at ministerial level, was close and cordial in those matters where *both Irish and British representatives believed their individual interests to be identical.* Both the governments and their respective civil servants recognised such an identity of interests in all those areas where their cooperation has here been traced. Both wanted to ensure the survival of the Free State. Both wanted to set the finances of the Free State upon a firm foundation. Both wanted the establishment of an efficient and incorrupt Irish civil service. Both, simply, wanted the Free State to be a success, and financial stability was one of the prerequisites of that success. Neither (not even when the Conservatives were in government) wanted to jeopardise the 1921–22 settlement.

One can safely conclude, then, that the senior officials in Finance, and Brennan and McElligott in particular, had no inhibitions about seeking help and advice from their counterparts in Whitehall when they believed that it was in their own interests to do so. It was a question of obtaining professional advice on professional matters in exceptional circumstances when such advice was in a very short supply in

their own, new service. Hence when Sir John Keane, a member of the Senate, proposed a reform of the public accounting system (based upon the British model), Brennan turned to his former colleagues of Treasury (Ireland) days in Dublin Castle for advice — to Waterfield in Whitehall and to G. C. Duggan in the Northern Ireland civil service — and forwarded their replies, which formed part of his successful defence of the existing system, to his minister.[20]

More frequently, especially in procedural and administrative matters, it was a question of silently following British example rather than of actively soliciting British advice. Hence in November 1922 T. K. Bewley, on loan from the Treasury in London, drew up the first draft of the first estimates circular prepared in Finance (for 1923–24). His draft was a word for word copy of the corresponding Treasury circular of 1922.[21] In a minute to Brennan, Bewley suggested that the Irish regulations "could be adopted more or less in bulk from the English, unless you think too slavish an imitation undesirable." Brennan, who prepared the final draft of the circular himself, did not think it undesirable.[22]

Yet one must guard against confusing the nature of the financial relationship between Merrion Street and Whitehall when British and Irish interests were identical with the nature of that relationship when British and Irish interests conflicted. Where Brennan, McElligott and their colleagues were following British example or taking British advice, they were doing so in an avowedly Irish interest. If British methods and British assistance could be enlisted in support of their Irish, Finance interest, then Departmental officials did not hesitate to call upon such example and advice.

Clearly, however, British and Irish interests were not always identical and, where and when they differed, Brennan and his colleagues proved unrelenting opponents of the Treasury. Brennan's vigorous use of his expertise against his erstwhile colleagues in Treasury (Ireland) was particularly noteworthy, and as early as April 1922, when Brennan had been in the service of the provisional government for only a couple of months, following a conference between British and Irish representatives on the payments to be made to Irish ex-servicemen in the British forces, Waterfield observed that Brennan was "taking a very 'sticky' line in this and all other matters involving relations with His Majesty's Government."[23] This was a perceptive comment, although it was to be some time before it became fully clear (in connection with the negotiation of the various financial

agreements of 1923–26) just how "sticky" Brennan could prove in such matters. Before turning to these negotiations it would be well to trace briefly the history of one such dispute when British and Irish interests were in conflict.

The Register of British Government Stock in Dublin

The dispute began early in June 1922 when the Treasury wrote to the Department of Finance and to the Bank of Ireland informing them that it was "their intention at an early date to seek parliamentary authority for the discontinuance of the register of British Government stock at present maintained at the Bank of Ireland in Dublin, and for the establishment of a register at the principal office of that Bank in Belfast."[24] Brennan, in a minute of 12 June, saw the proposal as raising

> ... several important questions which need full consideration, e.g., the deductions at source of income-tax on dividends and interest on Government securities. The collection in Belfast of tax on securities held in our area would be objectionable. The problem of double income-tax may arise here. Much of the Government stock held by the Irish people is, of course, registered at the Bank of England, and the converse also holds. The arrangement would also affect land stock and the right of the British Government to take arbitrary action in this connection is specially questionable. It is bound up with the question of the arrangements to be made for transfer of the functions of land purchases generally.

The total amount of British government funds registered or inscribed in the Bank of Ireland's books, wrote Brennan in another memorandum the next day, was "about £106 million of which £5½m is inscribed in the names of owners domiciled in the Northern area, and £1½m in joint northern and southern names." Brennan argued that it would be "unreasonable to alter the arrangement for registration of the stocks forming part of the British public debt until the problem presented by Article Five of the Treaty is solved" and that, equally, "no change should be effected as regards the land stocks until the necessary financial arrangements in regard to the transfer of land services are completed." While he felt that the government could not "reasonably resist a proposal to set up a register in Belfast for stock-holders in the northern area", he stressed that it was the closing of the Dublin register for stockholders resident elsewhere in Ireland that was "specially objectionable".

The Minister of Finance, Michael Collins, felt even more strongly. The proposal, he wrote, was "a most sinister one" and "a typical instance of how they [the British] load the dice against us at every turn. It shows also the vital necessity of settling with them at once and finally so that we won't have to be thinking of their politics on every occasion. Equally it is another of these moves calculated to strengthen enormously the position of the N[orth] E[ast]."[25]

At the end of September Alfred Cope wrote to Cosgrave, by then Minister of Finance, enclosing a copy of a letter from the Treasury in which they renewed their proposal. The delay, wrote Cope, was due to the fact that Collins had taken up the matter

> ... on one of his visits to London, and he, Mr Andrew Jameson and myself visited the Treasury and discussed the matter ... on that occasion Mr Jameson put forward strong reasons for postponing the transfer. Mr Collins proposed the postponement very strongly and I myself pointed out that from a political point of view the immediate transfer would be most unfortunate. The Treasury saw the force of the arguments and agreed to postpone it.[26]

But a month later, on 28 October 1922, the Treasury sent the Bank of Ireland a draft of legislation which implemented their proposal. Brennan's counter-memorandum of 8 November reiterated and elaborated his earlier arguments and formed the basis of the provisional government's case as he presented it at a conference held in the Colonial Office on 10 November. The Irish case argued that the Treasury proposal was premature since there were "no steps immediately in contemplation for currency innovation in the Free State" and, more seriously, because it anticipated the negotiations, on possible adjustments under Article 5 of the Treaty; the Treasury, in short, "appeared to deal with the matter as though it were one of exclusively British concern." But the Treasury responded by arguing that the difficulty "lay deeper" than this. The stocks in question on the Bank of Ireland register "represented a purely internal debt", a contract between the British government and the stockholders, and the Treasury case hinged upon the argument that the British government "could not allow the management of these stocks to be in the hands of those over whom, after the establishment of the Irish Free State, they would cease to have any control. Though in practice there might be no difficulty, in law the Bank of Ireland would be entirely outside the control of His Majesty's Government." Yet, these arguments notwithstanding, the conference ended with an agreement that

the provisional government's case should be examined and represented to British ministers.[27]

Finance lobbied support intensively among the most powerful financial interests in Dublin. Cosgrave and Brennan arranged with the Governor of the Bank of Ireland that a deputation should visit the Chancellor of the Exchequer, consisting of representatives of the Bank of Ireland, the Dublin Stock Exchange and The Incorporated Law Society of Ireland; Brennan, working through Lionel Curtis of the Colonial Office, also arranged that copies of representations made by these and other bodies were forwarded to the Chancellor of the Exchequer. These pressures were ultimately successful, although "it was only after personal representations made by the Governor General that the decision already taken to remove the registers from Dublin was cancelled."[28] The outcome was an Order-in-Council of 12 February 1923 — the Bank of Ireland (Belfast Register) Order 1923 — which laid down that only the holdings of stockholders domiciled in Northern Ireland, and who did not object to transfer, were to be transferred to Belfast. The settlement proved long-lasting; although the matter came up again in 1929, 1947, 1955 and 1957, it was only in 1964 that the two governments finally agreed upon procedures which brought the Bank of Ireland register into line with the procedures governing the United Kingdom national debt.

III: The Agreement of 12 February 1923

The controversy over the Register of British government stock and the other disputes outlined in the preceding pages not merely indicate something of the attitudes of Irish and British officials, but also demonstrate the speed and intensity of the financial pressures building up on the Irish government in 1922-23. Similar evidence is afforded by the events leading to the agreement of 12 February 1923.

On 9 December 1922, when the Irish Free State was not yet a week old, the new government received from the Duke of Devonshire (as Secretary of State for the Colonies), through the Governor General, T. M. Healy, a special despatch as a matter of "great urgency". The British government, the despatch stated, was "now in a position to discuss with a view to an immediate and final settlement a number of outstanding subsidiary financial questions", including

1. The financial arrangements for
    (a) The completion of pending land purchase transactions, as well as for
    (b) the completion of land purchase as a whole.

2. The question of the concurrent repayment of the British share of payments made by the Provisional and Free State Governments on awards of the Compensation (Ireland) Commission and the proposed basis of the division of the cost of such awards between the two Governments.
3. The Free State share of the sum of £1,500,000 payable to the Irish Railways under the Irish Railways Acts.
4. The cost of the munitions of war supplied by the War Office to the Provisional and Free State Governments.
5. The Free State share of the cost of Royal Irish Constabulary pensions and payments on account of superannuation charges since April 1st last.
6. Payments in respect of the upkeep of Haulbowline Dockyard.[29]

The "really urgent" question, Joseph Brennan told Cosgrave in a nine-page memorandum on the British despatch, was the payment to the railways which, under British statute, was due no later than 15 January; the other pressing matter was land purchase, since the arrangements then in existence would come to an end on 1 April. The compensation issue and the RIC pensions matter were in hand; while, as Brennan drily observed, the facts about war materials "are not officially on record in this Ministry, ... the position seems to be that the War Office proposes to charge only for supplies of articles which they must themselves replace." The Haulbowline situation, on the other hand, was described by Brennan as "very unsatisfactory as we appear to be under a considerable but vague liability."[30]

Some days later, on 17 December 1922, the Executive Council decided to set up a committee "to advise the Government on financial matters arising out of the settlement between Ireland and Great Britain", on which the following were "provisionally approved" to serve (in addition to Brennan and Gregg from the Department of Finance): John J. Murphy, the Town Clerk of Dublin, who had attended the financial sub-committee meeting during the Treaty negotiations; H. S. Guinness, the Governor of the Bank of Ireland; John J. Horgan, a prominent Cork nationalist and businessman; and two economists, George O'Brien and C. F. Bastable. But, although it was agreed that Cosgrave should approach each of this group,[31] in practice the committee seems never to have got off the ground and the task of advising the government fell almost exclusively to Brennan. This may well have been because of the urgency to initiate negotiations, for, on 20 December 1922, the Irish government replied

to Devonshire's despatch, requesting that arrangements be made for Brennan to meet British officials in London. Brennan, the reply declared, was "fully cognisant of the views of the Free State Government in the matter."

Brennan met Treasury officials in London next day, 21 December, and was able to wire Cosgrave that evening that his discussions "while not conclusive, seemed satisfactory on the whole." Brennan's approach had been to sound out the Treasury officials "with a view to seeing if they would take on the railway burden if we gave substantial payments on account in cases where we undoubtedly have liabilities towards them", notably for RIC pensions. This suggestion was "favourably" received and Brennan was further reassured by a call he paid on Sir John Anderson, his old chief in his Dublin Castle days, who seemed to have "no serious expectation" that the British government would oppose such an arrangement.[32]

But the British kept up the pressure. On 29 December 1922 William O'Brien received a telegram from A. P. Waterfield, complaining that the official letter incorporating the Irish proposals, which Brennan had promised would be sent immediately, had not yet arrived and saying that, because of the need to consult British ministers formally, the "delay causes us great embarrassment." The official reply, sent the next day, followed the line suggested by Brennan: after expressing readiness to enter into talks, but urging postponement to mid-January because of the pressure on Irish ministers due to the "initial proceedings of the Oireachtas", it offered to pay £600,000 on account of the RIC and civil service pension liability.

The British response, while indicating a readiness to reach some such compromise, made payment to the railways subject to three conditions: first, that it should be recognised only "as an advance ... made for practical convenience" which in no way prejudiced subsequent British claims; second, that the Irish government should provisionally pay the first million pounds of the British share of the awards which would be made by the Compensation (Ireland) Commission — again without prejudice; and, third, that the Irish payment on account should be £800,000 rather than £600,000.[33] These terms, approved by the Executive Council on 9 January 1923, diminished the urgency of the proposed talks between ministers. The compromise was a tribute not merely to Brennan's expertise, but to the degree of confidence reposed in him by Cosgrave.

The talks were finally arranged to take place in London on 9 February 1923. The Irish delegation was headed by President Cosgrave who was accompanied by the Minister of Agriculture, Patrick Hogan, and the Law Officer, Hugh Kennedy, as well as by two officials, Brennan and Gordon Campbell of the Department of Industry and Commerce. No record of these talks has survived either in the records of the Department of Finance or of the Department of the Taoiseach.[34] The main items on the agenda,[35] however, were the compensation issue (discussed later in this chapter) and the question of land purchase arrangements which were provided for in two parts of the final agreement, the first relating to completed and pending purchase arrangements, the second to the Irish government's new scheme of land purchase (the Land Act of 1923). Under the first part, the Irish government undertook to collect and to pay the land annuities and the British government to "continue as at present to provide the stock and cash necessary to finance purchase arrangements pending." But the more important and sensitive provisions in the agreement were those relating to the financing of the 1923 Land Act.

The Irish government proposed to finance the Act by issuing a stock at $4\frac{1}{2}$ per cent "the capital and interest of which, subject to agreed provision for redemption, shall be guaranteed by the British Government in the same way as it might guarantee a Colonial or Dominion Government loan", and in view of this guarantee, it was further agreed that the terms of the new Land Act would be "subject to the concurrence of the British Government."[36]

The provisions of the agreement seem to have been accepted without demur by the Executive Council which met on 13 February for the first time since the meeting of 7 February when they had approved the membership of the Irish delegation. The minutes of the later meeting, when Brennan was again present, simply record that President Cosgrave reported on his negotiations in London and that his report was approved; no reference is made to the terms of the agreement nor, indeed, to the fact that an agreement had been signed.[37] These details may be noteworthy in the light of later political controversy about the publication of the agreement, the terms of which were treated as secret.

The question of publication first arose in July 1923 when the British government proposed to publish a White Paper on Anglo-Irish financial relations and when, as we have seen already, only the intervention of the Treasury, in its anxiety to save the Irish government from

political and financial embarrassment on the eve of the 1923 election, had prevented publication. Two years later, in July 1925, the British again sought to publish the agreement, this time to substantiate their Attorney General's defence of an important Petition of Right case. But the Minister for Finance, Ernest Blythe, saw "considerable objection from a political standpoint to publishing *in extenso* the document. . . If necessary for a successful defence, he would not object to the disclosure of the particular agreement (No. 2) which is concerned with compensation."[38]

Blythe's objections centred on the land purchase arrangements which had remained secret when, for example, an amendment to the 1923 Land Bill establishing "the Purchase Annuities Fund" was moved by the government in the Dáil on 18 July 1923; and when no reference was made to the agreement of the previous February.[39] The first domestic political pressure for publication occurred in January 1926, when notice was given of a Dáil question for President Cosgrave which sought the text of the agreement. "After most careful consideration I am of opinion the following answer is best", wrote Cosgrave to Blythe: "'It is proposed to have the Agreement printed and published at an early date.' What do you think?" Blythe thought differently and opposed publication on the grounds that it was "bound to lead to a certain amount of wrangling about the points involved. The question to be considered is, I think, simply, whether publication or non-publication is politically best."[40] That the agreement provided that the land bonds should be guaranteed and the 1923 Land Act approved by the British government, obviously laid the Irish government open to the risk of political embarrassment. Blythe got his way. Although there was further pressure for publication, from both London and Dublin, later in 1926, it was successfully resisted. The formula (drafted by Brennan) to justify non-publication was that the 1923 agreement had been superseded by the ultimate financial settlement of March 1926 and that its terms "should not now be published either in whole or in part."[41] This formula was accepted by the British government who refused to answer a parliamentary question on the 1923 agreement in December 1926. The agreement was only finally published after Fianna Fáil came into office in 1932, when it was effectively used by de Valera as a stick with which to beat the Cosgrave administration on two scores: first, that the secrecy of the agreement and the fact that it had never been ratified by the Dáil meant that it was not binding — an interpretation which led

directly to the land annuities dispute and the economic war; and, second, that the agreement was improperly drawn up — "it is literally in tatters — half-pages, parts of pages not typed, interlineations and so on. Honestly, I never saw a contract of any kind presented in such a form. There is not even an Irish signature to it", de Valera told the Dáil.[42]

The 1923 agreement is the most obscure and controversial of the three Anglo-Irish financial agreements of the nineteen twenties and, in the absence of a formal record of the negotiations of February 1923, it is difficult further to illuminate this obscurity. The available evidence seems to suggest, however, that the political sensitivities of the Cosgrave government were not immediately awakened by the agreement. Brennan's sole responsibility in the preliminary talks of December 1922, the apparent absence of any discussion in the Executive Council either before the negotiations of February 1923 or after the agreement had been signed, and the speed with which those negotiations were completed — all seem to point to that conclusion. Moreover, as we have already seen in connection with the first national loan, Brennan had felt able as late as 24 May 1923 to write to Cosgrave that he saw no "vital objection" to accepting a British guarantee when this principle had "already been definitely admitted" in the case of the land purchase bonds.[43]

But it may be that it was the Executive Council's discussion and rejection of the principle of a British guarantee in respect of the loan — although even that was not absolute — which made them more sensitive to or, less probably, first focused their attention upon the guarantee clause in the February agreement. Other reasons why the Executive Council may have accepted the necessity for a British guarantee for the land bonds and not for the national loan may have been their increasing confidence, which grew with every month they held office and with the end of the civil war, to say nothing of their success in the 1923 election. The Free State was just two months old when the agreement of February 1923 was signed and its ministers had not yet, perhaps, become accustomed to having escaped from that partial financial, and indeed psychological, dependence upon the British government which had restricted the independence of the provisional government.

IV: The Compensation (Ireland) Commission

The other major problem which demanded the attention of the

Department of Finance in 1922–23 was the question of liability for compensation for property damaged and injuries suffered during the Anglo-Irish war of 1919–21, an issue nowhere mentioned in the Treaty yet undeniably the most complex and sensitive of the post-Treaty problems to be resolved in Anglo-Irish financial relations. The problem was first formally recognised in the Heads of Working Arrangements for implementing the Treaty, agreed by Irish and British ministers in London on 24 January 1922, which laid down "that the principle should be admitted that fair compensation is to be paid in respect of injuries which are the subject of compensation under the enactments relating to criminal injuries, including losses sustained through the destruction of property by order of the military authorities under martial law" (Clause 3). "That as respects personal injuries — (a) each Government should deal with and should be responsible for the payment of compensation in respect of personal injuries to its own supporters, (b) awards already given should stand [and] (c) provision as to liability under (a) should be retrospective to apply to awards already satisfied" (Clause 4). Clause 5 related to injuries to property and provided for a commission of three members (one appointed by each government under an agreed chairman "who holds or who has held high judicial office") which would adjudicate on all claims "arising out of the conflict ... during the period from the 1st January, 1919 to the 14th January 1922 and ... review awards already given in undefended cases." The other relevant Clauses, 6 and 7, provided "that the terms of reference to the commission be drafted by the [Governments'] Legal Advisers and submitted for consideration", and "that all proceedings (including pending proceedings and proceedings for the enforcement of decrees already given) under the enactments relating to compensation for criminal injuries be barred, and that a resolution in this sense be passed and promulgated by the Provisional Government, to be followed by legislation in the British Parliament."[44]

These provisions were duly implemented under the authority of a warrant of appointment signed by the Lord Lieutenant, Lord Fitzalan, on 8 May 1922, appointing Lord Shaw of Dunfermline (one of the Lords of Appeal in Ordinary) as chairman and James C. Dowdall (the Irish nominee) and C. J. Howell Thomas as the other commissioners, although the terms of reference agreed by the two governments altered the dates in question to 21 January 1919 and 11 July 1921.

Insurance Problems

The first major problem taken up by the commissioners was the liability of insurance companies during this period: "whether the Commission should make an award in respect of that part of the loss for which the insurers are liable."[45] At a meeting on 21 June 1922, at which solicitors and counsel representing the provisional government, the Treasury and the insurance companies were present, Lord Shaw suggested that:

> The British Treasury and the Irish Treasury and the Insurance Companies should endeavour to adjust an agreement dealing with this whole question of insurance. It is quite manifest that the entire finance of the position must be taken into account. . . . It is a case of a large number of individuals who have suffered loss, but it is not alone that. It is also a case of a very large number of persons who have not suffered losses, but who have paid substantial and in some cases, extraordinary premiums which will remain in the pockets of the insurance companies, and the results of the insurance companies' plea will be to enable them to pocket these sums, and to enable them also to be completely recouped, if their arguments were correct, against all the losses and in short, ride off out of the political transaction meant for the well being of Ireland, with an enormous figure of profit. Whatever may be the construction of the exact words used, the Commission cannot believe that any sums which we are to recommend should be destined to any other object than the actual relief of suffering caused.

Lord Shaw therefore proposed that an agreement should be drawn up by both governments and the insurance companies "which would finance the entire Irish insurance position" and which would ensure both that "the insurance companies should emerge from the transaction without any loss whatever" and "that they should have no profit except a reasonable figure of commission." The members of the compensation commission, Shaw argued, could thus "remove all insurance questions from [their] cognisance."[46]

Brennan analysed the matter from the Finance standpoint in a long memorandum on 27 June which argued that "both Governments would manifestly gain if they could transfer to insurers any burden which they should otherwise have to bear themselves", but which also stressed "that the British Government should not be allowed to get into the position of transferring their liabilities to insurers unless at the same time any rights of insurers against local rates are abrogated." But Brennan concluded that

> . . . on the whole the arguments do not seem sufficiently strong to encourage the hope that we can place ultimate liability on insurers. The British Government, who have a bigger interest in the matter than we have, are understood not to be prepared to attempt to do this, and consequently, I think, it must be assumed that such a result is not practicable of achievement. But on the other hand there is sufficient ground for contending that the insurers should not be allowed to have the advantage of a full indemnity and at the same time pocket the heavy premium income which they collected in this country during the disturbed period. On this point a deal ought to be made, and the Governments may hope to get some at least of the premiums (including those paid by insured parties who did not suffer damage) as a partial set off to their burden in providing the indemnity. As the Provisional Government have a direct interest in securing for themselves a proper share of premiums it seems desirable that they should be represented in any negotiation which the British Government may wish to carry on with the insurers.[47]

The Department of Finance thought it vital that its interests should be fully safeguarded and, on 7 July, William O'Brien (acting on Brennan's advice) forwarded the relevant papers to the Minister, Michael Collins, complaining that Finance had not been kept properly informed in the first instance — yet another example of the Department's determination to control policy in key areas under the provisional government.

Collins gave Brennan his full support and instructed him to go to London to attend a conference on 18 July with representatives of the Treasury and the insurance companies.[48] This conference was largely given over to an explanation by the Treasury of Lord Shaw's proposed compromise to the insurance companies, and Brennan felt that Waterfield (representing the Treasury) "seemed rather too readily to convey an impression that Lord Shaw's suggestion was satisfactory from the points of view of the two Governments." Brennan refused to commit his government to Lord Shaw's scheme, and reported to O'Brien that he

> . . . had in mind but refrained from stating that while the British Government no doubt feel compelled to indemnify the insurers from the liability for Cork, Balbriggan etc., in order to avoid the embarrassment that would arise for that Government if the insurers were to make public disclosures of the misbehaviour of the British forces in those places, the Provisional Government seem to have no corresponding reason for making concessions to insurers. It may prove of advantage later to use this contention.[49]

This first conference was informal and exploratory and reached no conclusions; the insurance companies expressed the wish to meet for a further conference the following week, after they had further considered the matter among themselves and had consulted with their clients. Brennan suggested that there were two possible courses open to the provisional government when the conference resumed: first, "that the possibility of obtaining or enforcing decrees in respect of damage in the stipulated period should be barred by special enactment and that in paying compensation in cases where the damage was attributable to Irish forces the Provisional Government would see that their grant would be abated to the extent to which liability could be enforced on insurers who had taken the risks of riot and civil commotion"; or, second, that the provisional government should try to conclude a bargain with the insurance companies along the lines of Lord Shaw's suggestion. Brennan favoured the second alternative in that "the obligation accepted by the insurers would be made definite" and because he felt that there might be too great an "element of chance" attached to the first alternative. But it was impossible, O'Brien told Brennan, "to obtain any special instructions from the Government", and he authorised him to exercise his own judgement at the resumed conference which met on 25 July — another illustration of the extent to which sole responsibility for major financial decisions devolved upon Brennan during the civil war period.

At the resumed conference the insurance companies' representative stated "that the chief requisite of a settlement which would satisfy his clients was that they should not suffer as regards Cork. They counted on getting back the full amount of their advances for the destruction in that city." Eventually, however, the insurance companies agreed to an arrangement "whereby the underwriters would get back an amount which would in fact represent a substantial part but not the whole of their Cork advances ... £218,000 out of their total advances of £351,000."[50] The settlement, wrote Brennan, meant "that, while the Governments indemnify the insurers so far as concerns loss which might be the subject of an award by the Shaw Commission (the indemnity representing £351,000) the insurers surrender to the Governments £133,000", a figure much larger than the premiums received by underwriters and "perhaps double the amount of any liability that the Provisional Government would accept under the arrangement", and one which Brennan therefore regarded as "very

favourable".[51] Cosgrave, by then the acting Minister of Finance, approved the proposed agreement, the details of which were finalised at a third conference at the Treasury in August 1922. The Minister of Finance agreed to pay Lloyds £233,600, in return for credit for the payment of awards of nearly £358,000; in effect, Lloyds surrendered over £124,000, plus £16,500 which they had agreed to pay in cases then outstanding.[52]

British Liability

Once the insurance question was disposed of, the commission was free to begin its work. The biggest single question before it was to decide what proportion of liability the British government should bear. Under the heads of working arrangements [5(e)], the British government undertook "to reimburse the Irish Government for such a proportion of the total amount (including advances already made out of intercepted grants) as may be agreed between the two Governments, the amount of the damage done to property in Great Britain in pursuance of the Irish political movement being brought into account." The British proposed that this proportion should be decided for each case which the commission reviewed "according to the nature of the political motive which . . . might be assumed to have inspired the malicious act." But the Irish Law Officer, Hugh Kennedy, did not "think the motive in a number of cases could be called *political,* e.g., cases of reprisals, drunken and wanton damage, military tactics."[53] He was supported by Kevin O'Higgins, who agreed that "all cases of apportioning liability, viz. 'who did the damage?', is at once simpler and surer than the proposed basis of motive."[54] Kennedy's alternative formula was that the proportion of the total amount to be reimbursed to the Irish government by the British government "shall be such sum as shall represent the damage assumed to have been done by the military police or other servants of the British Government or by persons acting on behalf or in the supposed interest of that Government." — that *in practice* each government was prepared to accept liability "for damage done by its own supporters."[55]

Initially there was some uncertainty about which draft of the agreement had been approved and the following extract from a minute from Brennan to O'Brien on 16 June serves to illustrate how confused and difficult were the circumstances under which Finance officials had often to work in the first months of the provisional government:

> I saw Mr Kennedy today . . . and was surprised to learn from him that an agreement in regard to the basis of reimbursement had already been made between the two Governments and communicated in the form of supplementary instructions to Lord Shaw. Mr Kennedy could not give me an exact copy of the agreement or instructions assigned . . . it is essential that we should possess an authoritative copy of the agreement or instructions before we proceed further. It is a serious indication of the lack of proper official procedure that we have not been officially acquainted of this matter. The absurd position now seems to arise that unless we can get from Mr Collins personally a copy of whatever document he signed we shall have to ask the British authorities to give us the information.
>
> I may mention that when Mr Dowdall [the Irish Commissioner] was here a few days ago I discussed this question of reimbursement with him, and he seemed to be unaware of any arrangements having been concluded for determining liability. Today in the hope that I might get a copy from Professor Ryan, Assistant Secretary of the Commission, of the instructions understood to have been issued, I asked him if he could let me have them. He said that he had never seen them and that so far as he knew Mr Dowdall had never seen them, but that he believed Lord Shaw has them in his pocket.[56]

In fact, as Brennan discovered when he eventually succeeded in getting a copy of the elusive agreement from Dowdall, the draft proposed by the Irish ministers was what had been approved.[57]

The year 1922–23 saw little further progress on the question of British liability. A meeting in London between Irish ministers and their British counterparts on 9 November 1922 only resulted in both sides agreeing to investigate the possibility of deciding upon their liability "on a percentage basis of the ultimate liability for amounts awarded" by the Shaw commission. Nor were the talks of February 1923 much more productive. No agreement was arrived at on the apportionment of the commission's costs: the Irish refused to agree to a fifty/fifty division and the British refused to consider any other ratio.[58] All that was agreed was that "the division of costs shall be on the basis of existing arrangements", although the British government did confirm that they had waived in favour of the Irish government any claimed benefit under the agreement with the insurance companies; the only other provisions in the 1923 agreement related to the method of British refund payments.[59]

The next twelve months saw a lull in the tempo of Anglo-Irish financial negotiations, and the next formal round of talks began only in the summer of 1924. The first conference, in London on 16 May 1924, was attended by the Minister and Secretary of the Department

of Finance (Blythe and Brennan) and the Irish High Commissioner in London (James MacNeill); the British were represented by the Financial Secretary to the Treasury, the Solicitor General and officials from the Treasury, Colonial Office and Inland Revenue.[60]

This conference saw the emergence of a major stumbling-block in the negotiations leading to the ultimate financial settlement: the question of the attribution of income tax arising out of land purchase annuities, local loan advances and British payments of salaries and pensions in the Free State. A full discussion of these issues was postponed pending the submission of "a reasoned statement" of the Irish case before the next conference. It was also agreed to adopt this procedure in relation to certain other matters which required tidying up: the attribution of capital and interest payable in respect of advances to the Dublin and South-Eastern Railway between 1918 and 1922; questions arising out of the provisional transfer of Crown land in the Free State; a British claim for shared Irish liability for deficiency of the unemployment insurance fund, and Irish liability for damage to property in Britain during the Anglo-Irish war. However, more definite progress was made in other areas.

The first of these concerned the Irish repayment of expenditure incurred by the British government on behalf of refugees from the Free State as a result of the change of government. Blythe pointed out "that he would have very considerable difficulty in getting the money voted for this service unless he was in a position to say that he himself had examined the list of persons to whom grants had been made and was satisfied that the money was properly spent." He also expressed surprise at the size of the British claim — approximately £14,000 between the end of 1923 and 1 May 1924, in addition to a somewhat smaller sum owing for the earlier period — and at the fact that claims were still being entertained. There was a further difficulty, he felt, in that the committee responsible for examining such claims had very often "given an under-taking to the applicant that the matter would be kept entirely secret." However, it was agreed that the fullest possible report would be submitted to Finance and that from now on "no grants should be made in new cases except where the applicant agreed that the payment might be reported to the Ministry of Finance."[61]

Progress was also made on the issues of land purchase and the compensation commission. The British agreed to finance those additional land purchase agreements which, somewhat to the surprise of the

Department of Finance, had been lodged under the old Land Purchase Acts since the financial agreement of February 1923. A much more delicate issue was the British guarantee of the land bonds to be issued under the 1923 Land Act. Finance estimates showed the amount of bonds would be over £30m., and they wanted to increase the British contingent liability to £35m., from the £25m., previously proposed. But "the Financial Secretary laid stress on the importance of keeping the figure of contingent liability on the Consolidated Fund as low as possible in view of parliamentary criticism, and said he would much prefer not to go beyond £30m., [and] it was agreed that the Ministry of Finance should send a copy of their estimates to the Treasury who would then consider the question." At the resumed conference a fortnight later, the British finally gave way on this point, but only with considerable reluctance, principally because of what they described as "growing criticism in Parliament of the watering of Government credit by the giving of guarantees" which made it "very hard to justify a figure which looked as if it might be higher than was necessary." The figure of £30 millions was only finally adopted "on the understanding that the Ministry of Finance would supply the fullest possible brief for the use of Treasury Ministers." In return for this concession, moreover, the British successfully insisted that while "the Land Bonds might be in Irish currency . . . the amount of the British guarantees must be expressed in pounds sterling."[62] Certain other minor changes were agreed without difficulty, the most important of which was the removal, at Blythe's request on political grounds, of a provision giving the Treasury power to fix the rate of interest under one secton of the act — "that for the words 'at such rate as the Treasury may fix, there should be substituted 'at five per cent per annum.' "[63]

There remained the problem of the compensation commission and here, too, the conference did see some progress. The much-debated question of the basis of the apportionment of the commission's expenses was finally resolved when it was agreed that, in cases which would not otherwise come before the commission, "the expenses should be divided between the British Government and the Free State Government in the proportion of 55 to 45", the same proportion to apply in the "residue of cases" in which the commission would be unable to apportion liability in accordance with ascertained facts.[64] But, although the outcome represented a considerable and hard-won victory for the Finance negotiators, the compensation issue continued

to provoke disagreement between the two governments.

Indeed the dispute which followed — which centred upon the interpretation of the commission's terms of reference relating to martial law — ranks as one of the most acrimonious in the period under review. It amply demonstrates how precarious was the harmony which characterised much of Anglo-Irish financial relations and how such concord could be swiftly and seriously threatened by factors of political suspicion and distrust deep-rooted in the recent unhappy history of Anglo-Irish relations.

The British position on the martial law issue was that "only such acts as were officially done in counties set forth in two of Lord French's proclamations"[65] fell within the commission's jurisdiction, a view which the British government communicated unilaterally to the commission on 27 March 1924 and without the prior knowledge of the Irish government. The Irish Attorney General, Hugh Kennedy, outlined the background to the disagreement in a special memorandum to President Cosgrave in which he said that the terms of reference had been negotiated, on the Irish side, by himself and Kevin O'Higgins. These negotiations, said Kennedy, were "frequent and prolonged" and had been

> . . . lengthened to a considerable extent by the effort of the British Treasury officials to limit the compensation for destruction or injury resulting from military action to areas in which martial law had been actually the subject of proclamation. The Treasury officials were very insistent in pressing that this limitation should be imposed on the terms of reference. We absolutely refused to accept any such limitation. . . I frequently pointed out to those with whom we had the discussions that martial law is a state of affairs which exists independently of proclamation; that the proclamation does not in fact change any state of facts, but is merely a warning to people concerned. I explained over and over again in the course of the discussions that martial law existed outside the areas mentioned in the proclamations. After long and frequent discussions the proposal on the British side was ultimately turned down and no such limitation was inserted in the terms of reference. . . I understand that the British Treasury has taken a most extraordinary, and in my opinion, quite unjustifiable course with reference to the Commission. I understand that although the British Treasury is one of the parties interested in the decisions of the Tribunal, (i.e. the Commission) they have approached the Commissioners behind our backs and have attempted to dictate to them as to the manner in which their decisions are to be given. . . But I have been given to understand that the British Treasury have done even

> worse than this. I learn that they have called upon the Commission to furnish some of the files of the cases upon which the Commission is adjudicating. I hear also that a former member of the Irish Bar, now practising in England, interviewed the Commissioners behind closed doors for the purpose of presenting the view of the British Treasury which was to be 'swallowed' by this International Commission at the dictation of the Treasury, and that, without any chance for us to contest the arguments put forward, and in fact, without notice to us that any such proceeding was being gone through with. One begins to wonder what is become of the once notable traditions of what is called 'British justice'. They do not seem to have descended to the British Treasury![66]

But Cosgrave needed no persuading of the Treasury's iniquity. He had already made plain his feelings in a minute in his own hand which spoke volumes of the passions never far from the surface of Anglo-Irish financial relations under circumstances where Irish ministers had to negotiate about the bloody details of a war, which had ended less than three years previously, with their enemies in that war. The substance of the compensation arrangement, wrote Cosgrave,

> . . . was a back to back. You cannot bring in Martial Law on one side and exclude it on the other. Houses were destroyed for many reasons on both sides — military necessity, military reprisal, military puppyism. The fact of a proclamation or a dozen proclamations, does not affect the issue which both governments set out to solve. That, in effect, was compensation to persons who suffered in consequence of disturbances. The fact that premises were destroyed in a legal way does not affect the claim of a sufferer. What we on our side agreed to pay, though we had as little love for the person affected as the British had on the other [*sic*].
>
> In essence it comes to this: Did Collins and the rest of us agree to compensate Lord A, B, C and D, and at the same time ask Mulcahy and O'Malley to make peace with the British Government at the cost of their houses and property? We have no means to compensate Mulcahy and O'Malley and, if we had potential means, is it suggested we should go to the Oireachtas for such and at the same time make solvent a couple of dozen absentees and hear their abuse? It can't be done.[67]

In mid-May 1924, Sergeant Hanna, acting on behalf of the Irish government, argued before the commission that its terms of reference had been drawn up "on the basis that [the] conflict was a war between the Governments of the two countries, and not a contest between an established Government and rebels", and were not "confined to acts done by order of the British military authorities within areas where

martial law had been formally proclaimed, but extended, and was understood by both parties to extend, to the combatants on both sides in every part of the country, exclusive of Northern Ireland, in which a state of war *de facto* existed." This fundamental conflict of opinion caused the commission (by then under the chairmanship of Sir Alexander Wood-Renton, formally a British Chief Justice) to forward an interim report to the two governments seeking further joint instructions.[68]

The dispute was discusssed at a conference between British and Irish ministers at the Treasury on 29 May 1924. Blythe, Brennan and MacNeill again represented the Irish government and the British delegates were the Chancellor of the Exchequer [Snowden (in the absence of Thomas, the Secretary of State for the Colonial Office)], the Financial Secretary to the Treasury, the Solicitor General, Sir John Anderson, and other civil servants from the Treasury and the Colonial Office. Blythe argued that

> . . . the two Governments had made a satisfactory arrangement about compensation in general; but in the view of the Free State Government the present attitude of the British Government would mean going back on all the original agreements. . . The Free State Government could not agree that because a man was a member of the Irish Volunteers or of the IRA he should be deprived of all right to compensation, nor could they admit that the term 'martial law' should be restricted to mean the state of things which existed in areas in which martial law had been proclaimed. . . He did not wish to suggest that the British Government should accept liability for damage done by British forces in the course of actual military operations and under sheer military necessity (e.g. a house occupied by one party set on fire in the course of an attack by the other). . . . But he claimed that, on the present wording of the terms of reference, the British Government would often be able to evade liability, under the plea of military necessity, for compensation for damage which was really nothing else but unnecessary, and therefore, wanton and malicious damage, done because the owner of the property was known to be in sympathy with Sinn Féin.[69]

The British response to these arguments, in the conference at least, was strangely muted. Snowden, having "expressed regret for having been obliged in Mr Thomas's absence to take part in the discussion of a subject which was unfamiliar to him", contented himself with suggesting "that there was really nothing in the claim of the Free State which could not be dealt with by the Commission under their

present terms of reference"; but he also said that the British government would not accede to any proposal to extend these terms of reference.[70]

Thomas answered the Irish case more fully in a formal despatch the following week, when he declared himself satisfied that, when the terms of reference to the compensation commission had been drawn up, there had been no difference of opinion between the two governments as to the meaning of the term "martial law". Martial law, he continued,

> . . . was a very definite phase of administration publicly proclaimed and generally understood, and the cases in question were those commonly known as 'official reprisals', acts of destruction or damage which had been ordered deliberately and with great formality, as a punishment to the locality by the Competent Military Authority in those areas where martial law had been specifically proclaimed. In consenting to assume liability for compensation in these cases His Majesty's Government admitted in effect that these particular acts were not dictated by military necessity nor done under the powers conferred by the Defence of the Realm or the Restoration of Order in Ireland Regulations. This admission, however, could not be, and never was, extended to other official acts of the Crown Forces in Ireland.

Thomas accordingly confirmed that his government were not prepared to contemplate "an extension of liability which in the negotiations of 1922 the British representatives expressly declined to accept", and he reiterated "that the only practical course is to leave the interpretation to the judgement of the Commissioners themselves." But he then proposed another, compromise arrangement to deal with claims arising under the Indemnity Act of 1920. The British government, he declared, were prepared, if the Irish government so desired,

> . . . to discharge their liability under the Indemnity Act by a lump sum payment to the Free State Government, to be assessed by the Compensation Commission on the basis of the sum total of the individual awards . . . [Irish] Ministers, under such an arrangement, would on their part make provision by legislation or otherwise for enabling that Commission or some other suitably constituted tribunal to award compensation to individual claimants on terms not less favourable, or of course, should [they] so desire, on wider terms. . . It remains open to them, if they should consider the total contribution of the British Exchequer under the arrangements adopted to be inadequate, to seek the remedy by way of counter-claim provided by Article 5 of the Treaty.[71]

In the official reply to the despatch a month later, the Irish government rejected the proposal that the commission should be "left to interpret without the assistance of the Governments the disputed passage in the terms of reference", on the grounds that the matter involved "inter-Governmental policy in an important respect."[72] But the gravity of the crisis and the unwonted bitterness the dispute occasioned is made plain not so much in the official correspondence as in a private letter sent by Cosgrave to Thomas on 3 July 1924. Cosgrave began by saying that "in view of the gravity of the matter" he had thought it better to write personally "before the critical position now reached in the official correspondence is allowed to develop further." His "special object" in writing privately was to inform Thomas of

> . . . certain aspects of the matter which have assumed a very real importance here, but which it would not, I think, be in the interests of either Government to have made the subject of official communications, if such a course can possibly be obviated.
>
> The Commission are concerned with two categories of cases in one of which the claimants have already obtained formal decrees from the Courts, which operated in this country until the Treaty. The second category consists of cases where for one reason or another claimants did not obtain decrees from the Courts. A very high proportion of the British supporters who suffered damage during the conflict obtained decrees from the Courts, whereas most of the sustainable claims in non-decree cases will be those of Irish supporters.
>
> The Commission found it convenient to begin with the decree cases and they have now almost finished this branch of their work. The result is that the Free State has compensated, in accordance with the rules of the Commission, the great bulk of the British supporters whom it was liable to compensate. While the decree cases were being dealt with an arrangement was in force by which the Commission had each investigated by two investigators — one representing the interests of each Government. So long as this plan operated the Free State Government refrained from intervening in matters pending before the Commission, and it could fairly be said that no effort was made on our side to press the Commission to cut down their awards to British supporters. The Commission have lately entered on the task of dealing with non-decree cases. I regret to have to say that for some time past abundant indications have been given of a determination on the part of the British authorities concerned to fight these cases in a narrow and niggardly spirit which is in marked contrast with the attitude taken up by us in regard to the decree cases of British supporters to whom we were liable.

The agreed system of joint investigators has broken down and its place has virtually been taken by a practice of one-sided interference by Treasury and Colonial Office officials, which has gone far to deprive the Commission of its character as a neutral body. It is now a matter of daily occurrence that memoranda and details of individual claims are referred from the Commission to the Treasury for analysis and criticism before the Commission proceed to make an award..We have never on our side taken such action in a single case. Continuous direct correspondence between British offiicials and the Commission or its members has reached such a degree that with the best wish in the world to be independent it is, I fear, inevitable that the two members of the Commission, who are officially connected with the British Government, cannot in the nature of things fail to be influenced. This situation is well known and appreciated over here and has produced a very bad effect.

Apart from the foregoing you will, I am sure, appreciate the very serious impropriety of the official communications addressed to the Commission on 27 March and 15 April by the Colonial Office, in which an effort is made without the previous concurrence of the Government of the Free State to instruct the Commission officially as to the meaning of their terms of reference. The request . . . that the Commission should decline to hear arguments on behalf of applicants designed to conflict with the views of the British Government is nothing short of amazing.

Again, much though I dislike to have to mention such a point, I should not omit to let you know that the dissatisfaction existing here in this matter is rendered specially acute by the fact that Messrs Crutchley, Whiskard, Waterfield and Wynne now advising the Treasury and the Colonial Office on this subject, have all been officials in the Hamar Greenwood régime. (author's italics)

I hope very much that in view of what has happened you will be able to fall in with our contention that the Commission should have the present difficulties solved for it by agreement between the two Governments which appointed it. The matters at issue are fundamental and the Commission was not constituted for the purpose of solving them. I cannot reflect on the impartiality of the Commissioners in applying the terms of reference such as they find them but when it comes to a question of settling inter-Government policy I cannot overlook the fact that two of the three Commissioners are or have been connected with the British Government service. . .[73]

It would be a gross injustice if the British Government were to endeavour to reject now the interpretation for which we contend. As an illustration of the feeling which prevails here on the matter, I think it right to let you know that the suggestion is being pressed upon us that if satisfaction is not obtained by a reasonable attitude on the British side in

this discussion, the Indemnity Act, which we passed last year so as to save members of the Crown Forces from legal proceedings, should be repealed. When that Act was being passed one of the first questions addressed to the Dáil was about the effect of the measure upon the compensation question and I am bound to say now that my notions on that point would have been different from what they were, if it had been possible to foresee the developments which have since taken place.[74]

There are several reasons why Cosgrave's letter merits such extensive quotation. First, because it uniquely summarises the difficulties which Irish participation in the compensation commission entailed for the Department of Finance and their political masters, and here we must note that both the letter in question and the official despatch were drafted by Joseph Brennan. Brennan's feelings on the subject cannot but have been influenced by the fact that his home town, Bandon, and his family's property there had been sacked by soldiers of the Essex regiment during the war. Second, because it is a testament, again unique, to the suspicions and resentments (ordinarily deep-hidden and rarely surfacing to disturb the tranquility of official correspondence) which attended upon Irish participation in Anglo-Irish financial relations. Last, because it ultimately achieved its objective, after a special conference at the Colonial Office on 25 July 1924. The impact of Cosgrave's letter upon the British may be best judged by the fact that he was asked to withdraw it and to substitute for it a version which omitted the especially vehement passages (italicised in the quotation above) which criticised individual British civil servants, and which Thomas feared might "create an atmosphere which might render difficult frank and full discussions of the fundamental issues in this question."[75]

Cosgrave withdrew the passage and, although, first he and later Thomas, pleaded inability to attend the conference on 25 July, that conference led to a noticeable easing of tension. The Irish were represented by Kevin O'Higgins and Edmund Duggan; the British by Lord Arnold, the Under-Secretary at the Colonial Office. Although nothing was finally agreed, G. G. Whiskard of the Colonial Office, who had served with Brennan in Dublin Castle, came to Dublin on 8 August 1924 with the British proposals "for settlement of all outstanding points in regard to compensation in pre-truce property cases." The British proposals were based upon a division of the outstanding cases into four distinct categories:

> 1. Cases which in the opinion of the Compensation (Ireland) Commission are without reasonable doubt within their existing terms of reference.
>
> 2. Cases which in the opinion of the Compensation (Ireland) Commission would be within the scope of the proposals in [earlier] British despatches . . . enabling the Commission to deal with claims arising under the Indemnity Act 1920.
>
> 3. Cases which the Free State Government contend should be regarded as a proper subject matter for compensation either under the terms of reference of the Commission or by a War Compensation Court on the basis proposed by the Free State Government.
>
> 4. Cases outside of any of the foregoing categories . . .

The British proposed that the commission should proceed to make individual awards in the first category, should "definitely rule out" all cases in the fourth, and went on to offer two alternatives in the disputed middle categories. Their first alternative was that the commission should make awards in the second category in cases "without reasonable doubt" and that the British government would undertake liability for these payments; they would then "make a lump-sum payment of £150,000 towards meeting awards in cases placed by the Commission in the third category, any further sums necessary . . . being found by the Free State." Alternatively, they would make a larger lump-sum award of £300,000 towards second and third category awards "indiscriminately" and the Free State should make up the balance in these categories.[76]

Brennan discussed the British proposals with the Irish commissioner and the Irish joint secretary to the commission (Senator Dowdall and N. J. Ryan) and concluded that the best Irish counter-proposal would be "to ask for a lump-sum payment by the British Government which would cover British liability in all outstanding cases in the first three categories . . . and also cases of pre-Truce loot involving special or continuing hardship." He thought £1½m. would be a fair payment. This would rid the commission of any necessity to distinguish between categories and, more important, would protect Irish interests "against the risk which would otherwise arise that the British members of the Commission will naturally have a tendency to force as many cases as possible into the category or categories covered by a lump-sum." If the British failed to accept the proposal of an overall lump-sum of £1½m., Brennan thought that the next best course was to claim £⅔m. "to cover British liability for the second and third categories as well as for loot within the limits above mentioned."[77]

There followed a frenetic exchange of telegrams between the British and Irish representatives as to the exact sum which the British would agree to in discharge of the liabilities as outlined in Brennan's counter-proposals. The final British offer was "£900,000 to be paid by the British Government to the Free State Government in full and final discharge of all liabilities of or claims against the British Government in respect of compensation for damage to property in Ireland prior to the Truce, including all awards made by the Wood-Renton Commission since June 30 last."[78] The Colonial Office prevailed upon the Treasury, who had felt that £800,000 would have given the Irish government "an ample margin."[79] The Treasury's reluctant agreement was prompted by their desire to help "to reach a final settlement without delay" — a settlement reached on 12 August 1924.[80]

The £900,000 agreement was the decisive breakthrough and formed the nucleus of the compromise which finally disposed of the compensation issue, even though the precise wording of the despatches embodying the agreement was the subject of further wrangling between Whitehall and Merrion Street which continued until December 1924.[81] Both sides were relieved that so contentious an issue was finally disposed of,[82] when, at the end of the year, the British government finally severed its connection with the compensation commission under the terms of the indemnity obtained in return for their payment of £900,000. The agreement was a notable *coup* for Finance and a defeat for the Treasury who openly recognised it as such. Treasury officials felt, however, that they had no alternative but to accept the settlement proposed by the Colonial Office telegram of 12 August, but they were particularly irked by the fact that the Irish government intended the £900,000 to cover all future awards and not merely, as the Treasury had intended, to be a contribution to such awards. "In the light of the information we now possess", noted a memorandum for the information of Walter Guinness, the newly appointed Financial Secretary,[83] the £900,000 agreement was "at least £250,000 more than can be justified on financial grounds".[84] But, as the memorandum also noted, and as Guinness agreed, the Treasury had no alternative but to stick to the agreement.

V: The Agreement of 3 December 1925

The broad outline of the ultimate financial settlement of March 1926

first became discernible at the conference of 16 May 1924,[85] which resumed, again in London, on 29 May. This second meeting saw the emergence of a seemingly irreconcilable difference of opinion on the issue of the attribution of income tax — most noticably with respect to income tax arising out of land purchase annuities. Finance's representatives took the view that they were entitled to deduct income tax before paying over the annuities since, in Ernest Blythe's words, "Irish land ought to pay Irish tax, not British".[86] The British counter-argument was that "the Free State claim was unfounded in law" in the opinion of the law officers of both the present and previous British governments.[87] The discussion was protracted and inconclusive and nothing was decided before the luncheon adjournment. Finance's representatives did make one minor concession when the conference resumed in the afternoon: they were prepared, Blythe said, "to admit that the amount of over £700,000 which they had withheld was too great; and that they would pay a sum of £300,000 at an early date, without prejudice to further discussion of the question."[88] But the basic deadlock was not broken before the meeting ended, having agreed to meet again on 27 June.

In fact the June meeting never took place. Blythe postponed it, first until early July and then until late July because of pressure of business in the Dáil.[89] But the July meeting too was postponed. Blythe fell ill and had to undergo an operation which necessitated his subsequently going abroad to recuperate.[90] In the event, a full twelve months elapsed before the conference met once more in London on 3 July 1925.

In the meantime, however, another major theme of the negotiations leading to the ultimate financial settlement had emerged: Irish liability to contribute to the British national debt under Article 5 of the Treaty. The first British pressure on Finance to take up this question was indirect and arose from a question asked of the Secretary of State for the Colonies in the House of Commons on 2 October 1924, a copy of which (together with his non-committal reply) was duly forwarded to Dublin.[91] Some weeks later Brennan circulated a confidential letter to the secretaries of all government departments as the initial step in "the investigations necessary . . . with a view to the effective presentation of the case of the Irish Free State for the purpose of Article 5 of the Treaty." Finance asked to be informed of "any matters . . . which might possibly have a bearing upon the issues involved in that Article" and stressed the need "to include all points

that seem to contain any appreciable element of argumentative value", even though the "ultimate practical utility of some of the points" might be doubtful. "Attention should chiefly be given", wrote Brennan, to points which might be urged "positively against Great Britain, arguments that would be of advantage in rebutting claims likely to be urged by Great Britain against us should also be included."[92]

But British pressure was not yet acute and it was not until the end of April 1925 that the British took the matter up in an official despatch. The new Conservative Secretary of State for the Colonies, W. Ormsby Gore, then pointed out that, while he felt (like his predecessor) that Irish liability under Article 5 "could not be determined before a decision had been reached under Article 12" (which related to the Boundary Commission and the jurisdiction, or lack of jurisdiction, of the Free State over Northern Ireland), nevertheless, he also felt that "the time has come when the question should be examined."[93] The British duly presented their case in a six-page memorandum (the main arguments of which are summarised below)[94] which accompanied this despatch. This was acknowledged on 1 May but not answered until 23 October, despite further Colonial Office despatches of 24 July and 28 September, seeking a reply.[95]

In the meantime, however, the resumed conference on the Irish deduction of income tax on the land annuities took place, on 3 July, at the Treasury. The British were represented by the Financial Secretary to the Treasury (Walter Guinness) and by six civil servants, including Waterfield and Whiskard. The Irish representatives were Blythe, Brennan and McElligott and two of the Revenue Commissioners — William O'Brien and W. D. Carey.

Guinness, in an opening statement, presented the British case. There was little point, he suggested, in discussing

> . . . the legal aspect of the main subject — the deduction by the Irish Free State of income tax on the land purchase annuities. He hoped they might reach a settlement on the broad equities of the question without going to arbitration. Any solution was, moreover, bound up with a settlement of the question of double income tax arising between the Irish Free State and Great Britain.
>
> On the equities of the question, the Irish Free State had by the agreement of February 1923 undertaken to pay over the annuities in full. It was in the mind of no party to the agreement that deductions of any kind should be made. Any layman would assume that the meaning of the

agreement was that the full amount of the annuities would be paid over as had always been done in the past. That was certainly in the mind of the British negotiators and on that basis they had assumed liability for the bonus and the excess stock. The British Government felt they could not give way on such a big principle.

There had now arisen the necessity for the British Government going to Parliament with a supplementary estimate to cover the deficiencies in the payments guaranteed to the National Debt Commissioners. . . There was a great deal of restiveness in the House [of Commons] and questions were continually being asked about the settlement provided for in Article 5 of the Treaty. Any concession to the Irish Free State must certainly be announced as outside the terms of the agreement of 1923 and the Government would only be able to say that such a concession had been made under duress. . .

With regard to any arrangement about double income tax, he thought they might find a basis of adjustment by each state's exempting from tax their respective non-residents who might receive income from the other state. But if the Government of the Irish Free State were going to set up a new principle of taxing not only non-resident citizens but also other governments, it would be impossible to ask Parliament to assent to the general arrangement as regards non-residents. The Irish Free State could not have the benefit of any such new arrangement and at the same time have the benefit of any other arrangement when it suited her. He could not give figures but he thought the cost to the British Government of the proposed arrangement would be heavy and Parliament would only agree to it if other questions at issue had been settled satisfactorily.[96]

Guinness concluded by reiterating his anxiety to avoid presenting a supplementary estimate to parliament which, as he again said, could only be recommended "as having been agreed to under duress."

Guinness's statement was illustrative of the unwonted gravity with which the British Conservative government appeared to view the state of Anglo-Irish financial relations at this juncture, and it also revealed their readiness to consider the Article 5 issue and the land annuities income tax issue together rather than separately — a readiness which helped smooth the way to the eventual solution.

However, Blythe, in his initial reply, reasserted that the Irish government were "entitled to the income tax on the annuities subject to any arrangements for dealing with double income tax." He emphasised that there had been no mention of income tax in the 1923 agreement and that

. . . a new position had therefore arisen. It could not be held that, because the Irish Free State had signed a certain agreement to pay over the whole amount of the annuities whether collected or not, that agreement was irrespective of any right they had to taxation. . . The question of income tax was quite another matter. The fact that the annuities had been paid over in the past without deduction of income tax was due to the fact that the two countries then had only one revenue system. . .

The Irish Free State certainly did not wish to gain on the present question and also on the proposed exemption of non-residents . . . [or] to place an undue burden on the British tax-payer. On the other hand mere accidental circumstances — such as the fact that the British Government were merely a conduit pipe for the land purchase annuities — should not deprive the Irish Free State of the income tax justly accruing to them on the annuities.

He agreed that the question should not be discussed on a legal basis and he would endeavour to arrive at a settlement on the broad equities of the matter.[97]

A more detailed and technical discussion followed these opening speeches, and it gradually became clear that both sides were prepared to assume, in Waterfield's words, "that the Irish Free State would be willing to set off their claim on this point against other benefits which they might receive." After an adjournment of half-an-hour, Guinness accordingly proposed "that they should carry on their discussions on the principle that a settlement of the Double Income Tax question would automatically settle the present question" but he again emphasised his government's anxiety "to avoid a discussion on a supplementary estimate which would prejudice the larger settlement." If such an agreement could be reached, he said, "the British Government thought they could give the Irish Free State retrospective satisfaction on the other issues."[98]

After further discussion Guinness outlined the concessions he had in mind: "the British Government would concede the claim (£180,000) in respect of the Southern Railway and would further agree to write down its claim in respect of damage in Great Britain from £700,000 to £600,000." But Brennan's reply was uncompromising: "he did not think either of the two 'concessions' . . . could be regarded as such." He was supported by Blythe who did recognise, however, "that as regards the past a compromise involving the settlement of other matters would be convenient." Nor did the Finance representatives react favourably to a further British offer when Guinness "stated that he was willing to concede the War Office claim for £30,000 in

respect of the supply of munitions", a claim which, "Blythe pointed out . . . the Irish Free State had offered to submit . . . to arbitration by a High Commissioner."[99]

No progress was made until the conference reassembled after a luncheon adjournment, when Blythe declared "that the Irish Free State was prepared to pay over in full the land purchase annuities provided the general question of the exemption of the non-resident was pursued." But, as regards the general question of a compromise over the "last two or three years", he again insisted that "the concessions suggested by Mr Guinness were not concessions." The larger ambitions of Finance's representatives finally emerged when "Brennan said that the Irish Free State representatives had been discussing other items that might be brought into a compromise . . . namely, the large sum involved in claims by British Government Departments for compensation in respect of pre-truce damage, and the question of the Local Loans annuities" which had not been discusssed at the morning session and in respect of which, Brennan said, the Irish government "had been paying over the full amount collected" although "the question of income tax arose in this connection also."[100]

After more intense discussion, the Irish representatives finally succeeded in extracting the admission, from Waterfield, that while "it would be difficult to relate this question to the Irish Free State's income tax claim", this "could ultimately be done." There followed further discussion of the figures involved in the income tax question, but eventually the conference decided to adjourn until 14 July without drawing up any formal agreement and arranged "that in the meantime representatives of the two Governments should discuss the question of the Departmental property claims."[101]

Discussions on, and Finance's consideration of, these claims took longer than anticipated and caused Brennan to postpone the conference[102] which was rearranged for 21 July. But the nucleus of an agreement clearly existed following the arduous negotiations of 3 July and was summarised in a friendly letter from Guinness to Blythe some days later in which he stressed that he understood that there was "every reason to suppose that satisfactory assurances" could be given to the Irish representatives on the outstanding question of the "British claims for compensation for damage to non-transferred property belonging to British Public Departments".[103]

Guinness's apparent optimism was justified when a formal agreement was reached on 21 July. This agreement consisted of six clauses,

the first of which provided that the Irish government would "pay over forthwith the sum of £750,000 on account of the outstanding amount of the Land Purchase annuities, leaving the question of the balance for further discussion." The Irish government also agreed, in the second clause, "to pay the full amount of the annuities accruing due in December 1925 without deduction on account of income tax, provided that a settlement of the question of Double Income Tax has by then been reached or that negotiations on the subject are still in progress." The British agreed in consequence to waive their claims for the advance to the Dublin and South-Eastern Railway and for payment for "military stores supplied to the Irish Free State Government" (the sums in question were £180,000 and £28,996–8–0 respectively); and they also agreed "that the payment to be made by the Irish Free State Government on account of damage done by Irish agency in Great Britain shall be fixed finally at £500,000,"[104] an amount which, in any event, the Irish had already offered to pay in contrast with the original British claim for £1,000,000 which had been gradually reduced to £700,000 and eventually, at the 3 July talks, to £583,000 ("the amount already deducted by Great Britain from payments to the Irish Free State.")[105] The final clause of the agreement also went much of the way to meet the Irish case in as much as it provided that "the Compensation (Ireland) Commission shall be instructed to proceed with the assessment of the quantum of the claims of British Government Departments in respect of pre-truce damages . . . without prejudice to subsequent discussion between the two Governments on the question of transfer."

While the agreement of 21 July cannot be regarded as more than an interim one, paving the way for another interim agreement (of 3 December 1925) and preceding the ultimate financial settlement, the negotiations which led to it are nonetheless revealing. They show, in the first place, the extraordinary tenacity and obduracy of the Finance negotiators, notwithstanding the relative financial weakness of their government's position *vis-à-vis* their British counterparts. Nor is there the slightest sign of Brennan and McElligott being in any way overawed by their opposite numbers in the Treasury — men who had been their superiors (in the case of Waterfield and Brennan, his immediate superior) only a few years before. Indeed, one derives a general impression that it was the Irish negotiators who sought, and the British who yielded, concessions. But such an impression must be qualified in one important respect: while the British appear to have

been generous in their readiness to concede on purely financial matters they too were unyielding where political considerations were involved, as is demonstrated by Guinness's incessant harping upon the fact that, "for Parliamentary reasons", he could not "in any circumstances agree to propose a Vote for a cash payment" in settlement of the Irish claim for the 1923–26 period; "the settlement . . . must take place by way of a set-off on other claims."[106] The British, as we shall see, would again have recourse to this principle in subsequent financial negotiations,

The major financial issue which had still not been resolved was the question of Irish liability under Article 5 of the Treaty. The British case, as laid down in their memorandum of 21 April 1925, was that three main factors should be taken into account in calculating the United Kingdom's claim on the Free State:

1. what was the Public Debt of the United Kingdom on 6th December 1921;
2. what was the capital cost of War Pensions as on that date;
3. what is a fair basis of division as between the Free State and the United Kingdom.[107]

In the light of subsequent developments which led the British to waive their claim under Article 5, it is unnecessary to examine the British case in any detail. It is sufficient to point out that, relatively speaking, the sums involved were enormous. The Treasury calculated that the Free State would be liable for £117½ millions in respect of the public debt and another £12¾ millions in respect of war pensions, a total of £130¼ millions to which they proposed to add "compound interest say at 5% per annum from December 1921 to the date on which the Free State assumed its liability — say for 4 years an additional £27½ millions. The basis of division for these figures was the proportion between the "net receipts from the principal direct taxes in the two countries", and the Treasury proposed "that the Free State should take responsibility for 1·5% of the capital sums arrived at for debt and pensions as on December 1921."[108]

It is hardly surprising that Finance's initial reaction to so huge a bill was to resort to delaying tactics.[109] Nor is it surprising that their reply, when it was drafted (by Brennan) should totally reject the premises upon which the British arguments were based. Indeed, the only agreement between the two sides was that any settlement under Article 5 "cannot properly be reached pending the completion of the steps contemplated by Article 12."[110] Brennan's reply conceded that while the terms of Article 5 made it relatively simple

. . . to formulate against the Irish Free State a demand thereunder which, if admitted, could be regarded with confidence as at least safeguarding adequately any interests which His Majesty's Government may be conceived to have under the Article. The facts on the other hand that the possible subjects of counter claim by the Irish Free State are not expressly specified in the Article and that no principle is indicated for measuring the the Free State contribution, if any, towards public debt and war pensions make it incumbent on . . . Ministers to survey very wide fields of fact and argument before they can present a case which on their side can be regarded with confidence as reasonably protecting the interests of the taxpayers of this country . . . Ministers consequently feel that, even apart from the question of Article 12 above mentioned, until this survey, which is now in progress, has reached a more advanced stage, it would be premature and not consistent with the interests of the Irish Free State to enter upon any conference with His Majesty's Government on this subject.

Brennan reinforced his argument by emphasising that the British memorandum "indicates expectations . . . so remote from the ideas entertained by [Irish] Ministers that discussion of the memorandum would be likely to prove futile in the absence of a considered exposition of the case for the Irish Free State.[111]

The stage thus seemed set for yet another fundamental disagreement in Anglo-Irish financial relations which, because of the magnitude of the sums involved, threatened to provoke a crisis more bitter and prolonged than anything that had gone before. This was partly because, in Irish eyes at least, the question of Ireland's contribution to the public debt hinged on considerations of historical justice, the ramifications of which were much more political than financial. Witness, for example, the exchanges of the 1921 financial conference between Michael Collins and Worthington Evans quoted earlier in the present chapter. Again, in the opinion of John Fitzgerald, the Accountant General to the Revenue Department in Dublin Castle who was asked by Finance to prepare some notes which might support the Irish rebuttal of the British demand, the best strategy would be "to avoid figures as much as possible, and tell the British Government in effect that we have no contribution to give them, as our resources are insufficient for our own requirements, and that this result is very largely due to their efforts in the past to wipe us out."[112]

Similar arguments were adduced by Brennan in a memorandum which he described as "a very hasty, rough and partial statement of

some of the leading points which should probably be used in an argument on behalf . . . of the Irish Free State in the event of an arbitration taking place on Article 5."[113] The memorandum included such diverse arguments as the unreasonableness of expecting the Free State to bear any of the burden of the debts arising from British advances to dominion and allied governments; the already "severe pressure of taxation upon the national income of the Irish Free State", in the light of the "very disquieting symptoms" of the Irish exchange position; that "the British test of relative yield of direct taxes as a standard of relative taxable capacity for the present purpose [was] unquestionably fallacious"; the marked difference in the two countries' national incomes (the British being "derived largely from an immense and varied trade . . . which has been increasing for generations and is likely to continue doing so in the future", the Irish "being of a much more precarious kind . . . largely derived from agriculture"); that the actual figure of 1·5 per cent was, "apart from its basis, clearly excessive from other points of view"; that political developments in 1921–22 "made it necessary for this country to incur large compensation and military charges, the meeting of which constitutes an obligation . . . [which] must in the circumstances take priority over any British claim" and that the same was also true for the Dáil loans; and, finally, the case for an Irish counterclaim on the grounds of overtaxation throughout the nineteenth century.

The unaccustomed weight given to political factors is what most clearly distinguishes the dispute over Article 5 from the other controversies of Anglo-Irish financial relations in the early nineteen twenties. It is, therefore, hardly surprising that in the last analysis both the British and Irish governments treated the matter as one of high politics rather than as one of high finance.

The history of the Boundary Commission of 1924–25 falls outside the scope of this book and, in any event, has been the subject of detailed discussion elsewhere.[114] Yet the failure of the Boundary Commission was the catalyst which made possible the agreement of 3 December 1925. The Boundary Commission crisis had begun with the *Morning Post* "leak" of 7 November 1925, which accurately prophesied the proposed and secret terms of its award; it became acute on 19 November when the Free State's representative on the Commission, Eoin MacNeill, resigned; there followed a week of intensive negotiations between the British and Irish governments, beginning on 25 November. Faced with the breakdown of the commission and

anxious that its report should be "burned or buried",[115] the Irish government were confronted with the spectre of an unchanged boundary between their territory and Northern Ireland with all the acute political embarrassment that this entailed. In return for accepting the *status quo* on the border issue, the Irish government demanded "that the rights of the British Government under Clause 5 of the Treaty should be waived (or) should be waived for a period of x years from the date of the Treaty."[116] The Irish, clearly, preferred the first alternative, and, in order to achieve it, Cosgrave offered to take over and to repay to the British government the moneys they had paid under the terms of the compensation commission and "to pay also 10% of the total sums awarded by the Courts under the Damage to Property Act, 1923, in 5% compensation bonds. Or — as an alternative . . . subject to allowances in respect of a moratorium, £250,000 a year for 60 years."[117]

The British, too, were prepared to compromise. The Chancellor of the Exchequer, Winston Churchill, "advised the Cabinet that a settlement was a paramount interest. A complete collapse into the hands of the republicans would mean much more than the loss of Article 5", including "what was now being received for RIC pensions (£1¾m.) and perhaps £3½m. now being collected from Free State tenants in payment of land purchase annuities."[118] These arguments won the day and agreement was reached on terms which meant the "acceptance of present boundary waiving of Article 5, and assumption of [the] burden of compensation for damage to property by the Free State." A formal agreement along these lines was drafted and signed the next day, 3 December 1925.[119]

The agreement, signed on behalf of the British, Irish Free State and Northern Ireland governments, was short and uncomplicated.[120] Clause 1 revoked the powers conferred on the Boundary Commission under Article 12 of the Treaty and left the border as it was. Clause 2 released the Free State "from the obligation under Article 5". Clause 3 revealed that the thorny and provocative problem of compensation, like Article 5, was to be resolved politically rather than by a continuation of the process of financial negotiation; under its terms the Free State assumed

> . . . all liability undertaken by the British Government in respect of malicious damage done since the 21st day of January, 1919 to property in the area now under the jurisdiction of the Parliament and Government of the Irish Free State, and the Government of the Irish Free State shall repay

> to the British Government at such time or times and in such manner as may be agreed upon moneys already paid by the British Government in respect of such damage or liable to be so paid under obligations already incurred.

Clause 4 also related to the compensation issue and provided for the Free State's promoting legislation increasing by 10% "the measure of compensation under the Damage to Property (Compensation) Act, 1923, in respect of malicious damage to property done in the area now under the jurisdiction of the Parliament and Government of the Irish Free State" between the truce at the end of the Anglo-Irish war and the end of the civil war — 11 July 1921 to 12 May 1923 — and "for the payment of such additional compensation by the issue of five per cent Compensation Stock or Bonds." The last two clauses, 5 and 6, were not financial and related to the transfer of the powers of the Council of Ireland to Northern Ireland (in so far as they related to Northern Ireland) and to the confirmation of the agreement by the British and Irish parliaments.

A supplementary financial agreement, *not* published as part of the formal agreement, was also drawn up; its purpose was to give effect to Clause 3 of the formal agreement as quoted above and it provided

> . . . that payment shall be made by the Irish Free State Government to the British Government of
>
> (a) a sum of £150,000 on the 1st January 1926, and
>
> (b) an annuity of £250,000 for 60 years, of which the first payment shall be made on the 1st April 1926, and subsequent payments on the 1st April in each succeeding year.[121]

The subsequent history of this supplementary agreement, which was given statutory force by the Damage to Property (Compensation) (Amendment) Act 1926, is of special interest. The payment of the first, full annuity only fell due on 1 April 1932 — after the change of government — since the earlier instalments had been set, either in whole or in part, against British liabilities under the agreement of 12 August 1924 and because of certain other minor adjustments.[122] "Following discussion between the President and the Minister for Finance", payment was duly made by the new government and the cabinet confirmed this decision in 1933. The Irish government did not subsequently cease to pay the annuity, either during the economic war or after the Anglo-Irish financial talks which ended the war in 1938. The payments were only finally waived following Anglo-Irish

ministerial discussions in London on 27 February 1969, when the British government indicated that they regarded the "arrangement as being due for review, and that, in the light of its origins and purposes, and of the development of relations between the two countries, they were prepared to waive the remaining payments."[123]

The agreement of 3 December 1925, it has been argued, was essentially political in inspiration despite the fact that it was a major landmark in the history of Anglo-Irish financial relations. Witness the speeches of both British and Irish ministers when they spoke on the agreement in their respective parliaments. The British Prime Minister, Stanley Baldwin, spoke about his government's reluctance to leave "in the original Treaty a subject of friction or trouble in future years. . . What there is in Article 5 is a perfectly indefinite possible liability, undefined, and as such it hangs round the neck of those whom it concerns, and . . . indisputably affects their credit."[124] But Baldwin also recommended the Irish Agreement Bill on grounds of British self-interest: "Where", he asked,

> does the interest of Great Britain lie? Does it lie in keeping the South of Ireland poor and trying to squeeze debt out of them? As a matter of pure business, and that alone, the interest of this country lies in a prosperous Ireland . . . for two very good reasons. The first one is this, that Ireland ought to be a great market for our manufacturers, and the second reason — and this is rather a selfish one — is this, that if you have a prosperous Ireland Irishmen will work in their own country and will try and make their own country rich and prosperous. A poverty-stricken Ireland means a continuous flow of immigration of a poor class of people into Great Britain, where at present our own problem of unemployment and bad trade is as severe as we can face.[125]

Churchill spoke equally strongly about the undesirability of enforcing Article 5, in terms which demonstrate the success of the policies laid down by Finance in the first years in winning both the respect of the Treasury and a confidence in their future. "I cannot imagine", he declared,

> that this powerful country . . . could ever pursue against a small, weak nation claims which had no regard to the real capacity of that nation to pay, and which would have had the effect, if they were pressed to their ultimate conclusion, of not only affecting its prosperity but also its self-respect. What is there to build on in the enforcement of any claim? There is nothing to build on but the word of the Irish nation. Their desire and their self-interest as a new State ought not to be exposed to the world

> as impossible. I do not undervalue either the natural pride or the self-interest that is involved in the maintenance of their credit. Having been in this Irish business all through I have been struck very strongly with their desire to maintain a strict financial independence and to discharge their obligations.[126]

Blythe, speaking in the Dáil on the following day, was concerned with these same issues. "If we came out in the end with nothing to pay under Article V", he said,

> I believe we would have lost, through the weakening of our national credit and through the result of that weakening in our industrial life, a figure at least as great as that which we are undertaking to pay under this Agreement. There is another aspect of our undertaking to repay this amount which the British have paid for compensation. There was no obligation on the British Government under the Treaty to pay for compensation. They agreed after the Treaty, in which there was provision for our undertaking a part of the debt. They agreed, by way of assistance in a difficult situation . . . but they made it clear all along that they were doing that as an act of grace and friendship and that they were paying no indemnity. After a war, it is only an enemy that has been pretty well beaten that pays an indemnity, and nobody can say that the British in the Anglo-Irish war were beaten to the extent that would justify anyone to expect the payment of an indemnity. . . By wiping out Article V we go back to the position as it was in December 1921, and we say that it is a case of back to back. The British go out without any claim for money upon us and they go out without undertaking to pay anything to end the struggle. I think that is a very fair arrangement.[127]

VI: The Ultimate Financial Settlement of 19 March 1926

At long last, after the agreement of 3 December 1925, the door was finally opened for the negotiation of the ultimate financial settlement. In fact the nature of that settlement belies its somewhat portentous title; essentially, it was a "tidying-up operation" which could only have taken place *after* the bigger decisions incorporated in the December 1925 and other earlier agreements had been taken. What the ultimate financial settlement did was to confirm decisions (in some cases, after certain minor adjustments) which had been made in earlier rounds of Anglo-Irish financial relations between 1922 and 1925 and to embody those, and some other decisions, in a document that was more formal, more conclusive and, soon afterwards, more public than the agreements which had preceded it.[128] But, while the negotiations

leading to the ultimate financial settlement were consequently neither as protracted nor as hard-fought as some of the earlier rounds of talks, the spirit of conciliation which informed the December discussions was not alone sufficient to overcome what obstacles to final agreement still remained.

The Treasury, for its part, was quick to press for the early resolution of all outstanding differences. In a memorandum of 4 December — the very day after the agreement had been signed — they sent a memorandum to Finance proposing to waive certain claims against the Free State in return for the Free State's agreeing to make certain other, hitherto disputed, payments to the British government. There were four claims which the Treasury proposed to waive: first, their "claim for payment in full of the cost of bonus and excess stock charges under the Irish Land Acts . . . of which the present capital value is approximately £20,000,000"; second, their "claim to a proportion of the value of property belonging to British Government Departments", which was not transferred when the change of government occurred and which they "estimated at approximately £5,000,000"; third, a claim for repayment of £1½m. being the "second moiety of the compensation payable to the Irish Railways under the Irish Railways Act, 1922"; and finally, a claim for £250,000 for "munitions supplied to the Free State by the British War Office and the Air Ministry after the setting-up of the Free State Government and not yet paid for in cash."[129]

In return, the Treasury memorandum invited the Irish government to agree to make three payments: first, the full amount of the land annuities "without any deduction whatsoever whether on account of income tax or otherwise"; second, "the full amount of principal and interest due on account of . . . the Local Loans Fund", again without any deduction for income tax but with deductions for collection costs and for losses from irrecoverable loans; and, third, "to pay to the British Government in cash the full amount of awards made by the Compensation (Ireland) Commission . . . for pre-truce damage to the property of British Government Departments . . . excluded from transfer to the Free State Government."[130]

Brennan's reaction to the Treasury memorandum, in a minute for his minister, reveals that the 3 December agreement had in no way weakened Finance's consistent policy of fighting every British claim as hard as possible. For example, he questioned whether the memorandum did not seek "to make use as bargaining weapons of matters

that were disposed of by the agreement" — that the first British concession had been abrogated with Article 5 and that the railways claim had also been "wiped out by the agreement". But the major difference was on the income tax issue which, Brennan pointed out, involved "large sums of money and if we are still quite uncommitted, we should not yield here without some substantial *quid pro quo.*"[131]

That the double income tax question was the main issue is clear from a plaintive letter of Winston Churchill's, who took the somewhat unusual step of writing personally to Cosgrave, lamenting that Walter Guinness, his junior minister at the Treasury,

> . . . was unable to make any progress towards a final settlement with Mr Blythe . . . and from what I am told I gather that the latter did not show quite the accomodating spirit which was so happy a feature of our negotiations. I am much disappointed that this should have been the outcome . . . after you had expressed in Mr Blythe's presence your earnest desire that there should be a complete cleaning-up of all outstanding points.[132]

But while Cosgrave's reply to this request for his intervention, "to ensure that these matters shall be definitely regulated", was friendly, it conceded nothing on the income tax question.[133] Finance's obduracy on this issue now began to pay dividends, as Waterfield's assessment of the Treasury position plainly shows. Waterfield thought there was little doubt that Finance would

> . . . be prepared to agree now to the double income tax question, and with it the Land Purchase Annuities claim, being settled on the basis of residence, without any *quid pro quo.* The question is indeed whether the basis of residence is one which the Treasury ought to suffer to go forward in view of the latest Inland Revenue figures which show that it would actually cost us less to admit the Free State claim to income tax up to £200,000.[134]
>
> We have, however, always been prepared to make some sacrifice for the sake of the political advantages of getting rid of the double income tax bogy, and the Inland Revenue would definitely prefer the residence basis, even at a price, to any other on grounds of administrative convenience.[135]

Upcott, the Treasury official to whom these observations were addressed, was even more blunt and pessimistic, and argued that, if the residential basis of income tax was not adopted, the Irish government would "probably insist on deducting £200,000 p.a. or more from the Land Annuities or Local Loans. . . . However wrong we may think their interpretation of the law and existing agreements to be, we are now fairly helpless to withstand them."[136]

In fact Finance were moving towards an even stiffer line than the Treasury feared, in their preparations for another financial conference in mid-January 1926.[137] McElligott's opinion was that Finance could not "afford to be too generous in any settlement that we may come to . . . because of the doubt surrounding the actual value to us of the proposed adoption of the residence basis as a solution of our double income tax problems." W. D. Carey, one of the Revenue Commissioners, McElligott reported,

> . . . puts our gain at £60,000 per annum. The British estimate of their loss is £200,000, and he points out that the difference of £140,000 will not accrue to our nationals. In fact he puts the gain to our nationals at not more than £50,000, the difference of £90,000 going to British nationals, e.g., Guinness's shareholders, British Life Insurance Companies, etc.[138]

But the January conference was postponed by Churchill[139] and Blythe, in his reply to the telegram postponing the conference, put on record his dissatisfaction with the Treasury memorandum of 4 December which, he said, did not seem to him "to furnish a hopeful basis for discussion". He argued that the claims that the Treasury had offered to waive were "sustainable on examination only to a limited extent", and indicated his reservations about Irish gains from an income tax settlement.[140]

Blythe's letter provoked an unusually exasperated reaction from the Treasury."Mr Blythe", noted Upcott,

> continues to assert that all his claims are good and all ours worthless. On such a basis compromise is almost impossible and I think that a mild suggestion in that sense . . . would be reasonable.
>
> It is something that he is willing to continue discussion, but I really think that we are entitled to some prior indication of his counter-proposals. In spite of endless talk at previous conferences we have never been given any definite idea what they are.[141]

Treasury irritation was further reflected in a stiff letter from Churchill, saying that the Treasury memorandum did no more "than ask for the fulfilment of obligations imposed, as we hold, upon you by previous agreements, and that it is only in the earnest desire to meet your case that we have felt justified in offering countervailing concessions which should not in our opinion be regarded as insubstantial."[142]

Over a month elapsed before Blythe replied to Churchill's letter,

and he then agreed to forward a memorandum embodying Finance's views within a week.[143] Finance's memorandum, which was sent on 5 March (a fortnight before the conference in London at which the ultimate financial settlement was agreed), contained thirteen paragraphs, the initial order of which were rearranged under six main headings to "facilitate the discussion" at the suggestion of the Treasury.[144]

The first, and most important heading was "Income tax and land purchase questions", under which there were five paragraphs. The first proposed "that land purchase annuities under the Acts 1891–1909 should be paid without deduction in respect of income tax or otherwise", subject to there being no modification in the "projected arrangement as regards double income tax." The second proposed that the amount hitherto withheld "in respect of income tax on the land annuities" — some £550,000 — "should be paid over forthwith to the National Debt Commissioners . . . as a material concession by the Irish Free State to be set-off" against advantages proposed elsewhere in the memorandum. The third paragraph proposed a settlement of the double income tax problem "on the residence basis . . . provisionally agreed between the Revenue Departments of the two Governments . . . to take effect from the beginning of the financial year 1926–27." The next paragraph suggested that the British claim "for payment in full of the cost of bonus and excess stock charges under the Irish Land Acts should be waived." The final paragraph under this heading proposed an abatement in the annual Irish contribution of £160,000 made under the February 1923 agreement.[145]

The other main heading in the rearranged Finance memorandum related to property questions and proposed that the British waive three separate claims: the claim "to a proportion of the value (said to be £5,000,000) of property of non-transferred departments"; the claim "to £250,000 in respect of munitions debt"; and the claim for any cash payment by the Irish government "for compensation in respect of non-transferred British departmental property" which it was proposed to set-off against the payment of arrears of income tax on the land annuities.

The rest of the memorandum related to —

The Local Loans Fund, in respect of which it was proposed that the Irish "net outstanding liability . . . should take the form of an annuity of £450,000 payable . . . for twenty years commencing with 1926–27."

Railway Compensation, in respect of which it was proposed "that the British claim to . . . £1,500,000 should be waived."

Division of Funds, where it was proposed that the British claim "in respect of the Unemployment Fund" and the Irish claim "to a share of the assets of the Civil Contingency Fund" should both be waived.

Royal Irish Constabulary Pensions, for which the Irish government reserved the "right to ask for a review of the existing provisional arrangement."

Finance's memorandum as rearranged by the Treasury has been analysed in detail because it provided the basis for the ultimate financial settlement agreed at the London conference of 19 March 1926 and signed by Churchill and Blythe;[146] indeed, in many instances, the clauses of the settlement were based word for word upon the paragraphs of Finance's memorandum. The conciliatory tone of the negotiations at the conference reflect the anxiety of both sides to resolve their differences once and for all. In his opening statement, for example, Churchill accepted the Irish proposals on the income tax and land purchase questions without demur. He made no objection either about waiving "the British claim for payment of bonus and excess stock charges under the Irish Land Acts", as well as the "unconditional waiver . . . in respect of railway compensation". But he baulked at "the Free State proposal that any cash payment due for compensation in respect of non-transferred British Departmental property should be waived"; nor did he see any "justification for a waiver of the British claim . . . for the payment of the Irish Free State share of the debt due . . . on the Unemployment Insurance Fund."[147] Finally, Churchill sought "an assurance that the Free State reservation of the right to ask for a review of the existing arrangement as regards RIC pensions, related merely to the former method of payment of these pensions" and not to any reduction of the proportion paid by the Free State — 75 per cent under the February 1923 agreement. Churchill concluded by regretting

> . . . that it had not been possible to settle these outstanding claims in December 1925, but he recognised that Mr Blythe had then been invited to come over at very short notice. He hoped that the present discussion would be carried out in the same spirit. . .

In replying, Mr Blythe stated that he recognised very fully the help

> given to the Free State in December, 1925. It certainly saved the Free State from great difficulties and dangers with which they would have been faced had the British Government insisted on Article 5 of the Treaty being implemented.[148]

This exchange epitomised the conciliatory atmosphere of the talks, although Blythe conceded nothing in his opening speech. But as soon as the meeting resumed in the afternoon, after an adjournment "to allow discussion by permanent officials of the questions of the amount of [the] Local Loans annuity and of [the] transferability of property of non-transferred Departments", Blythe gave way when he announced "that he was prepared to agree to the British proposals, subject to minor amendments." He was prepared

1. To pay over the £550,000 withheld in respect of income tax on land purchase annuities;
2. To admit the British claim in respect of the Unemployment Insurance Fund debt.
3. To pay £250,000 in respect of the Wood Renton Commission's awards in favour of British Departments.[149]

When pressed, Blythe also gave the assurance sought of him on the RIC pensions issue. The temper of the meeting was such that it even managed to dispose of "the question of a refund of the sum of £26,000 odd from the Free State in respect of the relief of refugees from the Free State", a particularly sensitive issue left unresolved after earlier negotiations.[150] While Blythe was at first reluctant to admit this claim because of the political embarrassment of having to open "a special vote . . . for the purpose", he quickly accepted Churchill's suggestion that the matter could be disposed of if the Free State raised their offer "in respect of Wood Renton awards from £250,000 to £275,000 in return for waiver by the British Government of the claim in respect of refugees." So fast indeed was the tide of compromise and conciliation now flowing that the afternoon session at which agreement was reached was over in an hour.

One issue alone remained — the Local Loans Fund annuity — and this was merely a matter of the experts agreeing on a figure, which they duly did the next day.[151] The completed agreement was confirmed in an exchange of telegrams between the governments on 22 and 23 March and so this first, short but turbulent phase in the history of Anglo-Irish financial relations drew finally to a close.

CHAPTER FIVE

Consolidation 1925–31

I: New Horizons

By the end of 1924 the basic framework of the present Department of Finance had been firmly established. So fixedly had Finance's foundations been laid down in the early years that one new recruit to the Department's upper echelons in 1925 could detect no feeling of newness in the organisation he had joined but felt that he had become a member of a well-established system.[1] Just what had been achieved can hardly be better expressed than by the following extract from the report of the 1932–35 commission of inquiry into the civil service — more commonly known as the Brennan Report, after Joseph Brennan, the chairman of the commission and the man most responsible for the achievement in question:

> The passing of the State services into the control of a native Government, however revolutionary it may have been as a step in the political development of the nation, entailed, broadly speaking, no immediate disturbance of any fundamental kind in the daily work of the average Civil Servant. Under changed masters the same main tasks of administration continued to be performed by the same staffs on the same general lines of organisation and procedure. . . The importance of an orderly regulation of the Civil Service was recognised from the beginning of the new regime. The control previously exercised by the Treasury was maintained with unbroken continuity by the Minister for Finance.[2]

The concern for "orderly regulation", with the need for uninterrupted administration, with financial control and with other such matters, which had been paramount in 1922–24, was not now relaxed. But, although Finance officials had previously had little time or inclination for other questions, by the mid-twenties sufficient stability and security had been achieved to permit of new departures, which

were not previously contemplated. The first such new departure had to do with banking and currency.

The Banking Commission

Brennan and McElligott first exchanged views on the matter early in November 1924 when they agreed that it was desirable to set up a commission "to consider and to report to the Minister for Finance what changes, if any, in the law relative to banking and note issue are desirable or necessary, regard being had to the altered circumstances arising from the establishment of Saorstát Éireann."[3] The reasons why Finance believed that such a commission was necessary were made explicit in an interview which Blythe and Brennan had with the Governor of the Bank of Ireland, Joseph X. Murphy, and the Secretary to the Irish Banks' Standing Committee, Newman Thompson, on 8 April 1925. "In the first instance", Blythe

> . . . drew attention to the fact that, owing to the setting up of the Irish Free State and the passing of consequent legislation, apart from gold there was no legal tender in the Irish Free State, and there was practically no gold in circulation.

British currency notes issued after December 1922 were not legal tender and, moreover, "the excess issues of the Irish Banks had no legal backing." Further problems arose from the fact that "the fiduciary issues of the six Banks of Issue were applicable to Ireland as a whole"; indeed almost all Irish banking statistics referred to "the whole of Ireland, the consequence being that the Minister could not tell if the deposits of the Free State were increasing or were diminishing, or if the advances made by the Irish Banks were changing in one direction or the other." Blythe also referred to Free State claims to a proportion of the profits "made by the British Government out of the use of British currency notes and currency certificates" in the country and to the absence of a "central machinery in the Irish Free State of a type similar to that afforded by the Bank of England in Great Britain with which all the other Banks kept their accounts." He also raised "the question of those banks carrying on business in the Free State which had their Head Offices situated outside the Free State."[4]

Finance's next concern was to select an appropriate chairman to head the commission. Among the names canvassed were Oliver M. Sprague, Professor of Economics at Harvard University; C. A. B. Campion, formerly manager of the Commonwealth Bank of

Australia; Dr Gerard Vissering, the President of the Netherlands Bank; E. W. Kemmerer, Professor of Economics and Finance at Princeton University and previously adviser to the USA-Philippine Commission, as well as to the governments of Mexico and Guatemala; and Henry Parker-Willis, Professor of Banking at Columbia University, editor of the *New York Journal of Commerce* and formerly Secretary to the Federal Reserve Board and President of the Philippine National Bank. Brennan took advice on the matter from both T. A. Smiddy, then Irish High Commissioner at Washington, and James MacNeill, the Irish High Commissioner in London.[5] No Irish banker or economist was seriously considered for the post; nor were any of their British colleagues. Brennan explained Finance's reasoning to MacNeill when he urged him to "bear in mind that as our own banks are getting strong representation which is sure to be very conservative, we do not want to allow them to find a reactionary ally in either of the outside experts."[6] McElligott reinforced the point in a subsequent minute to Blythe when he suggested that "the exchange position and our financial relations with outside countries may be considered by some as being beyond the purview of the Commission"; he therefore thought that "if a chairman from amongst the Irish bankers is selected there is a grave possibility that a somewhat hostile attitude will be taken up by him to the introduction of the issues referred to above."[7] The choice was finally narrowed to Kemmerer and Parker-Willis and, when Kemmerer was discovered to be unavailable because he had taken up the post of advisor to the Chilean government, an invitation was sent to, and accepted by, Parker-Willis, to act as chairman.

The history of the First Banking Commission, established by warrant of appointment on 8 March 1926 and whose reports led to the establishment of the Currency Commission in 1927, has been fully surveyed by Maurice Moynihan[8] and it would be gratuitous to cover the same ground here. Yet it is important to underline the close co-operation between the Department of Finance and the Banking Commission (and, later, the Currency Commission whose first chairman was Joseph Brennan). J. J. McElligott was the Department's representative on the eight-man commission, whose secretary, J. L. Lynd, was also a Finance official; generally, the commission's work and findings were very much along the lines envisaged by Finance. It is noteworthy, for instance, that the commission's terms of reference were identical to the terms proposed by Brennan and McElligott

eighteen months before the commission was finally established. One other point deserves mention. Although the commission recommended against the establishment of a central bank — on the grounds that "the Saorstát has a well organised banking system, but is without an independent financial or money market" — McElligott submitted a minority report suggesting "that after a period of, say, five years of smooth working of the proposed currency arrangements further inquiry should be made into the question of setting up a central bank."[9]

Reference might also be made to the work of the advisory committee on coinage designs under the chairmanship of W. B. Yeats, although here too Maurice Moynihan's comprehensive account precludes the need for detailed treatment.[10] The decision taken by the Minister for Finance before the committee began its work — that no effigies of modern persons should appear on the new coins — is of particular interest. This point had been considered in the Department in October 1925 when Brennan wrote to Blyth saying that he had seen a Mr Atkinson of the School of Art in Kildare Street about the design of the coins who had

> . . . inquired whether portraits (e.g. of Presidents [*sic*] Griffith and Collins) would be admissible. . . Can you say whether such portraits are open to consideration? So far as British opinion is a relevant factor I imagine that while it would not very much mind the elimination of the King in favour of some impersonal design it might look otherwise on the replacement of the royal by another effigy.

Blythe agreed: "I think there should be no portrait", he replied.[11]

The Shannon Scheme

The most important new departure of the nineteen twenties was the Shannon Scheme. "The provision of electricity from water power" James Meenan has written, "represented the first great enterprise undertaken by the new State in 1925 and the Electricity Supply Board is by far the largest capital investment undertaken in Ireland in the last forty years."[12] The Scheme was first mooted in December 1923 and discussions between the representatives of the government (mostly officials of the Department of Industry and Commerce) and of the German engineering firm of Siemens-Schukert continued throughout 1924. At first the matter was not of direct concern to the Minister for Finance and, in the light of the strong criticism of the Scheme later

voiced by Finance officials (notably Brennan), it may be significant that the Minister for Finance, Blythe, was absent when it was first discussed by the Executive Council. This was on 29 July 1924 when the Minister for Industry and Commerce, Patrick McGilligan, proposed that experts be appointed to advise on the Scheme; although a decision was then postponed, McGilligan subsequently reported to the Council, on 26 August, that Siemens-Schukert had been given until 1 October to present their report. Blythe was at neither meeting, being absent through illness throughout July and August when Cosgrave was acting Minister for Finance. Indeed Cosgrave himself was absent through illness when, on 11 December 1924, McGilligan first read extracts from the favourable Siemens-Schukert report to the Executive Council.[13]

The Department of Finance seems to have had no opportunity to consider the Scheme until January 1925 when the Secretary of Industry and Commerce, Gordon Campbell, sent a minute to Blythe's private secretary saying that his minister had instructed him "that a memorandum should be prepared and sent to Mr Blythe as soon as possible emphasising the importance of urgent and careful consideration being given to the question of financing the Shannon Scheme." It was his own belief, wrote Campbell,

> . . . that the reputation of this country for business capacity, and its credit, depend more on financing the Shannon Scheme in such a way as to earn the respect of the financial world generally than on any problem of government likely to arise for a long time. I believe also that any failure to finance it satisfactorily will do more to damage confidence in the economic future of the Saorstát and to foster internal dissensions than anything else. Finally I believe that the financial arrangements must be secured before the Scheme is put forward for adoption, if it is not to be swamped and finally extinguished in a deluge of uninstructed, despondent and pusillanimous controversy.[14]

Given such sweeping claims, controversy was perhaps inevitable, as Finance's response to the official minute (which they immediately sought from Industry and Commerce) was to demonstrate. In this official minute of 15 January 1925 Gordon Campbell dwelt at length upon the problem of how the Scheme might be financed and, in view of the fact that this was in itself unusual and was construed by Finance as an invasion of their preserve, his remarks merit extensive quotation.

Campbell began by recording that the experts' report on the viabil-

ity of the Scheme was being translated and would be ready for publication, together with a summary of the Scheme, within a few weeks. In the meantime his minister wanted to prepare to introduce a Bill "seeking authority to proceed with the Scheme as early as possible in the coming session." The adequate financing of the Scheme was the only major obstacle which must first be overcome since "the Oireachtas cannot well be asked to give the Minister power to do certain things until it is satisfied that he can pay for what he gets done." It was "inherent in the very nature of the Scheme", he argued

> that a State guarantee would be required to raise money. During the construction period and possibly for some time thereafter the undertaking cannot be expected to be remunerative. The essential question for decision, therefore, is whether the money should be raised by floating a loan, either for the specific purpose of the Scheme or for general purposes in which the Scheme is included, or whether arrangements should be made to finance it through a financial house which must presumably be in some other country.
>
> The Minister for Finance is understood to favour the raising of an internal loan to a substantial amount for general purposes of which the most important will be the Shannon Scheme and to be confident that no difficulty will be found in adopting this course. The Minister for Finance is in the best position to judge but the Minister for Industry and Commerce feels bound to draw his attention to certain circumstances creating a doubt as to the prospect of raising an internal loan on favourable terms. . . The Shannon Scheme at the moment is either definitely opposed or at any rate not approved by interests whose attitudes, it seems, must affect an internal loan. Considerable interests are committed to one or other of the Liffey Schemes which are supported by a number of members of the Seanad; well-to-do sections of the community will not support anything "German" because of their memories of the European War; commercial interests engaged in importing as distinct from home producing are antagonistic to the Scheme on vague political grounds and on the definite material ground that they may be taxed for it and see no benefit to themselves from the Scheme; existing industrialists, in particular those associated with bodies prominent in advocating the new tariffs, are critical if not definitely hostile; and many sections of the farming community are bound to be sceptical as to the results of the Scheme. Each of the interests mentioned has already given indications that the Scheme does not attract them and while its detailed discussion may result in conversions this cannot be depended on. They represent sources from which a large portion of any internal loan must be raised and the Minister for Industry and Commerce is apprehensive that the Scheme might suffer from having its

finance based on assumptions that may not be realised.
For these reasons the Minister for Industry and Commerce had considered it desirable at least to explore the possibility of financing the construction of the works through a financial house experienced in such operations. . .

These matters are the concern of the Minister for Finance and this Department wishes to stress emphatically the need for a detailed and definite plan of finance before a judgement of the Oireachtas is sought on the Scheme at all. If this is not done every day's discussion in the press or in the Oireachtas and every critical comment by experts or interested parties will render finance more difficult. The most favourable time to arrange the finance is before hostile criticism can affect potential investors and the most convincing evidence of the soundness of the Scheme would be a contract between the Government and well-known financial interests to finance it on reasonable terms on the faith of the Scheme itself and the experts' report. The Minister feels that his Department has done everything in its power to make the Scheme ready and that it is vital for the Department of Finance promptly to add the main assurance still required, namely its finance. If this is not determined on or before the date when the experts' report is completed and published the best opportunity will have been lost and every day's subsequent delay may mean an additional burden on the Scheme and on the country. The Minister, therefore, hopes that arrangements may be made to take immediate advantage of the favourable report received so that the experts' judgement may be translated into money on reasonable terms.[15]

Gordon Campbell concluded by saying that if, as was anticipated, work started on the Scheme on 1 September 1925 and ended in June 1929, the total cost would be £5·2 millions — the same figure given by Patrick McGilligan in his Dáil speech on the Scheme on 19 December 1924.

It was this speech which caused Brennan, in the note he sent to his own minister on Campbell's minute, to accept the latter's basic assumption — "that the technical and economic experts have approved of the Shannon Scheme." The stage now reached, Brennan wrote, was "that the Government must decide whether they will promote the Scheme as a State enterprise. Mr Campbell's minute does not discuss this point at all but suggests that the matter is beyond discussion and that the only problem now arising is in what manner the necessary funds are to be provided." Brennan took particular exception to Campbell having gone "so far as to say that this financial

problem should be determined 'on or before the date when the experts' report is completed and published'." Under these circumstances, Brennan assumed that Blythe would

> . . . not allow a decision to be taken in this perfunctory manner that the Scheme shall be promoted by the State. The financial implications appear to be great and in common prudence it seems essential to obtain a reasoned statement of how they are computed and whether they are at least *prima facie* a fair indication of the liability that the State may have to shoulder.

Brennan went on to criticise Campbell's minute as giving "only the baldest information as to figures" and to point out that "almost the whole of the minute is devoted to matters which are proper for treatment by you [Blythe] rather than by the Minister for Industry and Commerce." He also felt that Campbell's suggestions on financing the Scheme were, in any event, "quite unsuited to the case. The finance should present no special difficulty if the conduct of Government finance in other respects is satisfactory during the next few years." Brennan's main objection, then, was not so much to the amount involved (that he should take this line is, incidentally, an interesting indication of how much more sanguine his view of the state's finances had become) as to the procedure by which that amount had been estimated. "The real point", he emphasised, was "whether the burden is being properly measured in the estimates put forward. The estimates are dependent on several factors which admit of ready scrutiny if the facts are clearly presented." Brennan accordingly attached a draft minute in reply to Industry and Commerce for Blythe's approval, which was given immediately.[16]

But Industry and Commerce replied with equal alacrity to Brennan's critical and interrogative minute of 11 February. They declared it to be "fact" that the experts had "approved of the Scheme with certain modifications" and said that most of the points raised by Brennan would be answered in the experts' report which would satisfy the Minister for Finance "that there is no practical alternative to the construction of the works and transmission system under the State. The future management of the undertaking is a matter that can be considered at a later stage."[17] Brennan regarded this reply, as of little consequence pending "receipt of the experts' report".[18]

But a sudden change in the course of events occurred a week later when, on 23 February 1925, Brennan protested vigorously to Blythe about a report in that day's *Irish Times* of a speech made by McGilligan the previous day in which he said that "the Government has had no hesitation in deciding to proceed" with the Shannon Scheme and that "on the financial side", they were satisfied "that the scheme can be readily carried out and that no difficulty would arise."[19] "I shall be glad to be informed" wrote Brennan,

> whether whese statements may be accepted as being correct, for if so it would apparently be superfluous for the officers of this Department to waste their time in scrutinising further the financial aspect of this matter. There is no information on record in this Department to the effect of the Minister's statement. In view of the newspaper report, however, I think it right to bring the matter to your notice as it has already happened in the case of the Shannon scheme that financial commitments were entered into on the part of the State without any information being supplied to myself or my colleagues.[20]

Brennan's tart minute seems to have evinced no written reply from his minister before 18 March when a copy of the Scheme and an advance copy of the experts' report were forwarded to Finance from Industry and Commerce.[21] On 1 April Industry and Commerce forwarded copies of the draft Bill authorising the Scheme, which Brennan forwarded to Blythe for his instructions with reference to his minute of 23 February.[22] Blythe's reply was short and to the point: "the draft Shannon Electricity Act [*sic*] should be examined at the earliest possible moment so as to be ready if possible for introduction when the Dáil resumes."[23]

But Brennan was not ready to leave matters there and he sent a further minute to Blythe saying that it was important for him to "know exactly to what extent or on what points final decisions have already been reached by the Government. It would obviously be a waste of time to investigate at this stage any matters that must already be taken as settled." Brennan then referred to his minute of 11 February to Industry and Commerce, which Blythe had approved, and which indicated that, before Blythe "could agree to the State promoting this scheme", he wanted an opportunity to examine the Report of the experts. "The brief interval which has elapsed since the Report of the experts became available", continued Brennan, "has, of

course, not permitted of any adequate consideration of the matter in this Department." Brennan then referred to a speech in the Dáil by McGilligan a few days earlier when he had declared that the scheme would be "run not by the firm of Siemens-Schukert, but as a Government scheme. . . . It will be backed by the Government and the Government will take in hands the financing of it."[24] The financial clause of the draft Bill particularly irked Brennan: it had been framed "without any reference to this Department and I do not know how far, if at all, it represents your intentions", he wrote to Blythe, saying also that he inferred from McGilligan's speech that Blythe had "already agreed to some definite decisions on the subject. For my guidance in considering the Bill, perhaps you would be so good as to indicate how far any such decisions extend."[25]

Blythe's reply was again brief and to the point. "It is agreed in general terms", he wrote, "that the Shannon Scheme shall be proceeded with. The question of providing money and the method of doing it is for us to decide. I presume [the] Clause is put up as a suggestion."[26] But this distinction between the policy and the way in which it was to be financed still did not end the matter for Brennan who on the next day, 8 April, again raised the issue of state sponsorship when he pointed out that the letter to Siemens from Industry and Commerce of 26 February 1924 — which formed a major part of the White Paper laid before the Dáil on 7 March 1924 — declared that, if the Scheme were finally approved, "the Government shall either promote it as a State matter or failing this give your firm the first option to carry out the Scheme." Brennan then pointed out that the Dáil resolution of 3 April approving the Scheme did not "indicate any choice between the two alternative methods". Such a choice, Brennan argued, was

> . . . of much importance. The draft Bill submitted by Industry and Commerce appears, however, to assume that it is already solved and that the Scheme should be promoted as a State matter. Am I to take it that this assumption is correct or, on the other hand, that the question of calling upon Messrs. Siemens to carry out the scheme is still open to consideration?
>
> I propose, if you see no objection, to inquire whether there are any matters in the draft Bill on which the Minister for Fisheries desires to offer comment.[27]

Blythe's response was emphatic: "No proposal to hand over a scheme like the Shannon to a private firm would have any chance of

acceptance by the Oireachtas." On the same day, 8 April, the Executive Council formally considered and approved the Bill. On 11 April Blythe sent Brennan a final and decisive minute, saying that "further consideration of the Shannon Bill ought not to be delayed pending the receipt of observations from the Department of Fisheries which I should say are not likely to raise issues of great importance. The Executive Council regards it as a matter of urgency that the introduction of the bill should be expedited."[28] Brennan raised no further objections, but retained his antipathy towards the Shannon Scheme and all that it represented. His relationship with his minister was never the same again: when, on 12 August 1925, the Executive Council considered the contract to be signed with Siemens-Schukert, it was McElligott rather than Brennan who was in attendance and it was McElligott, too, who was appointed to sit on the Shannon Scheme Board of Control.[29]

The foregoing account of Finance's role — or, more accurately, lack of a role — in launching the Shannon Scheme is significant. The Ministers and Secretaries Act, the regulations governing the submission of draft Bills to the Executive Council,[30] and all the other machinery of financial control notwithstanding, the decision to proceed with the Scheme — probably the major economic decision of the decade necessitating, as it did, such a degree of state intervention in the economy — was effectively taken without reference to the Department of Finance. That the Secretary of the Department, Brennan, was fully aware that such an issue was at stake is beyond doubt; equally certain, *given the attitude of his minister,* is Brennan's impotence to affect the issue. The outcome serves as a helpful corrective to the student of the history of the Department of Finance who might be tempted to infer from the earlier chapters of this work (describing the Department's very great powers and its pivotal position at the centre of the government's administrative machine) that Finance was all-powerful. To say that Finance officials' capacity to influence or to resist a government's major innovatory decisions is in direct proportion to the degree of support accorded them by their own minister is a truism, but truisms of this kind must be clearly stated if only because they tend never to be recorded in departmental archives. The successful implementation of Finance principles is in practice always dependent upon a certain irreducible minimum of political support on the part of ministers. Occasionally, of course, Finance principles will clash with a government's political principles.

Political principles will then triumph, provided, and *only* provided, that the political will of ministers is unyielding.

The Blythe/Brennan exchange of minutes occasioned by the Shannon Scheme is a case in point. Two further aspects of this case deserve attention. First, this particular clash between Finance principles and political principles was distinctive in as much as it took place largely within the Department. Such clashes more commonly take the form of differences between Finance and another department (Industry and Commerce in this case) which, if unresolved, are referred to the Executive Council (to the government since 1937) for decision. It is worth noting that the Shannon Scheme was not so referred and that no official communication between Finance and the President's secretariat seems to have taken place. The second noteworthy aspect of the controversy is the manner in which it seems to have been confined to the minister and the secretary; the Finance file on the subject contains no minutes or memoranda put up by other senior officers of the Department, not even — as was frequently the case on important issues — by McElligott. Brennan, as secretary, seems to have assumed complete responsibility for handling the matter — something which he did often under the provisional government in 1922 but which was so rare in later years as to be remarkable.

In the light of the above account, it is, perhaps, hardly surprising that Finance's role in the inception of the Electricity Supply Act of 1927, which set up the Electricity Supply Board, was equally negligible. "This Bill", complained a Finance minute of 14 March 1927, "has been introduced without reference to this Department!"[31] Brennan duly complained formally to the secretary of Industry and Commerce that his minister regretted "that he was not afforded adequate time to enable him to give the provisions of this Bill the consideration they deserve."[32] But a subsequent Finance minute demonstrates that the Department saw little point in now attempting to reverse the course of events, when it noted that the Bill suggested

> . . . that it is the intention of the Government to invest the whole business of Electricity Supply in a Board, to be run more or less as a commercial undertaking. If this inference is correct there is little to be said from a purely Establishments point of view regarding the provisions of the Bill. It will be for the Board itself to pay its way, and it would be illogical to insist that this Department should have a veto either as to the numbers or remuneration of personnel where only the Board itself is in a position to estimate its requirements.[33]

The Agricultural Credit Corporation

Nineteen twenty-seven also saw the passage of the Agricultural Credit Act which provided for the setting-up of the Agricultural Credit Corporation. This body and the Electricity Supply Board, F. S. L. Lyons has observed, "shared the distinction of being the first visible evidence of a trend that was to become more and more important as time went on. These two organisations were the first of a whole line of similar bodies whereby the state was increasingly drawn to intervene in various sectors of the economy into which private capital had been unable or unwilling to enter."[34]

Under the terms of the Act, four of the Corporation's seven directors were to be elected by shareholders and the remaining three were to be nominated by the Minister for Finance. The problem was, as H. P. Boland wrote, that

> . . . until the first ordinary general meeting it will not be known who the four shareholders' directors will be or whether they will all represent banking interests. This, and the probability that representatives of banking interests will tend to see eye to eye and act accordingly on the board, has to be borne in mind in the selection of the Minister's nominees. The personnel so selected should provide elements experienced and dependable in finance, credit and administration; knowledgeable and sympathetic to the needs of the farmers and, on the whole, while not unduly conservative, sufficiently careful of the interests of the Exchequer.[35]

McElligott, by then secretary of the Department, "discussed at length with the Minister for Agriculture", Patrick Hogan, the question of Finance's nominees; the latter "considered it essential that the Government should hold the majority of shares and have a majority on the Board — for the present at least."[36] The view "that it is only in its initial stages that a government majority is desirable, so as to prevent the Corporation being dominated by the banks", was subsequently confirmed by McElligott in further discussions with Blythe and Hogan.[37] Finance's three nominees, appointed as directors on 10 February 1928, were John P. Colbert, who had until then been editor of *The Statist* — the position occupied by McElligott himself prior to his entry into Finance in 1923; Senator Michael F. O'Hanlon, formerly secretary of the Irish Farmers' Union and the first choice of F. J. Meyrick, the secretary of the Department of Agriculture; and Patrick F. Walshe, a principal in the Department of Agriculture to which he had been attached since 1902. Colbert and Walshe were subsequently appointed as the Corporation's two full-

time directors — the other five directors were part-time at a salary of £300 p.a.; Colbert became managing director and chairman at a salary of £1,400 p.a. and Walshe, secretary at a salary of £1,350 p.a., both men being appointed for a three-year term beginning on 7 September 1928.[38] Finance's nominees to the Corporation remained unchanged until after the change of government in 1932 when the new Minister for Finance, Seán MacEntee, appointed Robert Barton in place of O'Hanlon.[39] A year later, in October 1933, Barton became part-time chairman and Walshe managing director (in addition to retaining his position as secretary) when Colbert transferred to the Industrial Credit Corporation, of which he became chairman and the only full-time director.[40]

By that stage McElligott had concluded that Finance's "association with the Corporation, so far from being an asset to the Exchequer, is a distinct liability as not only do we not receive any dividends on our very considerable investment but we are obliged to make advances to the Corporation half-yearly to enable it to pay the dividends on shares not held by us."[41] However, after discussing the matter with MacEntee on several occasions in 1936, McElligott noted that it had been decided to defer any decision on the points he had raised "until the report of the Banking Commission is available".[42] The decision that a new agricultural credit bill should contain "a provision of the Banking Commission, reducing the number of the directors of the Corporation to not more than three, all of whom are to be nominees of the Minister, as holder of the total share capital of the Corporation",[43] was thus only taken in December 1942; and the Act which instituted the Corporation in its new form was not passed until 1947. Finance's records thus bear out Basil Chubb's interpretation of the Agricultural Credit Corporation's history: that "the state was intended to be a mere shareholder in an ordinary company, taking up the shares the public did not want and having the right to appoint a minority of directors. The failure of the public to invest in this and similar ventures forced the state into the position of being the sole owner and controller of companies it felt it necessary to promote. Thus, almost by accident, the state-owned company form appeared in Ireland."[44]

The Resignation of Joseph Brennan

But, for the historian of the Department of Finance, probably the outstanding event of 1927 was Joseph Brennan's resignation as

secretary of the Department. Brennan first submitted his resignation on 27 January 1927 when he applied to his minister "for permission to retire from the civil service and to receive an award of compensation in accordance with Article Ten of the Treaty and Heads B and C of Part 1 of the Rules in the 8th schedule to the Government of Ireland Act 1920."[45] Blythe replied that, "while conscious of the loss the Service must sustain" through Brennan's departure, he felt he had "no option" but to grant his application. "As regards, however, the date from which the retirement should take effect", Blythe continued, he feared it would "be necessary to allow some time to elapse. Owing to the present conditions of work in the Department it is essential, before you go, that the arrangements for the Currency Bill and the Agricultural Credit Bill should be completed." Blythe accordingly asked Brennan to "undertake the preparation of these measures . . . with all possible expedition. . . As soon as this work is nearing completion a date for your retirement convenient to all concerned can be arranged without difficulty."[46]

The lack of warmth in these ultra-formal exchanges reflected the dramatic deterioration in the personal relations between Blythe and Brennan since 1925 about which Leon Ó Broin, in whom Brennan confided shortly before he died, has recently written.[47] Brennan then described Blythe "as 'a dead loss as a Finance Minister, a man devoted to a number of non-Finance matters which he pursued to the detriment of the Finance position' " — matters such as his enthusiasm for the Irish language and for championing new education proposals which, in Brennan's view, "if they were originated at all, should have come from the Minister for Education". Brennan, no longer on speaking terms with his minister, found his position as secretary intolerable and only the personal insistence of President Cosgrave, Brennan's former minister for whom he had a higher regard and from whom he now sought support, caused him to defer submitting his resignation as long as he did. He did, however, agree to Blythe's proposal that his resignation should not take immediate effect.

Although there was no formal change in the position for the next nine months, in practice Brennan was henceforth outside the mainstream of developments in the Department and devoted himself almost exclusively to drafting the Currency Act. He also retained his formal responsibilities as accounting officer, but in almost every other respect, McElligott acted as *de facto* head of the Department.[48] To take one important example, the papers discussing the setting-up of the

Economy Committee in May 1927 circulated between Boland, McElligott and Blythe and do not seem to have been considered by Brennan, at least formally, at any stage.[49] On 20 August 1927 the Currency Act was duly passed and, on 21 September, the Executive Council appointed McElligott as secretary of the Department of Finance in succession to Brennan who, on the same day, was appointed chairman of the Currency Commission.

That Brennan resigned under Article X of the Treaty (which had provided for the compensation rights of all public servants who wished to "retire in consequence of the change of government")was irksome to the ministers with whom he had previously worked so closely in the early twenties. The unhappy deterioration in their relationship was further illustrated by a dispute which later developed about his pension rights. Brennan claimed, in a letter to President Cosgrave, first, that his civil service pension should be based on his remuneration as secretary of the Department of Finance and, second, that this pension should be paid him while he was chairman of the Currency Commission. But, on 18 June 1929, the cabinet decided "that neither of his claims could be entertained" and, on 27 June, British and Irish ministers (Blythe and McGilligan on the Irish side), signed a special agreement "interpreting and supplementing Article 10" which gave effect to the cabinet decision and which also obviated the possibility of the Irish government being similarly embarrassed in the future, by providing that any official who wished "to retire in consequence of the change of government" must give notice of his intention to do so not later than 5 December 1929.[50]

Brennan was still a young man, only thirty-nine years old, when he resigned the secretaryship of Finance and with it the first place in the public service. The precise reasons for his early departure are obscure and it may be that the establishment of the Currency Commission provided him with a new sense of challenge no longer present in his work in Finance. By 1925–26 he had become increasingly disillusioned by his inability to curb state borrowing powers[51] and by his differences of opinion with his minister, of which the Shannon Scheme is an outstanding example. Although Blythe was not dogmatic about matters of public finance, he felt that Brennan's restrictionist views sometimes got him into political difficulties — the political storm that burst around his head at the very beginning of his stewardship of Finance, over the reduction of the old age pension in 1924, was a case in point.[52] It may be, too, that Blythe's upbringing in the Arthur

Griffith tradition of Sinn Féin economics sat uneasily with the conservative orthodoxy of the finance division of Dublin Castle in which Brennan had been trained. The Treasury system and the nature of the Whitehall/Dublin Castle axis ensured that officials working in the Treasury office in Dublin Castle were better protected from direct political pressure than their successors in Merrion Street.

Nearly twenty years later Brennan addressed himself publicly to the views of Nicolò Machiavelli on the appointment of secretaries. Machiavelli, said Brennan, "like other civil servants" had been "the subject of some abuse to which he had not been in a position to reply" and he advised that

> . . . the election of his secretaries is of no small importance to a ruler, for the first judgement that is made of him or his parts is from the persons he has about him. . . . The business is how a ruler may understand his secretary, and the rule for that is infallible. When you observe your officer more careful of himself than of you, and all his actions and designs pointing at his own interest and advantage, that man will never be a good secretary, nor ought you ever to repose any confidence in him; for he who has the affairs of his ruler in his hand ought to lay aside all thoughts of himself and regard nothing but what is for the profit of his master. And, on the other side, to keep him faithful, the ruler is as much concerned to do for him, by honouring him, enriching him, giving him good offices and preferments, that the wealth and honour conferred by his master may keep him from looking out for himself. . . When therefore, the ruler and secretary are qualified in this manner they may depend one upon the other; but when it is otherwise with them the end must be bad, and one of them will be undone. . .
>
> Wherefore a wise ruler ought to select out of his State certain discreet men to whom only he is to commit the liberty of speaking truth and that of such things as he demands and nothing else; but then he is to enquire of everything, hear their opinions and resolve afterwards as he pleases, and behave himself towards them in such sort that every one may find with how much the more freedom he speaks, with so much the more kindness he is accepted; that besides them he will hearken to nobody; that considers well before he resolves; and that his resolutions, once taken, are never to be altered.[53]

Brennan was, above all else, a "discreet man" and, whatever the reasons for his resignation, he could look back with satisfaction on what had been achieved during his tenure as secretary. Financial control and the primacy of Finance among government departments had been firmly established. The nation's credit had been set on a firm

footing. The Ultimate Financial Settlement with Great Britain had been signed. The internal organisation of the Department had been completed in a form in which it endured for over thirty years. Good order and regulation prevailed where, in 1921–22 there had been uncertainty and instability. All of this had been achieved under, and much of it through, Brennan's leadership. Yet, perhaps most remarkable of all, the span of that leadership was a mere five years. Indeed, all told, Brennan's career in Finance lasted less than six years, but the imprint which he left upon the Department was to prove indelible.

II: Some Committees and Commissions

The history of the first decade of the Department of Finance conveys an impression of unbroken continuity; officials then serving in the Department have no memory of any great divide or watershed before the first change of government in 1932. The Department rarely initiated any major financial legislation apart from the annual budget which, in retrospect, was seen as something of a landmark by those who had worked on it.[54] The minutes of the Executive Council and of the cabinet from 1924 until the end of the decade confirm these impressions: there is a striking absence of discussion of financial affairs. Not until 1926, for example, do the Executive Council seem to have devoted any time to a collective consideration of the annual estimates and still less attention was paid to budgets which, year by year, appear to have been approved in an almost perfunctory fashion[55] — in itself, perhaps, a tribute to the financial stability which reigned after the turbulent battles of 1922–24. McElligott's appointment as secretary did not break this impression of continuity and the transition was so smooth as to be almost unnoticeable. He and Brennan had been and remained personal friends as well as close colleagues, and a spirit of friendship and co-operation continued throughout the many years when Brennan was at the Currency Commission and the Central Bank.

The Economy Committee

The sustained emphasis upon economy and retrenchment between 1927 and 1932 reinforces the impression of continuity and was central to the work of some of the committees which engaged much of the attention of senior Finance officials in this period. The renewed drive which led to the Executive Council's unwonted detailed discussion of

the estimates in 1926 began when the assistant secretary of the Department's establishment division, H. P. Boland, sent up a preliminary memorandum on the celebrated anti-waste campaign in the British parliament in 1921 (which had led to the establishment of the Geddes Committee) in which he discussed the question of major economies in the public service.[56] The Executive Council decided, on 16 March 1926, that the 1926–27 estimates should be examined with a view to showing the increased expenditure "due to new services" since 1920–21 — the last full year before the provisional government's takeover. A comparative analysis of the salaries of senior officers in the public service, of superannuation and pension payments to civil servants and of civil service numbers, was also ordered, as was a comparison of ministerial salaries "with those of Ministers in Northern Ireland and other small countries."[57] It was indicative of Boland's influence, as C. J. Gregg's successor, that these decisions were conveyed to him in advance of the formal letter to the Department from the secretary to the Executive Council.[58]

Finance's subsequent "note on numbers, pay, and allowances for travelling and subsistence" of civil service staffs[59] is a tribute to the effectiveness of the Department's policies of economy since the inception of the new state. The total numbers employed in the civil service on 1 January 1926 showed an increase of only 1,918 since 1 April 1922 — 22,953 as opposed to 21,035. Much the larger part of this increase, moreover, (1,274) had only occurred because of "entirely new services necessarily brought into being by the change of government" — these were the staffs of the Departments of the President (15), Finance (190), External Affairs (57), Defence (849) and Education (minister's office — 13) and the staffs of the offices of the Civil Service Commission (15), the State Laboratory (26), Exchequer and Audit (29) and the Oireachtas (80).

Similar economies had been effected in pay. The salaries of the permanent heads of Irish government departments, it was noted, "are not only greatly below those of their opposite numbers in England and Northern Ireland, but are also considerably lower than were paid to their predecessors in similar, but much less responsible, posts in Dublin before the change of government." It was thus noted that the highest salary paid to any civil servant

in Great Britain is	£3,500
in Northern Ireland is	£1,750 plus bonus

in the Saorstát at the change of government was	£1,800 plus bonus
in the Saorstát now is	£1,500 plus bonus

— notwithstanding the argument that "the responsibilities of a Secretary in any of our Departments of State (with the possible exception of Fisheries and External Affairs) are far greater than those of any Head of a Department in Dublin before the change of government." In all cases the highest salaries were those paid to the secretaries of Departments of Finance (the Treasury in Britain) except, of course, in the case of "the Saorstát at the change of government" when there had been no such department; in this latter case, where the heads of the Departments of Agriculture and of Local Government and Public Health had previously been paid £1,800 per annum, they were now paid only £1,200. Nor were these differences a mere accident; they were rather the result of what the Finance note described as "a definite policy now that the Free State pays its officials on a lower standard than the British government allowed to officials in Ireland"; and this policy, of course, was applied not merely to heads of departments but throughout the public service.

Other modifications in the conditions of service of higher officials, made "with a view to economy" since the change of government, were listed as follows:

(a) Daily attendance increased by half an hour.

(b) Holidays greatly reduced, e.g., a higher official who might formerly get up to 48 working days' leave can now get no more than 36 days. Similar reductions have been made in the leave of lower grades.

(c) Subsistence allowances have been reduced for the more highly paid classes, e.g., 20/- a night only is now allowed where 25/- was paid up to last year.

(d) Whitley Councils have been abolished and replaced by a Representative Council.[60]

The Finance note saw the major difficulty in the path of further substantial economies in the civil service as exacerbated by the fact that

> . . . while the number of civil servants in the Free State (22,900) is enormously less than the number in the British service (530,000), the number of different grades is practically the same, and the problem, therefore, which would face a 'Geddes Committee' in the Free State

would in fact be no less formidable than that with which the Geddes Committee in England found themselves unable to deal.

One of the methods suggested for economy in public expenditure is that the Government should make up its mind what its revenue is to be and should ration the Departments accordingly. This is not a new proposal. It was made over and over again in England but always rejected. . . Any such cut would in fact be an irrational proceeding. By disregarding the actual requirements of the different Departments it would be certain to do great harm. All experience shows that such apparently simple but violent methods of economy could never be carried out effectively, and even if it were possible to apply them it would be difficult to prevent a reaction which might make matters worse. . . The Economy would not be represented by what is paid to the staffs discharged, because compensation or pensions would have to be given to those who went out.

Difficulties such as these may well have contributed to the government's tardiness in setting up such a committee, and a year elapsed before, on 21 April 1927, Blythe made a statement in the Dáil announcing the government's intention to set up what became known as the Economy Committee. "The need for retrenchment", said Blythe, "can scarcely be mentioned without provoking demands for a 'Geddes Committee'; but the government was "fully satisfied that even if suitable personnel could be found (which is doubtful), the conditions which would enable a body on the lines of the 'Geddes Committee' to perform useful work, do not exist here at present." Blythe then proceeded to outline the government's view of the proper path to economy; they did recognise, he said, that

. . . some special machinery is necessary to bring about the economies which are requisite within the next couple of years. Heretofore the staffs responsible for examining proposals and controlling expenditure have been somewhat fully occupied with work arising from the transfers, adjustments and developments consequent on the change of Government and with the many proposals for new and additional services that have been submitted by Departments. They have been able by means of special Departmental committees and otherwise to examine the staffing of various departments and to secure reductions. They have been able to fasten on heads of expenditure here and there and effect important economies, but they have not been able to undertake a systematic and searching survey of Government expenditure as a whole. The Executive Council is satisfied that the time has now come when such a survey can and must be begun. Accordingly it is proposed to set up a special committee of experienced

> officials taken partly from the Department of Finance and partly from other Departments to examine the whole field of Government expenditure and recommend such reductions as appear to be possible. If it can be arranged, a Minister will act as Chairman. It may be that two or three Ministers will undertake to act in turn. It is intended that the Committee shall be constituted forthwith and that it shall keep steadily at work until the investigation is completed. The Committee will have full authority from the Executive Council to require the attendance of all officials and of any information it considers necessary. The idea is that every item of recurrent expenditure should be put on trial. The plan I have outlined can lead to satisfactory results only if the widespread demand for ever-increasing State help and State activity is resisted for some time to come. If new burdens continue to be cast upon the State not only will the positive results of the Committee's labours be nullified, but the volume of current work will make it impossible to spare continuously from their Departments the officials of whom it is intended that the Committee should be composed.
>
> I am personally satisfied that economies will be shown to be possible in classes of expenditure that have not been the subject of public propaganda at all. It may be that some of the activities we inherited from the British are unnecessary or too costly for the Saorstát . . . that British methods aimed at a standard of technical perfection which the Saorstát need not look for. It would be wrong, however, to give the idea that enormous savings are possible. They are not. . . . The popular idea that the cost of the civil service presents a practically unlimited field for economy is baseless.[61]

Blythe then went on to point out that "civil service pay constitutes a comparatively small part of the outlay of the State" — some "11·2 per cent of the Central Fund payments plus the votes exclusive of that for the Post Office" which was "really a business run by the State" employing more than half the total number of civil servants.[62] Blythe also emphasised what had "already been done by way of retrenchment in the civil service": staff numbers had been adjusted and salary scales, annual leave and subsistence rates reduced. "We must seek for economy", he declared,

> but we must not forget that we have an undeveloped country, and that our real hope is in development. Public money is the money of people who are for the most part poor and struggling; we must spend it carefully. But we must not spend it so sparingly that opportunities of national development are missed or national efficiency is lost instead of being increased. We believe that an inquiry such as is now proposed . . . will enable us to pursue a policy of retrenchment that will be at once sound and

> effective. We have, of course, pursued in the past such a policy, but the point has now been reached when more systematic methods are necessary if further progress is to be made.[63]

Blythe's remarks on the occasion of the setting-up of the Economy Committee have been quoted at length because they provide us with a classic exposition of the financial policy then followed by the Department of and Minister for Finance and by the government of which he was a leading member. We can here discern the emphasis upon economy and retrenchment and the satisfaction with what had already been achieved in these areas; Finance's key role in controlling this policy; Finance's distaste for excessive state intervention in the economy; and the recognition that British standards of progress were not applicable to Ireland. But as important as what Blythe proposed was what he rejected — any kind of Irish "Geddes Committee"; and it here becomes necessary to look more closely at the terms of reference and composition of the original Geddes Committee.

Although, under its terms of reference, the committee was "to make recommendations to the Chancellor of the Exchequer", neither the Chancellor *nor any Treasury official* was a member of it. The chairman, Sir Eric Geddes, was a minister and a member of the Commons; two other members of the five-man committee were in the House of Lords, but none of its members was a civil servant. "All were businessmen", noted H. P. Boland, "and it was as such they were selected."[64] The committee's composition, according to Boland, reflected a fallacy common in the United Kingdom before the Great War, "that in matters requiring executive ability the civil servant as compared with the businessman was an inferior breed." This factor and the importation into government departments during World War I of large numbers of businessmen, who knew "nothing about the Treasury and the principles of parliamentary control", practically wiped out all the tradition of economy and regulated procedure in which the civil servant is reared, and the effect . . . was largely to break down the influence of the Treasury." Boland therefore argued that "the misapprehension about the Geddes Committee . . . was that it took businessmen to discover what nobody else could, whereas the fact is that the Government already had all the information possible in that regard at their disposal in the Treasury. But having weakened the authority of the Treasury they found that Treasury influence was not sufficient to effect their purpose."[65]

The fate which had temporarily befallen the Treasury was not, Boland successfully persuaded Blythe, now about to to befall the Department of Finance. Blythe's rejection of the Geddes Committee concept, and his announcement that "experienced officials" from Finance would play a major role in the work of the Irish committee, was in effect a vote of confidence in the methods of economy organised and controlled by Finance. Indeed, his speech may be interpreted as an expression of Finance's determination that their role should in no way be diminished. Hence, too, the significance of Blythe's remarks about there being no need for further, swingeing economies in the public service. There was no need, in his view, to ask *"quis custodiet . . ?"* of the officials under his charge.

Only if we bear these considerations in mind, can we properly understand the subsequent history of the Economy Committee. The severe limitations upon the committee's powers are apparent from its terms of reference, drafted by Boland and agreed with McElligott and Blythe on 3 May and approved by the Executive Council on 18 May:

> To investigate current national expenditure on supply services and establishments, and to make recommendations to the Minister for Finance as to reductions which appear to be possible. The Committee will not concern itself with questions of policy, but it will be open to them to indicate economies which might be affected if particular policies were modified, adopted or abandoned.[66]

The Executive Council also approved Finance's recommendation "that the public should not be admitted to the inquiry and that the proceedings of the Committee should not be published." The composition of the committee clearly reflected Finance's apprehensions that its recommendations might result in a diminution of the Department's control. It was a five-man committee, like the Geddes Committe before it, but whereas there had been no civil servants on the latter, four of the five members of this committee were civil servants, and two of them — McElligott and J. J. Healy (the Commissioner of Public Works) — were from Finance; the other two were also heads of departments — Diarmuid O'Hegarty, secretary to the Executive Council and Henry O'Friel, secretary of the Department of Justice — and both of them were nominated by Finance.[67] Nor did Finance's influence on the committee end there; both the committee's secretary and assistant secretary (J. E. Hanna and Leon Ó Broin) were taken from Finance's ranks. Although Boland recognised that this latter arrangement would "place a considerable

additional burden" on Finance's staff, he thought that the Department would "reap ultimate advantage by the arrangement."[68] Finance saw the inquiry essentially "as an opportunity of getting through possible economies which we might find difficulty in bringing about by our own unaided weight."[69] That weight was still further increased on the committee when, on 10 July 1928, following the death of J. J. Healy, the Executive Council approved of the appointment of Boland himself to fill the vacancy.[70]

Blythe presided over the first few meetings of the committee, which first met on 30 May 1927, but a permanent chairman, M. R. Heffernan, TD, Parliamentary Secretary to the Minister for Posts and Telegraphs and the leader of the Farmer's Party was appointed by the Executive Council on 19 October 1927.[71] Finance's close watch over the committee's deliberations was further illustrated by McElligott's agreement with Boland's proposal that he and the three principals in the Department "should be informed beforehand of future meetings of the Economy Committee (of the items on Agenda etc.) and as quickly as possible after each meeting of proceedings thereat."[72]

The preliminary findings of the committee were not presented until 30 November 1931 and its proceedings had then acquired a new-found urgency in the light of the world-wide economic depression when, because of "the falling off in anticipated revenue it became evident there would be a Budget deficit unless steps of a special nature were taken to deal with the financial situation which had arisen."[73] In this report, the committee declared that it had "been guided particularly by the practical principle that if the financial position of the State in the opinion of the Government demands substantial economies in State expenditure, it is necessary to single out for special attention the larger items of outlay without, of course, ignoring minor economies which may suggest themselves." The principle underlying the report was the use of the official cost of living index to ensure that expenditure "should be kept in step as far as possible with the fall in the general level of prices which has been such a characteristic of the past ten years." The services in which the committee accordingly recommended reductions were as follows:

The Civil Service	—
Primary Teachers' Salaries	£600,000
Old Age Pensions	£544,000
Garda Síochána	£170,000
	£1,314,000

The committee reported that it was

> . . . unable to give any definite figure in respect of the Civil Service, because the suggestions we make, if adopted, will not produce immediate economies of any magnitude, and because the adjustment on the basis of changed cost of living, which is the fundamental basis of the economies suggested for the other services, has already been effected in the Civil Service by reason of the cost of living bonus schemes.[74]

Whatever the validity of this argument, the fact remained that, after deliberations prolonged over four and a half years, the committee had recommended substantial cuts in all of the major services they had examined, with the solitary exception of the service to which four of the five members of the committee plus the committee's secretariat themselves belonged. It is hardly surprising in the light of these circumstances that the only non-civil service member of the committee — the chairman, Michael Heffernan — should have felt it necessary to express his reservations about the interim report in writing. The committee had agreed, Heffernan wrote, that its report would be submitted at this stage without any formal reservations; these would be incorporated in the final report in the form of addenda. But, in view of his "personal position and in order to avoid the possibility of misunderstanding", Heffernan felt he should make it clear that he intended to make reservations in the final report in respect of civil service pay and of old age pensions.

While Heffernan was "in general agreement" with the recommendation on the civil service, his views were

> . . . based on the understanding that the economic conditions existing in the country at the moment allow for payment of civil servants at the basic rates of pay decided upon at a period when those conditions were better than they are now. It is conceivable, however, that the continuation of the present world depression . . . may have the effect of so lowering the general economic standard of this country as to render it difficult if not impossible to maintain the standard of living which prevailed some years ago. In such circumstances there would, in my opinion, be a case for a further downward revision of basic rates of pay for civil servants.

Heffernan was unhappy about the old age pensions' recommendation because it was "based on the assumption that the rate of old age pension allowances when first introduced was equitable and sufficient", whereas, since then, "the general tendency has been to increase not only the money but also the actual value of all social

services." For humanitarian reasons and because he believed that the present allowances were "little more than barely sufficient to maintain the pensioners at the scantiest level of existence", Heffernan stressed that his acceptance of the committee's recommendation on this service was "subject to the very definite stipulation that any economy . . . should only take place when every other possible source of retrenchment has been exhausted and when it has become certain that the prevailing economic and financial conditions would not justify any further addition to taxation."[75]

The committee's work came to an abrupt halt when Heffernan was not returned in the general election of February 1932 and when Finance decided that, subject to the new government's approval, the committee "must be regarded as having expired with the dissolution of the last Dáil."[76] But, in the meantime, Heffernan had asked President de Valera whether the committee might be allowed complete its final report,[77] and Finance subsequently endorsed this request in a memorandum circulated to the Executive Council on 8 July 1932.[78] But, on 11 July, the cabinet decided that "the Economy Committee should not be reassembled."[79]

The Economic Committee

This Economy Committee should not be confused with the Economic Committee which was also set up by the Cumann na nGaedheal government at the end of the nineteen twenties. This committee first met on 5 December 1928 and its terms of reference were:

1. To inquire into the general economic situation in Saorstát Éireann, and in particular into
   (a) the existing system of finance, production and distribution,
   (b) the relation between costs and values of production, and
   (c) the bearing thereon of standards and costs of living.
2. To report how best, having regard to the relative contribution which might reasonably be expected by way of taxation or otherwise from the various sections of the community, the economic situation may be improved and additional employment provided.[80]

The Economic Committee, in marked contrast with the Economy Committee, was, in the main, an all-party committee of the Dáil, although Finance was represented by John Leydon who was appointed as its secretary.[81] By July 1929 the committee was deadlocked on party lines on the issue of free trade versus protection and, in particular, on the demand (opposed by the government but

supported by Fianna Fáil and, with reservations, by the Labour Party) for an inquiry into subsidising home-grown wheat and imposing tariffs on imported flour.[82] The deadlock, which caused the committee to decide that there was little point in its meeting again, reflected the widening gulf between free traders and protectionists following Fianna Fáil's entry into the Dáil in 1927.

Finance, clearly, was keenly interested in the outcome of so fundamental a dispute on economic policy, since, throughout the twenties, the Department had stood out strongly against anything approximating to a comprehensive system of protection. In February 1923, for example, when the interim report of the Commission of Inquiry on Agriculture, which favoured an investigation of how tobacco-growing in Ireland "might be stimulated by fiscal means", the Minister of Agriculture, Patrick Hogan, sought Finance's "observations as to the advisability of giving the assistance required to secure the growing of the crop in the current year through means of a remission, total or partial, of duty on home grown tobacco or an increase of duties on imported tobaccos."[83] Finance vigorously opposed any such incentives and Brennan's official reply argued that "important questions of principle arise in this connection which are not and could not be confined to the case of tobacco", and that they could not, therefore, give any such assistance "in anticipation of a review of fiscal arrangements generally."[84] Finance were no less hostile to the report on the same subject presented by a select committee of the Dáil, which Blythe had agreed to set up on 11 June 1925, despite his acid comment that "circumstances" had made the tobacco growers "as expert in agitation as they are in tobacco growing."[85] Their report of 31 March 1926 again urged further government assistance and support for Irish-grown tobacco. Blythe rejected it out of hand on the grounds that "a careful examination of the evidence given before the Committee" and also of the report itself indicated that the Committee's findings were "hardly justifiable";[86] and Finance's stand was approved by the Executive Council which rejected the report on 19 April 1926.[87]

The Fiscal Inquiry Committee

Perhaps the most important forum for the discussion of the free trade versus protection debate in the early years of the new state was the Fiscal Inquiry Committee, appointed by the Executive Council in June 1923, which made its final report in the following December.

This committee was asked to report

(a) as to the effect of the existing fiscal system, and of any measures regulating or restricting imports or exports, on industry and agriculture in the Saorstát, and

(b) as to the effect of any changes therein intended to foster the development of industry and agriculture, with due regard to the interests of the general community and to the economic relations of the Saorstát with other countries.[88]

The history of the committee, which was composed of independent economic experts and not of civil servants or politicians, falls outside the scope of this work. In any event, as President Cosgrave had declared, the committee was "not expected to advocate policy" but simply to determine facts.[89] The committee's "general conclusion", wrote one of its signatories, George O'Brien, "was that fiscal changes should not be undertaken without mature deliberation and a full examination into their possible reactions."[90]

This conclusion was endorsed by Finance, notably in an important memorandum drawn up by McElligott early in 1924 in response to a proposed statement by the Minister for Industry and Commerce, Joseph McGrath, arising out of the Fiscal Inquiry Committee's report.[91] "Generalisations," wrote McElligott,

> dangerous at all times, are nowhere more dangerous than in matters of fiscal policy. The time has passed when either free trade or protection can be looked upon as a panacea for the economic ills of any country.
>
> The one indisputable fact that emerges from a study of fiscal history is that any change of fiscal systems should be made only after the closest study of actual economic conditions and the most careful sifting of all available evidence. It was the function of the Fiscal Committee to make these preliminary inquiries and if the conclusions are objectionable, the objections must be sustained by evidence of at least equal validity and sifted with the conscientious care which we know the Committee brought to their task.

McElligott then went on to write of the disadvantages of protection and to argue that "one of its greatest disadvantages" was that

> . . . to revert to free trade from a protectionist régime is almost an economic impossibility; the reason being that protection tends to force trade and commerce into unnatural or uneconomic channels and the industry thereby created requires artificial conditions in which to prosper: the tender plant of a hothouse will die in the open air. Further protection is a medicine that needs to be taken in large doses. If one interest is protected, every interest will demand like treatment. The height of the

> tariff barrier is also constantly increasing. Witness the United States where each successive change has meant an increase in tariff and where the general price level has in consequence been almost continually on the up-grade. . .
>
> Manufacturers did not make a good case for protection to the Committee and apparently have not a little to do in the way of self-improvement to raise themselves to the efficiency level of their foreign competitors. The best help the State can give them is to help in reducing costs. The largest element in costs is wages and wages depend largely on the cost of living which is always high in protected countries. The best way we can help is to bring down, say, charges for transport and power. . . . Better organisation, better marketing etc., are matters independent of protection and the incentive to them is often removed by protection.

McElligott discussed this memorandum with Blythe, who directed him to communicate these views to the Ministry for Industry and Commerce;[92] Blythe himself took a similar line in his budget speech in April 1924. The government, Blythe said, held "no doctrinaire attitude on the question of free trade and protection" but regarded "the matter as one of expediency which may be variously decided in different circumstances". While they were not prepared "to recommend anything approaching a general tariff with the substantial rise in the cost of living which would inevitably follow, bringing other and serious economic problems in its train", neither were they prepared "to let the industrial drift continue and content [themselves] with preaching efficiency and the virtues." The government had instead decided, Blythe continued, to adopt a middle course and to impose "certain duties which will give us a limited but sufficient experiment in the use of a tariff for the stimulation of Irish industry." The duties in question were imposed on boots and shoes, soap and candles, sugar confectionery, cocoa preparations, table waters and glass bottles.[93] A further series of duties — on personal clothing, blankets and rugs, and furniture and bedsteads — was imposed in the 1925 budget but no attempt was made to introduce any comprehensive system of protection.[94]

Nor did the setting-up of the Tariff Commission, under the Tariff Commission Act of 1926, materially change the situation. Under the Act, three commissioners were appointed on 2 December 1926 for a two-year period, one by the Minister for Finance (McElligott), one by the Minister for Agriculture (Dr J. H. Hinchcliffe) and one by the Minister for Industry and Commerce (Professor J. B.

Whelehan). "During their two years' term of office", observed *The Irish Times*,[95] "the Commissioners have had before them about twelve applications for tariffs and have reported on three — namely, rosary beads, margarine and flour. They recommended a tariff of 33½% on rosaries and 3d a lb on margarine and they rejected the application for an impost on flour. In all three cases their reports were adopted by the Minister for Finance."

The Tariff Commission's singular lack of enthusiasm for recommending the imposition of tariffs owed much to the anti-protectionist convictions of its chairman, J. J. McElligott, and for the rest of the decade while he continued to hold that post there was no change of policy. Policies did change, however, in 1930. Against the background of the growing world-wide economic recession and the threat of dumping on the Irish market, in October the cabinet "agreed that the time was now ripe for the appointment of a permanent Tariff Commission".[96] But another Finance official, John Leydon, was now chosen as the new chairman and two officials from Agriculture and from Industry and Commerce (W. McAuliffe and W. B. Maguire) completed the proposed reconstituted Commission. But neither the Minister for Industry and Commerce, Patrick McGilligan, nor the Minister for Defence, Desmond FitzGerald, who were away in London, were able to attend this meeting and it was agreed that their views should be ascertained before the appointments were confirmed. When the matter again came before the cabinet, although neither McGilligan nor FitzGerald had actually returned, the Commission's composition was altered significantly: a new chairman, Henry O'Friel, secretary of the Department of Justice, was appointed, together with a new representative from Agriculture, Daniel Twomey, who became secretary of that department in 1934.[97] The downgrading of Leydon's status — he remained a commissioner — and the appointment of two notably more senior officials than was first contemplated, seems to suggest an attempt to give teeth to the Commission while at the same time lessening the control of the Department of Finance over its operations.

The pressure for tariffs continued to mount and, in 1931, the Executive Council took powers under the Customs Duties (Provisional Imposition) Act to impose such duties as it might decide were "immediately necessary to prevent an expected dumping of goods or other threatened industrial injury", although the inclusion of these words in the short title of the Act testified that the reluctance to impose tariffs had waned only in the fact of necessity. The Act became law on 6

November 1931. The first batch of duties — 50 per cent on articles ranging from glass to woollen manufactures to cosmetics — were imposed on 20 November. The Act was defended by Blythe in the Dáil as "simply and entirely in line with the policy which the present government have pursued in regard to tariffs. That is to have tariffs imposed when they thought that the imposition was justified and when they thought that the results . . . would be beneficial to the country as a whole and not merely to some small group in the community."[98] Fianna Fáil, however, who were soon to have the opportunity of implementing their own tariff policy when they won the 1932 election, represented it, in Seán Lemass's words, as "a further indication of the conversion of the Cumann na nGaedheal party to the policy of Fianna Fáil."[99]

III: The Crisis of 1931

The change in tariff policy in 1930-31 was but one symptom of the deepening economic and financial crisis of these years which broke out at just that point when, for the first time, one can detect a new note of optimism in Finance's view of the future. Nevertheless it was an optimism still heavily tinged with caution, as Blythe's 1929 budget speech showed when he declared that "the way before us is not easy, but the difficulties to be surmounted appear to be distinctly less formidable than twelve months ago."[100] In what amounted to a vindication of Finance's policies during the twenties, Blythe then went on to describe the preceding period as one

> . . . of great difficulty in relation to the finances of the nation [which] has been passed without the creation of any dangers, or even of serious problems for the future. The Saorstát has survived an expensive civil struggle which began soon after the commencement of an acute and long-conditioned economic slump and has done so without the adoption of any financial measures which there was reason to regret or reverse. The credit of the state is high and firmly established, a circumstance of which the beneficial consequences are by no means limited to the fact that we are able to borrow more cheaply than most countries for well-planned schemes of development. Good national credit is practically essential to the growth of industry through private enterprise. because in its absence there cannot be stability and continuity of financial policy or any certainty that the state will not be driven by dire need to resort to the imposition of unforeseen and arbitrary burdens. . . . The strict financial methods to which we have adhered and the sound credit position which

> we have built up has already improved, and will increasingly improve, the prospects of substantial industrial development.[101]

Such strict method had been implemented too, Blythe claimed, to curb the growth of the national debt. "Instead of too freely seeking loans we have pursued a distinctly conservative financial policy and have kept the deadweight burden of national debt down to a figure which, considering all the circumstances of the past few years, is astonishingly low."[102] Similar policies had resulted in a situation, Blythe further asserted, where "each financial year so far has closed with a surplus of normal revenue over normal expenditure."[103]

Twelve months later, McElligott had cause to assess the state's financial achievements in its first years in more concrete terms when he was negotiating with the banks about the terms of the third National Loan. The banks, he felt, did not appreciate "the strength of the financial position of the Saorstát. . . . Our gross debt is less than one year's revenue and our net debt is less than six months' revenue, and our sinking fund provisions are considerable." McElligott also pointed to the fact that Irish taxation had "materially declined. The total remissions of taxation since the setting up of the Saorstát are much greater than the total impositions in the same period, while in a number of critical and important taxes such as income tax, super tax and estate duties the level here is much lower than that of our neighbours." McElligott also regarded it as significant that "all the ordinary services of government have been carried on prudently and economically" and, particularly, that "expenditure on social services is kept within reasonable limits." He stressed the improvement in the state's export trade, "a record to which few countries in the world can point", and the "sound economic and financial position . . . reflected in the standing of our Loan in the New York Market, the quotation contrasting most favourably with those of other countries."[104]

The Currency Crisis

But the "sound economic and financial position" of the Free State was no protection against the whirlwinds of depression which blew with ever-increasing force in 1930–31 until, on 21 September 1931, the British government announced the departure of sterling from the gold standard. The question of the appropriate Irish reaction to such an event had been discussed at a meeting of the Currency Commission on 14 September when the chairman, Joseph Brennan, reported to his colleagues on his talks in London with Treasury and Bank of England

officials on 10-12 September. The meeting adjourned inconclusively and, at the resumed meeting next day, McElligott expressed the sentiments which underlay the Irish reaction to the eventual crisis. His opinion was

> . . . that sterling *might possibly*[105] continue to be maintained on the gold standard but in the event of failure to do so he thought it would be in the interests of the Irish Free State generally that the Saorstát pound should follow the course of sterling. If the Saorstát pound was maintained on a basis other than sterling and it should happen that in comparison sterling was at a discount he thought the Irish export trade with Great Britain would be placed in a perilous position.
>
> Apart altogether from the provision of a gold reserve against notes in circulation, it would also be necessary to provide a gold reserve in respect of the large volume of Irish Free State sterling investments, which would be a matter of considerable difficulty, and he was of opinion that there would be no advantage in providing such a reserve. The Saorstát Banks, with their assets almost altogether in sterling, could not have their liabilities on deposits and bank notes expressed in gold if sterling moved away from the latter. It would mean at once a big deficiency in their assets. Besides, the reasons that actuated the Banking Commission to tie the Saorstát currency to sterling still operate and would continue to operate. If Great Britain moved off its present gold standard a number of other countries might follow suit and some other measure of value might be evolved. Even if the Currency Commission had a reserve of gold it would be next to impossible to protect it if Great Britain abandoned its present gold basis. We could protect it only by putting an embargo on its export and this was merely defeating the purpose of its acquisition. The desire to have gold in this country was due largely to the mistaken belief that its presence in the vaults here would in some mysterious way enable the banks to extend much more credit and would help prices to rise. Besides, the financial position of the Saorstát was such that while we might be able to maintain our currency for a time in a position superior to that of Great Britain we could not do so indefinitely. . . . It was not desirable that the Commission should now take action which might jeopardise the already very delicate position of sterling. . . . It might be well to consider at this stage if the Commission should . . . take steps to acquire some United States Government dollar securities.[106]

McElligott's remarks set the tone for the meeting and mirrored the sentiments expressed by Brennan in his London talks when he had stressed that "it was in the interest of the Irish Free State to help as far as reasonably possible in maintaining the position of sterling and that it would be inexpedient to weaken the Bank of England reserve

specially at a time like the present by withdrawing gold."[107] In the context of such sentiments the Commission's decision, at its resumed meeting on 15 September, to take no "special action", such as buying dollar securities or withdrawing gold, is readily explicable.

Although McElligott's muted optimism that the British might keep sterling on the gold standard proved unfounded, the contrary decision of 21 September in no way affected the arguments he had adduced at the crucial meeting of the Currency Commission. In a memorandum written some weeks later, Joseph Brennan was to refer to the analogy "often used that the Saorstát pound 'sinks or swims' with the pound sterling, as if they were two swimmers bound fast together. It would be a better illustration to regard the pound sterling as a raft and the Saorstát pound as a swimmer who clings to it. While he clings, he follows the course of the raft but he can remain adherent only so long as his own powers of endurance permit."[108]

But McElligott and his colleagues in the Department of Finance were under no illusions that they could do anything to affect the course of the raft, as his memorandum to the Executive Council on the appropriate currency policy after the suspension of the Gold Standard Act made abundantly clear. Subsequent events "have done nothing to clarify the financial situation in Great Britain", he wrote.

> In particular, we are entirely without information as to:
>
> (i) The possibility of the continuance of further sales of sterling and of sterling securities, especially from abroad, with consequent strain on the exchanges in the endeavour to take the proceeds abroad.
>
> (ii) The nature of the measures which the British Government intends to introduce to correct the adverse balance of trade or the period that will elapse before such measures can begin to take effect.
>
> (iii) The intentions of the British Government regarding the restoration of gold payments in respect of both the date of restoration and the new parity for the pound sterling.
>
> (iv) The maintenance of the existing price level in Great Britain, involving the question of the value of note issue.
>
> (v) The possibility of additional foreign assistance being made available to Great Britain in the event of her difficulties increasing, e.g. by way of a gold loan.

McElligott concluded bleakly that under such circumstances, deciding upon a policy was "a matter of extreme difficulty. No financial declaration of policy could be given and the most that we can hope to

do is to be guided by events from day to day."[109]

Cold comfort, too, characterised a brief submitted on the same day to the Minister for Finance by Arthur Codling, which ran as follows:

> The remedies for the present depression, in so far as it does not arise from world causes to which such a small economic unit as the Saorstát can offer no effective resistance, lie in greater production, and increase in the number of creameries, more and better stock and improved marketing methods — that is to say in raising the level of agricultural methods all over the country. No other policy can result in anything but disaster.

But Codling's accompanying minute made it clear that, while this was submitted for Blythe's consideration, "in view of the present difficult situation and the obscure outlook it would probably be better to avoid any statement if at all possible."[110]

The policy advocated by the senior officials of the Department of Finance was, in short, to do nothing and to say nothing. The government seems to have accepted that policy unreservedly: the minutes of the meetings of the Executive Council and the cabinet for September 1931 (six in all) reveal that no decision on the currency crisis was recorded, and the historian will look in vain even for a mention of such words as "gold standard", "sterling" or "Saorstát pound".[111] The episode is a striking testimony to the power and influence wielded by McElligott and his colleagues and to the fact that, in time of crisis, the Cosgrave administration was as loth at the end of their decade in office as they had been in the beginning to question the policies advocated by the officials of the Department of Finance.

That the crisis led to a reassertion of old, rather than a search for new, policies is shown, too, by the reiteration of the proposal (voiced four years before in McElligott's Banking Commission minority report) for the establishment of a central bank and, inevitably, by a renewed emphasis "on the proper working of the underlying economic factors" upon which the continued maintenance of parity with sterling depended. "There are factors at work tending to create difficulties for the Saorstát pound", noted McElligott: "the unfavourable condition of the international balance of payments and the unfavourable position of the Exchequer. These are the same factors that brought about the strain of sterling and led to its collapse."[112]

The Supplementary Budget of 1931

These factors had been worrying McElligott even before the British had suspended the Gold Standard Act and they were discussed at

length in a memorandum on the financial position, which the Department of Finance circulated to the Executive Council in early September 1931. The memorandum began by complaining about the "disappointing and unsatisfactory" nature of the economies proposed by other departments in their estimated expenditure which, together with the number and variety of supplementary estimates either passed or proposed, indicated "that Departments have as yet entirely failed to realise the serious financial position of the country." The memorandum continued:

> the receipts into the Exchequer on account of Revenue up to the 31st August, 1931, amounted to £9,242,433 as compared with the £9,530,061 to the 31st August, 1930, a fall of £287,628. On the other hand, the issues on account of expenditure amounted to £10,241,872 and £9,930,386 at the same dates, respectively, an increase of £311,486 in the current year. Accordingly a deficit of £400,325 in the Revenue in the first five months of 1930/31 has become a deficit of £999,439 in the current year, an increase of £599,114.

The budgetary prospects for the next year looked far worse. A bad harvest, stagnation in trade and business, and the unlikelihood of any improvement in general economic conditions, suggested that tax yields would fall further. Arrears of land purchase annuities had increased by £110,000 (a jump of over twenty per cent) in twelve months. But while revenue was "certain to fall owing to the reduced volume of trade on which it will be based or because the values on which the taxes will be calculated will be lower, the great bulk of our expenditure is rigidly fixed in terms of money and cannot fall." The more important of these charges were listed as follows:

A *Fixed by Contract*

1. Interest and Sinking Fund for debt — £2,000,000 approximately
2. Land Purchase Annuities — £3,000,000 approximately

B *Fixed by Financial Agreement*

3. Local Loans Fund annuity of £600,000
4. Compensation annuity of £250,000
5. RIC and Pre-Treaty Civil Pensions — about £1,250,000

C *Fixed by Act of the Oireachtas*

6. Agricultural Grants — £1,950,000
7. Old Age Pensions — £1,750,000
8. National Health and Unemployment Insurance Payments — £380,000

9. Housing Subsidies — £213,000
10. Pensions — other than RIC and Pre-Treaty Pensions — £930,000.

D *Fixed by Annual Vote or Administrative Action*

11. Pay of Teachers, Police and Army
12. Grants-in-Aid of various kinds

The memorandum went on to a general exposition of the economic situation which merits quotation at length as the Department of Finance's assessment of the economy on the eve of the first change of government in the history of the state:

> It should be emphasised that the present serious financial position is not a sudden, unexpected development. For a number of years expenditure has been initiated by legislation and new long term commitments have been entered into by the Central Government in respect of salaries and pensions and of subsidies of various kinds to local authorities for the relief of rates and for specific purposes, e.g., public health, housing, etc. Elaborate building programmes for military, civil and educational purposes were put through. The assumption all along was that the capacity of the country to shoulder the expenditure would continue and that pre-change of Government standards could be maintained indefinitely and even improved on in every walk of Governmental life. Local Authorities, frequently under pressure from the Central Government, shouldered increasing commitments. All the time the national income of the country was steadily contracting. The yield of taxes fell, too, but even the reduced taxation formed a higher proportion of the national income and heavier burden than it had done some years before. As a result Budgets could only be balanced by a resort to various expedients. Normal recurrent expenditure was, in fact, financed by means of non-recurrent arrears of taxation and by means of windfalls to the Exchequer. The Budgetary position was also assisted during the initial years by the continued residence in this country of numbers of wealthy people who gave employment and directly or indirectly increased our revenue. Apart from the changes in social and political conditions which have rendered the Saorstát less attractive as a residence to wealthy people, large fortunes are not now being made here and the yield of estate duties, income and sur-tax and luxury duties is likely on this account alone to continue to decline.
>
> The balancing of the Budget is not an object of purely academic importance that can be deferred till times are better; it becomes more necessary than ever when times are bad that the State can be shown to be living within its income. If the Budget is not balanced or even if a serious

Budget deficit is to be feared then the credit of the State will be seriously damaged and there will be a material set-back to trade and industry. Whether a serious exchange position would develop it is not possible to state on present information, but this is a contingency to be feared. To secure a balanced Budget in 1932 there must be either an increase in taxation or a reduction of expenditure or both.

The price of agricultural products has fallen to or below pre-war level. The cost of central government is about three times and that of local government about twice what it was before the war. The position cannot continue without running us into bankruptcy. There is no prospect of an early improvement in agriculture; all the indications point in the opposite direction. All other trades are and will be correspondingly dull. It might be remarked here that Irish banks have found it necessary this year to increase heavily their customary provision for 'bad and doubtful debts' for all classes of borrowers. A number of financial problems, such as the deficit of £5,000,000 on the National Teachers' Pension Fund, and the repayment of the Dáil Loan in the United States (£500,000 approx.), must be tackled. Others, such as the demand for complete derating, for widows' and orphans' pensions, for grants for the relief of distress, etc., have to be faced.

Another item in the dreary category of disimprovements is that our income from overseas investments, emigrants' remittances and other items that helped to keep us going and to redress our adverse balance of visible trade has declined and will be seriously down. If anything happens to British sterling it will add very considerably to the difficulties of an already grave position.[113]

This was precisely the situation which confronted the Executive Council a fortnight later making it that much more likely that at least some of the remedies prescribed by the Department of Finance in this twelve-page memorandum would be adopted. These remedies were founded upon the proposition that "the alternative before the Government is drastic economies in national expenditure, a course which is not only possible but justifiable" and which in turn was based upon "the fact [which] cannot be over-emphasised or too often repeated that the remuneration of producers is too low and that of non-producers is too high." Government reductions of public service salaries "would not only enable the Budget to be balanced, but would also create the proper atmosphere to allow private employers to reduce wages and salaries also". The Finance memorandum accordingly put forward four main proposals:

1. "That no new expenditure immediate or prospective (e.g.,

pensions) should be undertaken" and that long-term expenditure obligations (such as land purchase and division, housing, etc.) "should be terminated as completely and as speedily as possible". To this was added a classic and succinct expression of the Finance attitude: "it is always easier to refuse to undertake new expenditure which has not hitherto been found necessary."

2. The downward adjustment of the pay and pensions of teachers, the Guards and the Army, as well as of old age pensions and National Health and Unemployment Insurance payments. No such adjustment, it might be noted, was recommended in the pay and pensions of civil servants.
3. "A thorough revision of all other expenditure to eliminate unnecessary grants and payments."
4. "Additional taxation to bridge any small gap in the initial period."[114]

The effect of such draconian proposals upon a government which had soon to fight a general election may easily be imagined and, in the event, the cabinet took refuge in the remedy of increased taxation, which the Department of Finance memorandum had represented as much the least satisfactory of their alternatives. "An increase of taxation at any time would be psychologically bad; an increase of taxation to the extent required to cover the prospective deficit in 1932-33 would be disastrous", the memorandum had argued. Falling prices, moreover, might mean that an increase in the standard rates of taxes might diminish rather than increase yields; Finance had therefore argued that "on all grounds an increase in tax should be ruled out, except possibly to a limited extent and for a limited period in order to cover a gap until economies can be brought into operation."

But the alternative of pay and pension cuts was plainly unpalatable to the Executive Council and it was some time before they acted on the Finance memorandum. On 30 October 1931, however, the cabinet decided to introduce a supplementary budget which increased income tax by 6d in the £ and petrol by 4d a gallon, recording in addition that "the balance of any deficit which can in present circumstances be forecasted must be met, so far as proves necessary, out of retrenchments and sacrifices and, in the selective imposition of sacrifices, previous sacrifices will be taken into consideration."[115]

But the general election of 1932 was soon to sweep the Cosgrave government from power and, in the event, as we shall see in the next chapter, the choice of sacrificial victims was to fall to new high-priests.

CHAPTER SIX

New Masters: The Department of Finance in the Thirties

I: The Change of Government

The first change of government in the history of the state, in 1932 when Éamon de Valera's Fianna Fáil party won their first general election, was a major landmark in the history of the Department of Finance. Officials who served in the Department in the nineteen twenties and thirties were in remarkable agreement in their recollections on this point and, in retrospect, remembered the years after 1922 as without any remotely comparable watershed or divide.[1] The first reaction of officials in the Department of Finance, and elsewhere in the public service, was apprehension. No one knew what to expect of the new régime. Many feared that they might be about to witness the introduction of a spoils system in appointments to the civil service: that civil servants who had held key posts in the twenties might be demoted or dismissed and replaced by men who shared the political allegiance of the members of the new government.

Such fears soon proved groundless. The new Minister for Finance, Seán MacEntee, telephoned McElligott on the night he was appointed, 9 March 1932, in a clear attempt to establish some sense of continuity in the business of government.[2] Next day, de Valera had an exploratory meeting with McElligott about the workings of the government machinery, which the latter later described as a "very statesmanlike gesture" and which, he said, evidently impressed de Valera as to the "clear-cut lines of responsibility leading right up to the top."[3] On the same day, de Valera also met the heads of all the departments and "told them at once that he had no intention of changing any of them."[4] The worst apprehensions of Finance officials were thus immediately dispelled.

Some of the credit for smoothing the path of transition rested with the Department of Finance who had also taken care to avoid any

initial exacerbation of relations with their new masters. "We have become aware", wrote H. P. Boland to all heads of departments on 3 March 1932,

> that there are doubts and differences of view between heads of departments as to what the proper dispositions as regards the private office of a Minister should be on the arrival of a Minister of a new government. The view of the Minister for Finance is that a private office should be completely cleared of the existing staff (private secretary, confidential typist, etc.) before a new Minister comes in and that the new Minister should find nothing in existence in the arrangement of the private office which would in any way imply an obligation upon or even suggestion to him that he should accept the services of the private office staff employed by his predecessor.[5]

Boland, too, arranged the meeting of 10 March when all heads of departments were formally presented to "their new Ministers"; no other officials were present and the introductions were performed by the Clerk of the Dáil.[6] A year later to the day, Boland, giving evidence to the Brennan Commission of Inquiry into the civil service, ventured the following opinion as to why the transition had been accomplished without undue disruption:

> Any government in power will have to bear in mind the interests of the civil service in the sense in which they have to depend on the civil service. I do not think any Minister or group of Ministers is likely to behave so recklessly as practically to break up and demoralise the civil service. In every civilised country in the world where you have representative assemblies the growth of legislation is year by year producing the one certain result of adding more and more to the importance of the civil service. The complexity of the government machine is added to every year, and I think one of the most extraordinary things in the last forty years has been the upward trend in every country in the size of the civil service. You cannot do without it. You could conceivably do without a police force, if we had a model people; and without the army. But no government can do without a civil service or be careless whether it is a good civil service. On the contrary, governments of the future are going to have to rely more and more on the civil service. In normal circumstances we would get frequent changes of government like what happened this year. A new Minister comes in. He has no previous experience at all of perhaps any Departmental or Ministerial administration. When he comes in the people he has to depend on to give him help are the civil servants.[7]

But despite the relative smoothness of the 1932 changeover, the

officials of the Department of Finance quickly discovered that all was not as it had been under the previous administration since the new government proved much more disposed than its predecessor to question the Finance ethos. On 5 May 1932, for example, when the rules of cabinet procedure were reviewed, "in regard to proposals requiring the approval of the Minister for Finance, it was agreed that in any case where the Department concerned does not receive a reply from the Department of Finance within a fortnight . . . the Minister concerned may, if necessary, bring the matter before the Cabinet with a view to having the matter expedited." This concern to prevent Finance using its powers of control and regulation to obstruct or unduly to delay initiatives emanating from other departments, was further reflected in the cabinet decision of 14 November 1933 to appoint a sub-committee of ministers under the President's chairmanship "to consider and report on means of eliminating, as far as possible, delays arising out of the functions of the Department of Finance in relation to other Departments."[8]

The challenge to Finance attitudes represented by these decisions was reinforced by the relative diminution in the prestige of the Minister for Finance vis-à-vis other ministers. In the early twenties the fact that the head of government (first, Michael Collins and, later, W. T. Cosgrave) also held the Finance portfolio had immeasurably enhanced the Department's authority; moreover, their successor, Ernest Blythe, was also one of the most senior ministers, second only to Cosgrave himself, following his appointment as Vice-President of the Executive Council after Kevin O'Higgins's assassination in July 1927. The new Minister for Finance, Seán MacEntee, while undoubtedly one of the more senior ministers, did not carry comparable weight and it is noteworthy (as we shall see in our discussion of the 1937 Constitution) that Finance subsequently proposed that the Minister for Finance should be the Tánaiste (Deputy Prime Minister) *ex officio* under the new arrangements.

One example of the implications of the new pecking-order in the cabinet was the economic committee of the cabinet established in mid-May 1932 "to examine, and report to the Cabinet on, the economic conditions of the Saorstát" and to prepare the "necessary material" for the Imperial Economic Conference which took place later that summer in Ottawa. Amazingly, the Minister for Finance was omitted from the committee as originally constituted: namely, de Valera; the Minister for Industry and Commerce, Seán Lemass; the

Minister for Agriculture, Dr James Ryan; and the Minister for Posts and Telegraphs, Senator Joseph Connolly.[9] The economic committee's early reports proposed heavy additional expenditure and thus bore directly upon financial policy, notwithstanding the absence of the Minister for Finance from its deliberations — a development without precedent in the twenties. On 16 May 1932, for instance, the cabinet rubber-stamped the committee's recommendations concerning the expenditure of a £1 million grant for road-making, the allocation of housing grants to firms who used raw materials produced in the Saorstát, and the authorisation of the Minister for Industry and Commerce to apply the Trade Loans (Guarantee) Acts to housing schemes. Another three recommendations — a scheme for the registration of the unemployed, the opening of negotiations with the banks on the provision of loans for the housing programme, and a proposal to set up in the Department of Industry and Commerce "an Industrial Development Branch to be charged with the examination of proposals for the establishment of new industries and the development of existing industries and with the administration of the Trade Loans (Guarantee) Acts" — were approved by the cabinet on 27 May. Although MacEntee is recorded as having attended a meeting of the economic committee on 14 November 1932, its proceedings again reveal a tendency towards allocating additional expenditure to such projects as the development of protected industries, afforestation, and the beet sugar industry, as well as housing and public works, and when, on 18 November, MacEntee's name appears as a member of the committee, it seems to have outlived its first purpose and to have become in effect a committee of the cabinet as a whole.[10]

Nor was the Minister for Finance among the three ministers (Lemass, Ryan and Seán T. O'Kelly, the Vice-President and Minister for Local Government and Public Health) who headed the Irish delegation to the Ottawa Conference in July and August 1932, although McElligott (as one of five heads of departments), Joseph Brennan and A. W. Bayne, an assistant principal in the Department of Finance (as financial experts) were members of a delegation which numbered over twenty.[11] In the event, what one well-known English historian has described as the "grandiose vision" of the Conference — "Great Britain the workshop of the Empire, if no longer of the world; the grateful Dominions supplying the mother country with food and raw materials"[12] — failed miserably and even the so-called Ottawa Agreement was irrelevant for Ireland when set against the

simultaneous deterioration in Anglo-Irish financial relations which led to the Economic War. Nevertheless, the delegation's composition is not unimportant since it shows the marked contrast between this deputation and the Irish delegations which conducted the Anglo-Irish financial negotiations of 1923-26 and, to that extent, reveals the relative diminution in the influence of the Department of Finance immediately after the change of government.

The preparations for the 1932 budget confirm the impression that de Valera's first government undertook responsibility for the kind of economic and financial policy decisions which, in practice at least, Cosgrave's government had been willing to leave in the hands of the senior officials in the Department of Finance. At a cabinet meeting on 5 April ministers were directed to examine their departmental estimates in order to report "on any reductions which could be effected"; and, on 15 April, a cabinet committee of the Ministers for Finance, Industry and Commerce and Agriculture (MacEntee, Lemass and Ryan) were appointed to "report to the Cabinet on matters relating to the Budget"[13] — again, a development without precedent in an area where the Minister for Finance had hitherto reigned supreme.

One of the Department of Finance's first tasks after the change of government was to prepare a statement indicating the gravity of the financial crisis, which had continued to worsen since the events which necessitated the introduction of a supplementary budget in November 1931. A Finance memorandum of 20 April 1932 surveyed the position for the Executive Council and showed the budgetary result for 1931-32 — "an excess of expenditure of £69,000" — and the anticipated budget deficit for 1932-33 of £3 millions, given estimates for Central Fund and Supply Services totalling £26 millions and revenue totalling £23 millions on the basis of the tax rates then in force. The memorandum pointed out that the decrease in the yield of certain "barometer taxes" in the past year furnished "a warning which cannot be ignored". The most dramatic decrease was "in the import duty on motor cars, parts and tyres" — 44 per cent for the first quarter in 1932 as compared with 1931. The memorandum pointed to such other warning signals as the fact that "the yield of stamp duty on Stock Exchange transactions was much lower in 1931-32 than in any year since the Saorstát was established; the fall by comparison with 1930–31 was about 20 per cent which cannot be accounted for by a fall in the value of market securities." There was a

similarly alarming fall in the yield from taxes on beer and spirits; although this had fallen every year since 1924, the reduction in "the retail value of beer and spirits consumed exceeded £2,000,000", a reduction in one year "equal to the reduction over the whole period of the preceding five years." The external trade figures were no more comforting: they revealed "that both imports and exports last year were the lowest since the establishment of the Saorstát" and, worse, that the fall in exports exceeded that in imports by £$2\frac{1}{2}$ millions which was "the more disturbing because . . . invisible exports, particularly income from foreign investments and from emigrants' remittances . . . have also fallen substantially". Equally disturbing was a decline in agricultural prices, "which may be said in the main to determine the income of the farming community", of 12 per cent in 1931, and "a marked increase" in unemployment figures.

The picture, the memorandum concluded, was

> . . . undoubtedly gloomy. Nor can the immediate outlook be said to hold any definite promise of relief. There are at present no grounds for holding the view that world economic conditions will improve in the immediate future, while, on the other hand, there is considerable danger that conditions may become definitely worse than they are now.
>
> The position, therefore, is that the national income of the Saorstát has fallen seriously in recent years while, on the other hand, the real burden of taxation has been seriously increased. The situation cannot be remedied merely by increasing taxation; and it must not be overlooked that an attempt to find £3 million by new taxation would seriously interfere with the consumption of many commodities which are at present a source of very substantial revenue. Moreover, there are certain contingencies which, from the point of view of the Exchequer, must be kept in view . . . the estimates to which reference is made . . . make no provision for the increased expenditure contemplated on old age pensions or on other social services, on unemployment relief, housing, public health schemes, etc. The Saorstát Exchequer is ultimately liable for interest and sinking fund (amounting at present to approximately £1,100,000 per annum) on $4\frac{1}{2}$% Land Bonds; a serious "rent strike" would mean that, unless the finances of Local Authorities are to be completely paralysed through draws on the Guarantee Fund, the Exchequer would have to make good the shortage in the collection of annuities. There is also a deficit of £5 millions on the Teachers' Pension Fund which must be faced. The position regarding Savings Certificates is one which gives grounds for anxiety; there is outstanding a liability of £$7\frac{1}{2}$ millions which must be met on demand and for which no provision has been made; if for any reason a

> "run" on Post Office Savings Bank Deposits and Savings Certificates should start, the position of the Exchequer would immediately become critical. The question of incurring additional expenditure on new or extended services at the present juncture is of particular importance; trade is bad, the national income has fallen; and there is every prospect that conditions may become worse. On the other hand services once undertaken cannot readily be abandoned; services remain and the expenditure on them tends to grow even though revenue is falling and in all probability will continue to fall for some time longer.[14]

Three days later Finance sent up a further memorandum to their minister pointing out that the prospective budget deficit would have "to be substantially increased in view of fresh commitments for the Exchequer since taken on or in sight." These included an additional £250,000 for old age pensions (the decision to introduce an old age pensions bill had been taken at de Valera's very first cabinet meeting on 10 March)[15] and £35,000 for army pensions. "There are even heavier burdens in prospect", the memorandum continued.

> The motion 'That steps should be taken forthwith by the Executive Council to provide work or maintenance to meet the immediate needs of the Unemployed' has been accepted by the Government. It involves commitments of unknown magnitude for the Exchequer. Further, if the Land Purchase annuities are collected the demand for complete de-rating of agricultural [land] will become insistent, and the concession, if granted, will cost the Exchequer not less than £1,350,000 per annum additional to the sums already found for the relief of agricultural rates. . . .
>
> No doubt other schemes for relief, subsidies, etc., will emerge in the course of the financial year, leading to additional heavy levies being made on the Exchequer.
>
> As pointed out in the previous memorandum, trade is bad, the National Income has fallen, the burden of taxation has increased absolutely and relatively, and we are definitely approaching a point beyond which additional taxation will cease to be productive . . . It must be realised that while commitments may be multiplied, sources of Exchequer revenue cannot.
>
> The various proposals in regard to income tax, tobacco, tea, amusements and package goods, will yield £1,400,000 approximately, leaving the Budget deficit still uncovered to the extent of £1,487,000. The raising of this further sum will tax the national resources to the uttermost. The time has come, therefore, when the Government must take a decision to refuse to take on for 1932–33 any further commitments, or alternatively decide to face the Dáil with a Budget that is not balanced.[16]

In the eyes of Finance officials, of course, the latter alternative was not worthy of serious consideration. Yet, although the projected figures in the memorandum were invalidated — largely because of the government's decision to withhold repayment of the land annuities and because of the Economic War which followed — these memoranda are important on two counts: first, for the light they shed on the Finance view of the economic situation when the new government took office; and, second, for what they show of the policies advocated by the Department of Finance to meet that situation — policies founded on the same concern for economy and retrenchment which had characterised the Department's viewpoint since the state began. The change of government saw no change in the judgment of Finance officials: the same men continued to give the same advice.

II: Civil Service Pay: The "Cuts Committee"

The stormiest controversy between the new government and the civil service in the period of transition in 1932 concerned the proposal for substantial cuts in civil service pay. On 5 May 1932 a cabinet committee, consisting of the Vice-President (Seán T. O'Kelly) and the Ministers for Agriculture and for Education (James Ryan and Tom Derrig), was set up to recommend on how best to effect "the reductions necessary in the remuneration of the civil service, civic guards, teachers and the army" — a committee from which the Minister for Finance was yet again excluded. A mere two days later (an interesting illustration of the speed with which the sharpest of nettles can be grasped by a government in the first, heady days of office), the cabinet approved a series of swingeing cuts in public service salaries ranging from 2 per cent on a salary of £200 per annum to a severe 20 per cent on the yearly salaries of £1,500 received by heads of departments.[17]

The decision cannot have come as a surprise to the officials concerned. The prospect of pay cuts had been in the air since the previous autumn when Finance had recommended to the Cosgrave administration cuts for the teachers, the civic guards and the army. A promise to institute an inquiry into civil service pay, moreover, had been one of the points in the Fianna Fáil election manifesto and, on 28 January 1932 in a speech in Rathmines, de Valera himself declared that he had "often expressed the view that £1,000 was the limit" and no one should expect to be paid more, although he and his party did not intend "to start cutting the lower salaries . . . of £300 or £400". The

smaller salaries, he argued, "were being spent inside the community and for necessaries, while much of the larger salaries were spent outside the community and often on luxuries."[18] De Valera's belief that "no man was worth more than a £1,000 a year" was common knowledge in the civil service.[19]

The cabinet again discussed the matter on 23 May 1932, when McElligott's request "for instructions as to the information that he might give to a contemplated meeting of heads of departments" on the pay cuts was submitted by the Minister for Finance. The meeting began at 7.30 p.m. and continued until 1.15 the next morning (prolonged evening cabinet meetings were a notable feature of the new government's first months in office) and the Minister for Finance was "authorised to reply":

1. listing the scale of reductions as agreed by the cabinet at their meeting on May 7;
2. saying that it was proposed "to effect reductions in salaries in all branches of the State service and also in the salaries of officers of bodies which receive financial assistance from the State";
3. that where the Government was "precluded by legislation" from enforcing cuts, "efforts will by made to secure voluntary reductions";
4. that reductions would be for that financial year only "unless the budgetary position necessitates a continuance of the reductions in whole or in part";
5. that it was not proposed "to interfere" with civil servants' compensation rights under Article X of the Treaty; and
6. "that individual officers with whom special salary arrangements exist will be excluded from the operation of the reductions unless they consent to be included and where it is claimed that a special agreement covers the salary of a class of officers the reductions shall not take effect without further inquiry."[20]

These cabinet decisions were duly conveyed to a further meeting of heads of departments on 25 May which, in H. P. Boland's words to those present, was "an occasion for all possible frankness", and when several in attendance mentioned the possibility of their immediate

retirement. Detailed discussion of the issues was left over to a further meeting, however, after it had been decided that McElligott "should represent to the Minister for Finance that the date as from which it was proposed the 'cuts' should operate should be deferred for a period sufficient to allow of adequate and effective consultation" but that this recommendation should be without prejudice to future representations by the heads of departments.[21]

The heads of departments met again next day and McElligott, the chairman, opened proceedings by telling the meeting that he had sought, and obtained, from his Minister "an assurance that the Civil Service cuts would not operate at an earlier date than in the case of the Army or the Garda Síochána, and, if possible, National Teachers. The Judiciary were in a separate category as legislation might be necessary."

The uneasy relationship between the Executive Council and the Department of Finance was underlined, moreover, when McElligott took the opportunity before adjourning the meeting to inform his colleagues that "his Minister had complained to him that members of the Executive Council were complaining that legislation proposals were being held up by the Department of Finance", although in the ensuing discussion he had been unable to elicit any specific case.[22]

The heads of departments met again on 10 June to consider a draft memorandum outlining their case which had been drawn up by a sub-committee; they decided to appoint a deputation to "seek an interview with the President and present the memorandum (of which a copy would be handed to the Minister for Finance). It was agreed that copies should not, at this stage, be circulated to all members of the Executive Council, but that heads of departments might advise their own Ministers of the action which was being taken."[23]

The deputation, which consisted of McElligott, Boland, John Leydon (by then Secretary of Industry and Commerce), E. P. McCarron (Local Government and Public Health) and William O'Brien (chairman of the Revenue Commissioners), were given a three-hour interview with de Valera on 1 July 1932. The President quickly made it clear that he did not regard

> . . . the budgetary reason advanced in justification of the 'cuts' as paramount. The main idea underlying the proposals was that he thought it undesirable that one section of the community should live in comparative comfort while another section was unemployed and destitute. He dealt at some length with this policy of social justice which involved a general

levelling of incomes and said that in order to give effect to that policy in as much as it concerned the professional, etc., classes, it was necessary to ask the Civil Service for sacrifices. In fact the Civil Service was to be the spearhead of attack.

The deputation replied that they were only now being told of this policy: the "Minister for Finance had not mentioned it at the Civil Service Representative Council or in his own Department." They also argued that the civil service would be responsible for enforcing the new policy and that "for that reason, if for no other, it would be very undesirable to cause discontent in the Service at the outset." They also maintained "that taxation would be a far more effective and equitable way of giving effect to the policy but the President stated that additional taxation would adversely affect industry and could not be imposed." Nor was he impressed with the argument that the civil service "had already made contributions to the national economy amounting to over $2\frac{1}{2}$ million pounds", replying that "past contributions must be disregarded."

De Valera did acknowledge, however, "that since he had taken up office he had been impressed by the quality and the quantity of the work of civil servants" and denied that his proposals "had any foundation in the fact that people generally considered that civil servants had little work to do and lived in luxury and security." He also said that the Executive Council had considered reaction to the proposals "in a general way".

When, towards the end of the meeting, the deputation suggested that the proposals should be deferred until after the Brennan Commission of Inquiry into the Civil Service had reported, and that it might be asked to present an early report on remuneration,

> . . . the President reverted to the budgetary reason for the 'cuts' and suggested that the deputation, in order to strengthen his hand in discussing the matter with the Executive Council, should suggest alternative economies in expenditure on the civil service to the extent of the estimated saving of £40,000. It was pointed out to him that the estimate of £40,000 was purely nominal and could not possibly be realised and that, in fact, the saving was more likely to be turned into a loss by retirements, loss of enthusiasm on the part of the civil service, failure to collect the estimated revenue, etc. It was further pointed out that a saving of £40,000 in a budget of £25,000,000 was negligible.[24]

De Valera's suggestion marked the first indication that the "cuts"

might be negotiable and it is of interest that, when the deputation reported to their colleagues on this meeting, Boland "stated that in referring to policy they must take it that the President was speaking as an individual member of the Executive Council and not on its behalf." But, clearly, he was the one individual whom the deputation had to convince and, in discussing their tactics for a further meeting with the President to take place that same evening, the heads of departments agreed that their deputation should begin by strongly reiterating the arguments advanced at their previous interview. If, however, de Valera took the line that "£40,000 was imperative for the balancing of the Budget, they would suggest that a sub-committee of the Cabinet be appointed to go into the entire question of economies, with which sub-committee Heads of Departments would co-operate"; if de Valera "still considered that the 'cuts' proposals should operate", the deputation would reply that "the reason he had advanced in their favour, viz., the policy of social justice, was entirely unknown to the civil service and had been mentioned in confidence only to Heads of Departments. An opportunity for discussion should, therefore, be afforded to the civil service." Finally, as a last resort, "if the President still remained adamant", it was agreed that a seven-point case should be presented, not to the President, but to the Minister for Finance:

1. the safeguarding of superannuation rights;
2. that no 'cuts' be imposed in excess of the amount of the bonus;
3. that in view of the budgetary reason for the imposition of the 'cuts' they should be at a flat rate on all salaries or, alternatively, graded as follows: 2½% on the first £250, 3% on the next £50, etc.;
4. that income tax in the current year should be paid on the reduced salary only;
5. that the 'cuts' should take effect not before the first of the month following their announcement and not earlier than in the case of the Garda Síochána or the Army;
6. that the existing restriction on civil servants regarding outside employment should be removed; and
7. that the regulation regarding insolvency and bankruptcy should be relaxed.[25]

The strategy of referring the 'cuts' to a committee and, still more,

of making the Minister for Finance directly involved in his capacity as the minister with formal responsibility for the civil service, had the advantage of allowing senior Finance officials and their colleagues in other departments to shift the dispute's terms of reference and to escape from what perilously resembled a head-on confrontation with the President. Although it was some weeks before there were any further developments — the attendance of senior ministers and heads of departments at the Ottawa Conference not only afforded a breathing space, but may well have helped ease mutual mistrust and suspicion — that strategy began to produce results when, on 28 August 1932, the Minister for Finance presented a memorandum to his colleagues on the Executive Council on the 'cuts' controversy.

The memorandum emphasised how little progress had been made, notwithstanding the two lengthy meetings with the President. Moreover, the national teachers had rejected the government's proposals "by a twelve to one majority vote" and the position regarding the Garda Síochána and the Army was still more unsatisfactory: no scheme had been put to "the Representative Body of the Garda and no suggestion of 'cuts' has yet been put to the Army." In addition, the judiciary had "refused to make a voluntary sacrifice of any part of their existing salaries." MacEntee's memorandum not only stressed his dissatisfaction with this lack of progress and underlined how much time he and his officials had so far wasted on the matter, but, more significantly, argued "that it would be disastrous to enforce the 'cuts' in such a way as to create the impression that every aspect of the case including not merely the position of the country and the Government but also that of the staffs affected had not been fully weighed." He accordingly proposed that a committee of not more than five persons should undertake an enquiry "into the facts and circumstances regarding the pay of each of the services . . . with a view to definite recommendations being made to the Government as to what reductions could be made" with a target of £250,000 in the current year — the figure he had given in his budget speech.[26]

MacEntee's proposals were accepted when, on 6 September 1932, the cabinet approved the setting-up of a committee "to make recommendations to the Minister for Finance" — in itself an important recognition of Finance's responsibilities in the matter — "as to the reductions which could be made in the present year in the pay of the Civil Service, Army, Garda Síochána and Primary School teachers, having regard to the general financial and economic position

of the State and to the circumstances and conditions of service in each of the services and the relation of the services to each other."[27] The civil service, clearly, was no longer "the spearhead of the attack" of de Valera's social justice policy.

Three days later, H. P. Boland produced a memorandum, incorporating "the departmental views of Finance" on the committee's composition and objectives, in which he argued:

1. A unanimous report is vital if the Government's difficulties are not to be increased.
2. The more "representative" the Committee is made of various sectional interests the less unanimity and greater danger of two or more reports there will be.
3. The report will affect about 43,000 officials and, including their dependents, possibly not far short of 200,000 individuals. This makes acceptance of membership by men dependent in any way on the public unlikely. The Government Services are a large purchasing body in Dublin.
3. Every person being invited to act should be informed when being invited that the work of the Committee is urgent in point of time and will be intensive.[28]

Finance argued that the personnel of the committee "should be persons known to have no political affiliations and who, while competent from their experience to form a sound opinion on the subject of the inquiry, would make recommendations unaffected by any ulterior considerations. For obvious reasons none of the members could be a past or present official of any of the services nor would a member of the Judiciary be appropriate." The members of the committee, which soon became known as the Cuts Committee, were appointed under the warrant of the Minister for Finance on 20 September 1932 and they held their first meeting on the following day. Their chairman was Philip O'Connell (a director of the Agricultural Credit Corporation and formerly of the Bank of Ireland) and the other members were Laurence Cuffe (a cattle salesman and a member of the Currency Commission), Donal O'Connor (a chartered accountant), G. Gordon Campbell and Edward Gallen (both farmers).

Before proceeding to an analysis of the recommendations of the Cuts Committee, it would be as well to examine the kind of opposition which the proposal to cut civil service salaries had already

provoked within the Department of Finance. On 11 June 1932 the Minister for Finance had been sent a memorandum signed by four officials, appointed, he was informed, "by our colleagues the higher officials in the Department of Finance to represent to you as political Head of the Department and Minister responsible for the administration of the Civil Service as a whole our deep resentment at the injustice of the proposed cuts in salary and our grave concern at the consequences which will flow from such a step." This document is of particular historical interest for what it reveals of the Finance officials' understanding of their function and role, first, within their own department and, second, in relation to the civil service as a whole.

The first objection was that

> . . . every civil servant on first entry or on transfer or promotion to a new post receives a definite undertaking that, subject to good behaviour and continuing good health, he will be remunerated on a specified scale. Reliance on this contractual arrangement is the very essence of the security which has always been the distinguishing mark of the civil service as a profession. The comparative freedom from personal or domestic financial worry due to the secured enjoyment of moderate remuneration has hitherto allowed the civil servant to devote the whole of his enthusiasm and energy to his profession.
>
> This situation would be radically altered if the proposed cuts were made effective. They constitute as clear a breach of the contractual relationship between the State and its officers as it is possible to conceive. Apart from this direct attack on the traditional security of the service and the immediate monetary loss, the threatened cuts involve a public degradation in status, an impairment in prospects, and a diminution in pension and 'lump sum' on retirement.

The memorandum further objected to the fact that it was then proposed to make the cuts without "any form of public inquiry" at precisely the time when a government commission (the Brennan Commission) was "about to enter upon a comprehensive examination of the whole machinery of the civil service". It argued that "adequate recognition has not been given to the substantial contributions to public funds which the civil service has already made (1) by periodical reductions in bonus in accordance with the fall in the cost of living figure, and (2) by all round reductions on promotion or new appointment with the avowed object of bringing the inherited pre-Treaty scales into reasonable conformity with the resources of the State." The

memorandum then summed up the likely effects of the cuts upon the civil service:

> . . . the profession as we have known it would be radically altered. Its sense of security would be undermined, its permanency as a career would be jeopardised, experience gained in it instead of enduring as a valuable asset of the State, would tend to be regarded merely as a bridge for the individual to establish himself in another career. We fear that the cuts proposed, if persisted in, would do permanent and irreparable damage to the civil service as the loyal, trustworthy and impartial instrument it is, and should remain, for carrying out the policy of successive governments. The unfortunate precedent once created would expose the civil service to political exploitation in the future. It would deteriorate the morale of existing officers constrained by circumstances to remain in the service and would adversely affect the type and quality of future entrants.

But, still more interesting, was that section of the memorandum where the signatories listed their objections "as Officers of the Department of Finance". The 'cuts' proposal was not, they complained,

> . . . the treatment the staff is entitled to expect after ten years of activity of a constuctive as well as critical character. The Department which was only called into existence in 1922 has proved equal to all the demands made upon it in its close relations with the Legislature. It is the one Department in the State which has an intimate relationship with the work of all the others. That relationship constantly involves the settlement of difficult and contentious problems arising out of its function as the controlling authority on behalf of the Government. It has laboured ungrudgingly in the pioneer work of establishing financial control on behalf of the Dáil and the Government of the day. Its members have been specially picked from the staff available at the establishment of Saorstát Éireann and since then from the best brains which public competition could draw from the universities and schools of the country. The struggle to keep public finances on a sound basis is severe and calls for the constant exercise of character, initiative and resource. It is in the interests of the State that the recognition due to that work should not be arbitrarily depreciated.[29]

The scale of discontent among the officials of his own Department was clearly one of the reasons both for the Minister's failure to make any progress with the proposals in the summer of 1932 and for his recommendation to set up the Cuts Committee. Finance's continuing sensitivity about the issue is manifest in a minute from Boland to McElligott, a few days after the committee had held its first

meeting, arguing that a Finance representative should be in attendance at all of the committee's meetings when evidence was being given by heads of other departments; in the event, the necessity for such a precaution was removed when the committee decided not to take oral evidence but to invite written submissions.[30]

The committee presented its report on 26 October but it was signed by only three of the five members — both representatives of the farming community (Gallen and Campbell) choosing to present separate minority reports — thus frustrating Finance's hopes that it be unanimous. What divided the committee, moreover, was precisely the demand for separate treatment of the civil servants in comparison with other sectors of the public service. The majority report recommended that cuts of 5 per cent be made in the pay of army officers with salaries in excess of £450 p.a. and of $2\frac{1}{2}$ per cent in the case of those with salaries between £280 and £450 p.a.; it was calculated that such cuts would represent a saving of £1,675 in the current year, i.e., if operated from 1 November 1932 to the end of the financial year. It recommended that cuts at the same rates should be applied to the Garda Síochána, which would save £1,960 over the same five-month period. The majority report also advocated that all primary school teachers' salaries over £250 p.a., in addition to all normal and special capitation grants to convent and monastery schools, should be cut by $2\frac{1}{2}$ per cent, thus saving £19,000 in the same period.

All of these cuts were represented as "a partial adjustment of the remuneration to the current cost of living." The case of the civil service, on the other hand, was represented as being "radically different because the variation in the cost of living has been reflected in the salaries, and by that means substantial contributions to national economy have already been made, and will, to a further degree, be made in the current financial year." In the case of the civil service, therefore, it was proposed to reduce the cost of living bonus only to the point where £5,000 would be saved in the five-month period in question.

The cost of living bonus was in any event adjustable in the light of fluctuations in the cost of living index, and this proposal to leave untouched the basic salaries of civil servants, while cutting the salaries of teachers, guards and army officers, was what split the committee. The majority report defended their proposal on such additional grounds as the argument that the higher paid civil servants were accountable for "most responsible duties, of a very varied nature,

which demand the best brains that the country can supply" and the fact that large economies "as compared with what the same staff would have cost in 1922" had already been effected; also that "the hours of work have been extended and annual leave curtailed." But the sense of unease of even the signatories of the majority report about their proposal concerning the civil service is amply reflected in these, their concluding paragraphs on the subject:

> Our attention was directed to Article X of the Treaty, and to the fact that if many higher officials retired as a result of reductions in pay, the work of administration might be seriously disorganised, and heavy immediate expenditure incurred in the payment of retiring gratuities. Our conclusion as regards temporary reductions in the pay of the civil service is not affected by the existence of Article X, but it is undoubtedly a factor, not present in the other services, which must be considered in relation to any scheme for temporary reduction in salaries.
>
> Taking every consideration, so far as it was possible for us to examine the question in a very limited period, we do not think that the salaries at present paid to the Civil Service are out of accord with the existing standard of living in this country or that the Service has failed to produce its share of economies. In view, however, of the financial situation, and of the fact that it is proposed to effect reductions in the salaries of other public servants, we are of opinion that it would not be unreasonable to ask for a further contribution from the civil service. Any sacrifice should be small and related to the variable portion of the remuneration, leaving untouched the basic salaries, the contractual nature of which the service has repeatedly stressed in the memoranda submitted to us.[31]

Disagreement on these issues provoked not merely the two minority reports but also an addendum to the majority report from Laurence Cuffe. Cuffe disagreed with that paragraph of the majority report which stated "that all persons in State services with salaries of £250 and under should be exempt from reduction" and contrasted their position with that of the agricultural labourer. "A country like ours," he argued, "which is mainly agricultural undoubtedly must reduce expenditure on public services."

This was the argument which, much elaborated, lay at the heart of G. Gordon Campbell's minority report (this was not incidentally, the same Gordon Campbell who was Secretary of the Department of Industry and Commerce until 1932). Campbell differed from the majority of the committee who believed "that present abnormal trade relations with Great Britain are only a passing phase" and that the

situation should be treated "as it existed at the time the question of reducing salaries of public officials was first broached." He interpreted the committee's terms of reference as recognising "that the time had come when people in privileged positions were required to fit themselves to a condition of things more in keeping with the financial and economic conditions of the State"; he argued that the cuts recommended should not merely apply to the current year but that they should be repeated and increased "until the ratio between the pay of public servants and national income will more nearly coincide with that which existed when public salaries were fixed in 1920 to 1924." Campbell took particular exception to the fact that

> . . . in this, as in most enquiries of a similar nature the dice were loaded against "the hewer of wood and the drawer of water". An example of this is furnished by the fact that no witnesses were examined except the higher officials from the Departments concerned, and, needless to say, they did not agree that the situation called for drastic reductions. Again, interested persons were invited to submit written statements setting out why reductions should not take place, but no invitation was issued to interested persons or organisations to send in written statements setting out reasons why they were not equal to the financial strain of a service which, in regard to its cost, is a legacy from a period of very different monetary values.
>
> No less than forty statements were submitted by organisations and persons containing arguments against reductions. Some of them contained suggestions which all fair minded men must resent. It was stated that reductions in pay would lower the morale of the services, that there would be discontent and that there would be loss of efficiency. These veiled threats come badly from a section that has not yet partaken of the nauseous draught of an income so diminished that the ordinary comforts of life are not now accessible. The obvious answer, and I am expected to give it on behalf of the people I represent, is that even at the reduced rate there are many competent people who would gladly exchange places with public servants for the next ten years. The discontented State Servant would derive much benefit from a sojourn in the beet fields of Leinster, the cow pastures of the Kerry hills, or turf banks of the Bog of Allen for £1 per week.

Campbell believed that his arguments were particularly applicable to civil, as opposed to other public, servants and he felt that "the State and all concerned must prepare for a substantial all round reduction in the cost of both Central and Local Government", although he ad-

mitted that this latter proposal might be outside the committee's terms of reference:

> . . . there is no longer justification for present costly services. Having regard to the impoverished condition of the whole rural community, farmer, farm labourer, professional man and shop keeper, it is the essence of foolishness to think the present system can be maintained. An impoverished country with such an elaborate Governmental machine is best likened to a Tin-Lizzie fitted with a Rolls-Royce eight cylinder engine.[32]

The second minority report, Edward Gallen's, was avowedly "in substantial agreement" with Campbell's. Gallen quoted Pope Pius XI, a former President of Maynooth College, and the Labour Party handbook in support of his contention that "the real fomentors of revolution and architects of anarchy are to be found in the counting-houses." His report is of particular interest in two respects. First, for his rejection of the argument that cuts in civil service salaries might lead to large-scale retirements of high-ranking officers under Article 10 of the Treaty since it was "not beyond the competence of Government to take appropriate steps by legislation if necessary to ensure that no undue burdens will be placed on the State in the event of an exodus." This, of course, was how the previous government had responded to Joseph Brennan's resignation when they subsequently denied civil servants the right to retire under Article 10 because of the 1922 change of government, although retirement under Article 10 owing to worsened conditions of service (what was now at issue) was still possible. Second, for his equally hostile reaction to "the note [which] was persistently sounded that any reductions in salaries would lead to slacking, inefficiency and disloyalty." Gallen singled out a statement made to the committee by William O'Brien, the Secretary of the Department of Finance under the Provisional Government and then chairman of the Revenue Commissioners to the effect "that 'not only would there be no gain to the Exchequer but as a result of losing some of the best men at the top and in consequence of discontent in the service generally it is possible that the revenue for 1932–33 might fall short by a million pounds — it would almost certainly fall short by half a million pounds'." Gallen regarded this as particularly objectionable since it was "a hasty and imprudent presumption" and he argued that "honest service conditioned solely by monetary considerations regardless of moral obligations and a sense of duty is not much of an asset."[33]

Finance reacted fiercely against the criticisms embodied in the minority reports. Gallen's report, minuted Boland, was "not argued on the evidence given to the committee, but mainly on general theories of Christian Socialism . . . everything is wrong in the country except in regard to the farmers and labourers"; the report, he wrote, contributed nothing "material to the problem awaiting solution."[34] McElligott was even more trenchant: "in a long experience of committees and commissions", he wrote, "I have never seen a report so ill-informed, so obviously biased, so political in character and so entirely lacking in that sense of responsibility which should characterise the utterances of a person charged with the conduct of an important public inquiry of this kind."[35] Campbell's report provoked similar, if less vitriolic, criticism and was rejected as being merely the opinion of one who saw himself as representing the farming community; it contained little, a Finance memorandum argued, "to show that the mind of the writer was in any way influenced by the evidence put before the committee" and it bore the marks "of what seem to have been strong pre-conceived ideas regarding what is described as the privileged position of civil servants."[36]

Nor, for quite different reasons, were Finance particularly impressed with the majority report; they calculated that, of the £250,000 in savings sought by the Minister in his budget speech, the five months' proportion attributable to the public service cuts "should be £83,000. The saving of £28,000 estimated to result from the recommendations in the majority report (which would be reduced by income tax and by any compensation payable to civil servants under Article X of the Treaty to about £20,000) is plainly inadequate on that basis and in any case hardly worth consideration as a contribution to the financial needs of the year." Finance also pointed out that "the reductions recommended in any of the reports would affect little more than 9,100 out of the 47,487 serving [in the public service] and would operate on approximately only £3,500,000 of the total salary bill of £9,035,000." Finance also argued that it was "unsound" that any distinction should be drawn between higher and lower ranks in the service in making reductions; "it would create anomalies and discontents, to the detriment of efficiency. If reductions have to be made a flat rate cut over all grades of all services would be the simplest course from an administrative point of view and, in the long run, probably the most acceptable to the services."[37]

Finance then went on to make their own "constructive suggestions for temporary reductions, as from the 1st November, 1932, in lieu of those recommended by the Committee." These suggestions, they declared, were "largely based on two points emphasised in the Majority Report, viz. the adequacy of the reductions suffered and to be suffered by the civil service in virtue of the periodic revision of the bonus, and the equity of imposing on the other services reductions which would in some measure reflect the fall in the cost of living since 1924." They accordingly proposed the following cuts, *applicable to all grades*: 5 per cent in the army and Garda Síochána (twice the rate recommended by the majority report for salaries between £250 and £480) and 10 per cent for primary teachers (four times the rate recommended by the majority report for salaries over £250). The cuts proposed in other civil service salaries were comparatively smaller than those proposed for all other public servants.

The Department, in short, proposed that the necessary savings over a full year should be made from all sectors of the public service other than the civil service; their scheme involved a three-fold increase in the cuts to be demanded of the teachers, a thirty-fold increase for the Garda Síochána and an eleven-fold increase for the Army. On the other hand, and in striking contrast, Finance proposed no increase whatever in what was to be demanded of the civil service. "It is not unlikely", minuted H. P. Boland when the "Cuts" Committee's reports first became available, "that rather difficult and delicate considerations will govern the decisions to be taken"; and his view was borne out by the government's hesitancy in reaching a decision when, as the Minister for Finance himself admitted, they had before them "four separate recommendations, or, indeed, five, if Mr Cuffe's difference from the Majority on an important point is taken into account."[38]

But Finance's plea for "an early decision" in their memorandum of mid-December 1932 to the Executive Council was in vain. Powerful political pressure surfaced when William Norton, the Labour Party leader, warned de Valera that his party would vote against the cuts in the Dáil. Faced with this threat to his parliamentary majority de Valera, after consulting Lemass, called a snap general election which rid him of the necessity of depending on Labour votes.[39] Only after the election, at a cabinet meeting on 14 February 1933, did the government finally arrive at a complex seven-point decision on the cuts issue.[40]

The first two points, on the question of civil service pay, asked for further figures from the Minister for Finance based on cuts in civil service salaries on a sliding scale beginning at 3 per cent on salaries of £220 per annum and rising to 12½ per cent and exempted salaries of under £220 and, "in the case of salaries exceeding that figure, the first £220 plus bonus" from reduction. The second point was a concession to Finance's view as elaborated in a further memorandum sent to the Executive Council the previous day; but other Finance recommendations in that same memorandum were rejected — most significantly, that based upon the Minister being "strongly of opinion that the maximum reduction including the 'cut' due to the bonus fall should not exceed 10 per cent of the total inclusive salary" for even the most high-ranking civil servants.[41]

The cabinet also rejected Finance's recommendations for the other sectors of the public service. National teachers' salaries were to be cut, not by 10 per cent as Finance had recommended for all such salaries, but on a sliding scale ranging from 4 to 10 per cent Finance's recommendation for the Garda Síochána and the army were rejected outright, the Minister for Finance being asked to "revise" the scale of cuts and to "submit the revised scale for the consideration of the Cabinet", subject to the further proviso that there should be no reduction whatever in the pay of army privates. The Minister was also asked to consider

> . . . the advisability, in the case of public servants who retire during the period that the reduced scales of remuneration remain in force, of calculating their pensions on the reduced salaries: pensions in such cases to be increased when salaries revert to the present scales.

The cabinet's final decision was that the cuts would be enforced for the financial year 1933–34 and for that year only, "unless a decision to continue them is previously made".

But Finance continued to press for their own plan — or for something closely resembling it — notwithstanding its apparently definite rejection by the government. At the same time that the tables on civil service pay requested by the cabinet were circulated by the Department, another, unsolicited, Finance memorandum was also drawn up and sent to the Minister by H. P. Boland. This contrasted "the salaries now paid to permanent Heads of Departments in the Free State as compared with the salaries paid to their predecessors by the British where corresponding Departments formerly existed." It showed, for

example, that where the Secretaries of Agriculture and of Local Government were now paid £1,200 a year, their predecessors had been paid £1,800, and gave figures for lower grades which illustrated the point that "all over the Service similar reductions have been taking place, the general effect of which has been a steady reduction in the pay fixed before 1924."[42]

Finance won their point when, on 17 February, the cabinet rescinded its decision of three days earlier on civil service pay. It instead decided "that reductions should be made by way of a percentage decrease in each case on the total actual present salary inclusive of bonus" in accordance with a table — the details of which were also decided upon by the cabinet — of cuts ranging from 1 per cent on a salary of £320 to 10 per cent on a salary of £1,650.[43] There the matter finally rested, save for some minor amendments concerning the manner in which the cuts could be best implemented. Nor were the cuts renewed for the following year, 1934–35, because — as McElligott reported to a meeting of heads of Departments on 24 May 1934 — of "representations [which] had been made by the Department of Finance to the Executive Council as to the loss in efficiency due to the retirement under Article 10 of 'key-men' and that the cost of compensation had outweighed any economies effected directly by the 'cuts'" — 107 officials retired owing to worsened conditions of service in 1933–34 compared with a mere seventeen who had done so in 1922–32.[44]

The "cuts" controversy of 1932–33 is an episode of especial interest to the historian of the Department of Finance, first, because of when and, second, because of why it occurred. The world-wide economic depression precipitated by the events of 1929–30 was in itself sufficient to produce an economic and financial crisis without parallel since the birth of the Free State. This in turn called into question for the first time some of the basic assumptions governing not merely Finance's policies over the past decade but the very nature of the relationship between the public service and the community as a whole. In the Irish experience, moreover, this general economic crisis of confidence coincided with the first change in political leadership in the history of the state. Although the more apocalyptic apprehensions of public servants were dispelled in the first days of the new administration, it was hardly surprising that a sense of being in some way politically suspect to the new government should have endured even among the the more junior officials in Finance for twelve months or so.[45] It is

only against this background of coincident crises that we can properly appreciate the tenacity and vigour with which Finance led the fight against major cuts in civil servants' pay. What was at stake was not just money or status — in the sense in which this is manifestly at issue in the Finance officials' memorandum of 11 June 1932; also involved were questions of the relationship between civil servants and other public servants and, most important of all, the relationship between civil service and government. The demands for more drastic cuts in civil servants' pay, as voiced by the President and in the minority reports of the "Cuts" Committee, were seen by Finance as being politically (rather than financially or economically) motivated and as striking at the very foundations of the system of administration which the Department had been largely responsible for inaugurating in 1922–23 and for defending ever since. What is historically significant about the outcome of the "cuts" controversy is not the relatively minor and temporary change it caused, but Finance's successful resistance to much more sweeping changes at a time which seemed so conducive to change.

III: The Brennan Commission

The successful defence of the *status quo* similarly characterised Finance's reaction to the proposal to set up a commission of inquiry into the civil service — the commission commonly known, and henceforth here described, as the Brennan Commission — which also had its origins in the seventh point of Fianna Fáil's nine-point manifesto for the 1932 election, committing the party to some such investigation in the event of their entering government. H. P. Boland's initial memorandum to MacEntee, "in accordance with [his] verbal request", was sent as early as 1 April 1932 and circulated to the Executive Council three days later.[46] This memorandum pointed out that there had been no such inquiry into the civil service since 1921 when "the British regraded the whole of the Clerical, Administrative, and other staffs in the civil service. In Ireland this change was carried through hurriedly to ensure completion before the change of government. Since then many old Departments and Branches have been amalgamated or re-organised. Entirely new Departments and Branches have been created." Since then also, there had been numerous changes in recruitment, pay, promotional procedures, hours of duty and other matters relating to conditions in the civil

service. The British government, moreover, the memorandum also pointed out, "have found it necessary at intervals of about twenty to twenty-five years to have an inquiry into all current problems of the civil service by means of Royal Commission." The last such commission had been appointed in 1929, but there had been no similar inquiry in Ireland since the Royal Commission of 1912–15, "though the staff organisations have endeavoured to bring such an inquiry about".

These, then, were the main reasons why the Minister for Finance now recommended the appointment of such a commission to the Executive Council. The commission's terms of reference, as first approved by the cabinet on 12 April 1932, were, *verbatim,* what Boland had put up to MacEntee:

> To inquire into and report on the recruitment and organisation of the civil service with special reference to the arrangements for ensuring efficiency in working; the general standard of remuneration of civil servants; the age of retirement from the service; and the machinery for discussion and settlement of questions relating to pay and other conditions of service.[47]

Although this last clause was subsequently amended at MacEntee's insistence, "in view of the pledges publicly given during the recent general election, which conveyed an unqualified intention to establish an Arbitration Board to deal with the grievances of the service",[48] the finally agreed terms of reference were essentially those proposed by Finance rather than as promised by Fianna Fáil.[49] The appointment of Joseph Brennan as the commission's chairman ensured from the outset the improbability of the commission's conducting its proceedings or producing a report that Finance would find unacceptable. Indeed, it is interesting to note that Finance's proposal to the cabinet that he be appointed chairman is the solitary instance in respect of the commission's personnel in which no alternative name was proffered. Brennan's appointment, the Finance memorandum suggested, "would command the confidence of the civil service and also the public"; there was, and is, no real necessity to add that he also commanded both the confidence and affection of the officials of Finance whom he had led for much of the twenties.[50]

Brennan's appointment was of crucial importance when the question of whether financial control, and related issues concerning Finance's relationship with other government departments, came

before the commission. This came to a head when H. P. Boland was about to give evidence to the commission and when one of its members — Senator Thomas Johnson, the Labour Party leader — gave him notice that he proposed to question him, subject to Brennan's agreement as chairman,

> . . . on the two following points:—
>
> 1. Why the Establishment Division should be under the Minister for Finance rather than under some other Department or authority, the suggestion being that, from the point of view of staffs, it might be more satisfactory that establishment matters should not be under the direct control of the Minister responsible for expenditure; and
>
> 2. Whether, in our departmental view, it is possible to make further provision to obviate delays that arise in giving Finance decisions on matters submitted by other Departments.[51]

Boland replied that he was willing to answer such questions — "if the Chairman thought it proper that questions on these matters should be put" — and he subsequently spoke to Brennan, who told him

> . . . that the Commission have already considered whether it is proper for them to take evidence and go into the question of the allocation of functions as between Departments and, in particular as regards the Department of Finance, whether it is desirable or necessary that the Department of Finance should have control where questions of expenditure arise, and that it has been decided that once a line of inquiry reaches the point where the view would be expressed by a witness that financial control was involved he [the Chairman] would disallow further questions.

Boland, however, pointed out to Brennan "that English Commissions of Inquiry have always gone more or less into the questions of Treasury control in regard to establishments", and he felt that " to shut down the subject altogether would give the appearance of applying the closure unreasonably and such action would probably have the result of intensifying the desire for investigation of this aspect of Service matters and might also give the more extreme element in the staff organisations a colourable case for complaint." It was for these reasons that Brennan and Boland agreed that "the best course" would be that "evidence might be allowed up to a point, i.e.,

where the subject began to merge into questions of the Minister for Finance having control of expenditure", when Brennan "would stop any further discussion."[52]

Other aspects of the history of the Brennan Commission pertaining to Finance's relations with other government departments, and to their overall responsibility for the control of the civil service, are discussed elsewhere in this work.[53] This particular episode is here singled out for what it shows of Finance's anxiety that such fundamental principles of the existing administrative structure as financial control might be called into question. In Finance's eyes — as we can clearly see from the terms of reference — it was no part of the Commission's task to overthrow or undermine the existing system which they had been appointed merely to improve. That this was accepted by the Commission was spelt out in their final majority report. "The general scope of our task", it stated,

> is affected by an important preliminary consideration on which it is necessary to make some comment. According to our interpretation of the terms of reference we are called upon not to frame *ab initio* an organisation for the Civil Service but to inquire into an existing organisation. The Civil Service as it exists is not a body assembled at haphazard which functions without reference to any accepted principle of co-ordination. It is, on the contrary, in a highly organised condition which has been developed gradually from one stage to another over a long period of time in the light of lessons derived from practical experience. In such circumstances we feel that our investigation must accept the established position as a starting point and that its subsequent direction must be determined chiefly by the extent to which we have evidence of definite shortcomings, especially as regards efficiency, which appear to demand some measure of reform.[54]

Given such a starting-point, based upon the supposition that more was right with the system than was wrong with it, it was foreseeable that the Commission was unlikely to recommend any notable diminution of Finance's powers. There was "no evidence from the outside public as to any practical need for reorganisation" and any such suggestions from inside the civil service were "somewhat limited", recorded the summary of the Commission's majority report, which Finance prepared for the Executive Council. The Commission had therefore reported

> . . . on the Service as they find it, dealing with any definite suggestion for change. The Civil Service must be treated as a unit. Coherent if not

> uniform practice must prevail in all Departments. Uniformity is ensured by the control of Service matters by one Minister. That this is the Minister for Finance is due to the fact that most administrative problems about the employment of civil servants have financial implications. The Minister has to deal with all Departments and must treat like cases in like manner. His control secures flexibility and uniformity in promotions and transfers. . .
>
> Even if a Minister other than Finance [*sic*] were to control the Service he would have still to submit proposals involving expenditure to the Minister for Finance. There would be a duplication of controlling staff. Any advantage would outweigh the obvious disadvantages. Financial control of spending services by the Minister for Finance is a reason why he should control the Civil Service.[55]

So, in the case of the Brennan Commission, just as in the "cuts" controversy, what did not happen was more important than what happened, although here too the demand for more radical changes did not go unvoiced. One of the members of the Commission, Luke J. Duffy, did not share his colleagues' view, "that it is inevitable that there should be acceptance of the general organisation and procedure of the civil service as it has hitherto existed." Duffy's minority report was based largely upon the point, noted the Finance memorandum, that "he emphatically dissents from acceptance of the present position of the Service as the basis of the [majority] report" because, in particular, the Department of Finance "exercises an influence with which the writer does not agree."[56] Duffy's views on what he saw as Finance's baleful influence must later be examined in more detail in so far as they provide us with a concise and concrete expression of many of the resentments inspired by Finance in other quarters. But for the moment it is sufficient to note that his views went unheeded, if not unheard: his minority report no more provided a basis for future legislation than the reports of those who had found themselves in a minority on the "cuts" committee.

IV: The Impact of the Economic War

The deterioration in Anglo-Irish financial relations which led to the economic war of 1932–38, forms the subject of the next chapter. But the impact of the economic war extended far beyond the realm of Anglo-Irish relations and some of the other problems it posed for the Department of Finance deserve attention.

The Proposed Board for External Trade

During the nineteen thirties, the new and very active Minister for Industry and Commerce, Seán Lemass, advanced a succession of proposals which touched upon the general direction of the state's economic policies and upon the Department of Finance's control — hitherto rarely challenged — of those policies. On 1 November 1932, for example, in a "strictly confidential" memorandum to the Executive Council, Lemass took up the problem of the rapid deterioration in the balance of trade. "During the two months for which figures are available (August and September) since the commencement of the 'economic war'", noted Lemass, "the adverse trade balance was almost doubled as compared with last year and exceeded 93 per cent of the value of total exports." While he admitted that the export bounties since imposed might do something to remedy this situation, he saw it as "obvious that the position is and will remain one of great seriousness" — and grave enough to demand a drastic and novel response from the government. Lemass therefore proposed that

(i) a special organisation be established to regulate external trade under a Board of three persons to be appointed by the Executive Council and to be known as the Board for External Trade.

(ii) The Board to act, in all matters of policy, subject to the Minister for Industry and Commerce who shall consult the Minister for Agriculture where agricultural interests are involved.[57]

Lemass's memorandum proposed that this board be empowered to impose import quotas and export bounties on a large variety of listed goods, and that it became a permanent organisation to be continued irrespective of the outcome of our dispute with Great Britain.

The proposal had the most far-reaching implications for Finance. It would have necessitated a permanent shift in the balance of power between government departments, much larger powers being devolved upon Industry and Commerce (and, to a lesser extent, Agriculture) at Finance's expense. These considerations must have loomed large in McElligott's mind when he produced his own memorandum replying to Industry and Commerce's proposals and declaring that such a "drastic proposal" was not justified by the "present adverse balance of trade", which he saw as "neither exceptionally bad" nor as showing "any tendency to grow worse". McElligott argued that the balance of payments figures were more important

than those for the balance of trade and, while accurate figures were not yet obtainable,

> . . . up to a short time ago we had no adverse balance of payments at all, and if one has since developed it is solely due to the abnormal economic situation now existing.
>
> Furthermore, an adverse balance of trade or payments is a symptom of some deep-rooted changes in the national economy and is not in itself necessarily an alarming factor . . . At the present time I am satisfied that any adverse balance of payments which may exist is due to the Economic War and to the general economic depression throughout the world. But in any event it is a symptom of disease, and to cure it by a drastic limitation of imports and an artificial stimulation of exports will do nothing to remove the underlying causes and may only do harm by diverting attention from them.[58]

We can here detect a difference of opinion which frequently recurs throughout the thirties in the debate on the broad outlines of economic and fiscal policy: Finance (and, in particular, McElligott) arguing that the country's worst problems were essentially the result of the Economic War and were, they hoped, temporary; Industry and Commerce pressing for a more permanent and comprehensive solution, reflecting the strongly protectionist views of its Minister who, as early as 1928, had committed himself to the policy

> . . . that Ireland can be made a self-contained unit, providing all the necessities of living in adequate quantities for the people residing in the island at the moment and probably for a much larger number . . . Until we get a definite national policy decided on in favour of industrial and agricultural protection and an executive in office prepared to enforce that policy, it is useless to hope for results.[59]

The nature of the difference was more sharply delineated as a result of a further memorandum prepared by Lemass for de Valera, which Lemass himself acknowledged as "revolutionary in character" and as aimed at "national re-organisation". The memorandum was based on the premise that the country was "facing a crisis as grave as that of 1847" — that the government's "present efforts [were] totally inadequate to cope with it" — and upon

> . . . the assumption that a settlement of the British dispute cannot be achieved and that, consequently, the British duties on our products will remain. We *must* plan on this basis. If, on reviewing the situation in the light of this assumption, we decided that it is possible to provide in

reasonable measure for the needs of our people and determine the necessary line of action, we can face the future without worry. If we decide otherwise, and are satisfied also that a settlement with Britain is essential to prevent intolerable hardship here, then I think we must seek such settlement on the best terms possible.[60]

Lemass diagnosed the cause of the worst of the country's economic and financial ills as "the recent catastrophic fall in agricultural prices [which] has placed most if not all of our staple products in the position that it no longer pays to produce them . . . the costs of production on the average farm are higher than the prevailing prices." The export bounties, Lemass continued, had gone some way to remedying this position but "even with the bounties the prevailing prices in the Free State are below production costs." Such an acute agricultural crisis coupled with the unfavourable trade balance and with an unemployment figure running at 100,000 which, "on the basis of present consumption in the Saorstát, the fullest possible industrial development here could not absorb . . . without an export market", combined to produce what Lemass described as "a very black picture" in which, he argued, there was nothing he could change.

> The situation is black. It is, to say the least, doubtful if we are in a position to maintain the 'economic war'. It is equally doubtful if the termination of the 'economic war' will alone greatly improve our position. We have reached the point where a collapse of our economic system is in sight. By a collapse, I mean famine conditions for a large number of our people. You will ask how there can be famine in a country which produces more food than it can consume. Famine can come not because our farmers cannot but because they will not continue to produce food. The stoppage of exports should mean cheaper food for our own people but cheaper food means still lower prices for the farmers.[61]

So bleak a prophecy demanded as bleak a prescription and Lemass's proposals were all of that, even to the point where he himself admitted that they might prove unattainable since they "would certainly require dictatorial powers for their execution." The proposals, of considerable intrinsic interest, provoked a series of detailed observations by McElligott for his own Minister which shed much light upon the Finance attitude towards many of the major problems of the thirties.

Lemass's proposals were:

(1) The reduction of agricultural production to the amount required to supply . . . our own people, plus the exports which can be profitably maintained, or exports deliberately undertaken at a loss to pay for essential imports, the loss being borne by the whole community.

(2) The taking off the land of all persons not required for above.

(3) A scheme which will permit of our own people being able to buy all the farm produce they need at prices which will pay costs of production and give farmers a reasonable profit.

(4) Employment on public works for all unemployed persons pending their absorption in industry (a) supplying home requirements, (b) supplying any (if any) export markets secured.

(5) Facilities to expedite industrial development.

(6) Drastic restriction of imports to essential commodities and the purchase of these essential commodities at the lowest possible price.[62]

McElligott strongly opposed these proposals. "Though the export of agricultural produce may result in a loss to the State if subsidies are paid and may result in a loss on paper if subsidies are not paid", he minuted for MacEntee,

> there is undoubtedly a national gain. It is unquestionably better for people to be employed at working wage levels and for the fullest advantage to be taken of our natural agricultural resources than that people should be maintained in idleness and lands and farms allowed to become derelict. I question if the Executive Council would be able to defend such a policy of retrogression. In my opinion the increase of our production during the present period can be relied upon to bring its own advantages in more normal times while a reduction of agricultural production will be a loss which it will take a generation to make good. I could not agree to the suggestion that all persons not required for production at a profit should be taken off the land and should be employed on public works. I do not subscribe to the view that even in normal times there are too many of our nationals trying to secure a livelihood out of agricultural production. To withdraw them from such production in which they have experience, and to maintain them in idleness pending their absorption at some distant date in industry is, in my opinion, a wholly indefensible policy to adopt.[63]

McElligott was equally critical of Lemass's proposals to establish

"agricultural marketing" and "industrial marketing" organisations because he felt that the "objects in these proposals can be secured by the existing Departmental organisations" and he also opposed the suggested "termination of all bounties on agricultural exports and the adoption of a scheme for subsidising the reduction of the prices of agricultural produce on the home market", on the grounds that this would "completely disorganise our trade and lose us such foreign markets as we have". McElligott was also "at a loss to understand what useful purpose would be served" by other radical changes proposed by Lemass — that "a State bank . . . be established and currency . . . divorced from sterling"; while he accepted that "there is undoubtedly a danger that if a flight of capital from the Saorstát should begin we would be forced off the sterling standard", he thought this "a contingency to be prevented if possible and not to be assisted". He opposed, too, a proposal that land annuities be completely abolished.

In sum, then, McElligott backed only two of the ten specific proposals advanced by Lemass: first, that the emergency duties be abolished; second, and very predictably, that public expenditure be reduced "in every possible direction, including education, etc."[64] In addition he made two general, more fundamental criticisms of the proposals on the grounds that "they over-estimated the willingness of the public to endow the Executive Council with the necessary powers and . . . ignore the parliamentary difficulties in passing legislation"; and that they were "inclined to assume that the problem is solved when a separate organisation has been created to deal with it." It was Finance's experience, wrote McElligott, "that the creation of separate organisations involved difficulties with personnel and of policy and is inevitably the cause of delay."[65]

Nevertheless McElligott was in "general agreement"about the gravity of the crisis and, like Lemass, accepted that there was no way in which it could be immediately resolved. He seized, however, upon the only alternative offered by Lemass to his projected national reorganisation: that the government "should endeavour to get a secure market for agricultural exports in Britain by the negotiation of a trade treaty following a removal of the causes of the present dispute . . . postponing the 'Annuities War'", as Lemass had written, "until we are in a better position to fight it." While McElligott admitted the probability "that the end of the economic war would not alone greatly improve the position", such a development would, he thought,

"lead to a revival in public confidence and enterprise and would give us a surer foundation on which to build our plans."[66]

Lemass elaborated upon his plan for unemployment relief in a further memorandum to de Valera a week later. Here he made "two definite proposals": first, that legislation be enacted to deprive landlords of the right to ejectment orders of the bona-fide unemployed for non-payment of rent in cases where the family income did not exceed a specified limit; and, second, that all the unemployed over eighteen years of age should receive a weekly payment, subject only to a means test similar to that in force for the Old Age Pensions Act. The latter scheme, Lemass calculated, would cost £1½ m. a year on the basis of the existing unemployment figures, and he proposed to raise the money by increasing the urban and county council rates (to yield £575,000 a year), by increasing the unemployment insurance contribution (£250,000) and by making a state contribution (£325,000).[67]

McElligott's response — which took the form of a minute to MacEntee, who had asked for his "immediate observations" before the matter came to the Executive Council[68] — is significant for what it tells us of the principles which, he believed, at a time of such acute economic depression, should inform financial policy in this critical area. He argued that "the time has come not to extend the system of public works for the relief of unemployment but to reduce it drastically" and listed the following objections to Lemass's proposal:

(a) That it involves recognition of the principle that the State must provide work. The furthest the State ought to go is to provide maintenance in the event of no ordinary productive work being available and this . . . is already done.
(b) That it achieves little to reduce the amount of unemployment existing.
(c) That it involves heavy local indebtedness. Local authorities, unlike the State, do not provide for unemployment relief work out of their taxes but by borrowing.
(d) That it results in the creation of either useless or objectionable public works of all types, some of which, e.g. roads and drainage schemes, involved additional expenditure on maintenance in the future.
(e) That it renders it extremely difficult for the Department of Finance to control expenditure, the final controlling argument that there is no money available being ruled out.
(f) That it diverts the energies of public departments from their proper task and encourages them to adopt misleading standards of value regarding public moneys. . . .

It was cheaper, concluded McElligott, "to maintain somebody out of work than to maintain him in work when the work itself has no ultimate economic value. There is, thus, some national gain when a farm labourer is employed in agriculture (even when agricultural prices are unprofitable) rather than maintained in a County Home, but there is a national loss if he is employed in making roads in a country which has already too many roads rather than maintained in a County Home."[69] But if McElligott's arguments on this point were in vain — "the Unemployment Assistance Act of 1933 extended assistance to persons who had never been employed or gainfully occupied . . . as well as to a numerous class of persons who were working on their own account . . . and would not otherwise be regarded as unemployed according to the accepted meaning of the term"[70] — the same was not true of the wider debate about economic policy.

What, then, of the fate of Lemass's revolutionary proposals on this question? His memorandum of 1 November proved remarkable not least in that it provoked the nearest thing to a ministerial disagreement on a major issue recorded in the Fianna Fáil cabinet minutes of the thirties — minutes which nowhere explicitly record differences of opinion within the cabinet. The minutes of the cabinet meeting of 5 December 1932, however, record that Lemass's "suggestion for the quantitative restriction of imports was not approved" and that "he withdrew the suggestions for the abolition of emergency import duties and land purchase annuities." Consideration of other of his proposals was postponed at another cabinet meeting on 9 December but the minutes give no indication that they were ever subsequently discussed, at least in their original form.[71]

Industrial Credit and the Trade Loans Guarantee System

One proposal contained in Lemass's seminal memorandum of 1 November which did come to fruition, however, was the establishment of "a State Industrial Credit Organisation, empowered to invest in shares of industrial undertakings, to make loans, etc. under the supervision of the Minister for Industry and Commerce."

This proposal had originated with J. P. Colbert, the chairman of the Agricultural Credit Corporation, who prepared a "note on industrial financing" in May 1932, a précis of which was sent by de Valera to Finance in mid-August. It was early September, however, before Finance received the complete text of the document from

Industry and Commerce, to whom it had been sent originally.[72] Colbert's memorandum pointed out that there was "no regular machinery for intermediate and long-term industrial financing in Ireland. If capital for a new venture cannot be raised privately, it has to fall through, possibly leaving the opportunity to be picked up by Cross-Channel businesses." He argued that since "in Ireland neither the English nor the Continental systems" (which he briefly summarised) "have so far been developed for industrial financing", it was now "necessary to establish some machinery outside the ordinary banking system." Colbert suggested that perhaps the best solution might be to extend the scope of the Agricultural Credit Corporation "to cover industry as well as agriculture" since "75 per cent of the problem in each case would be identical — . . . raising money from the public on economic terms"; although his scheme would necessitate the setting-up of a new institution, he saw no need for two separate institutions.

McElligott's initial reaction to Colbert's memorandum is again indicative of his marked reluctance to support new initiatives in the prevailing financial and economic climate. He felt that there was already "plenty of credit available" and that there should be more evidence of "conditions of public confidence" before any such enterprise should be launched; in any event he thought a "new institution superfluous [and the] need for it not proven."[73] He elaborated these points in a memorandum to MacEntee in which he also pointed out that earlier and similar efforts (under the Trade Loans Guarantee Acts[74] and through the Industrial Trust Company) had failed "to ensure a certain proportion of private capital" in addition to the capital guaranteed by the State. "Any new venture", he believed,

> would simply encourage the belief that men of straw can again come forward with propositions which will be financed ultimately at the expense of the taxpayer.
>
> The establishment of a body of this kind is an indication to people at home and abroad that things are not well here and will certainly rouse a fear that it will lead to further taxation to make up for industrial losses, as happened in the case of the Industrial Trust Company.
>
> A body of the kind advocated will ask to have the interest and principal of its capital guaranteed by the Government. We already guarantee $4\frac{1}{2}\%$ Land Bonds to the value of £24,500,000; £500,000 capital of the Agricultural Credit Corporation and £500,000 Mortgage Bonds of ditto. Unless there is very strong reason for it, we should not add to these already heavy liabilities. There is no such reason adduced.[75]

But on the same day that McElligott expressed these views to MacEntee, the cabinet agreed that the Minister for Industry and Commerce should submit "a scheme of industrial credit" embodying Colbert's suggestions;[76] and they subsequently agreed, on 29 September, to set up a committee (consisting of two officials from Finance, one each from Industry and Commerce and Agriculture, and the Secretary to the Executive Council) "to report on the steps necessary to enable the Agricultural Credit Corporation to engage in industrial financing, the committee being at liberty to suggest alternative proposals."[77] The committee held seven meetings between October 1932 and March 1933 and did not finally report until 18 March, although it had been asked to report within a fortnight.

The report recommended against the Agricultural Credit Corporation's being "empowered to undertake the work of industrial financing" and in favour of "a new industrial credit organisation . . . under State auspices and with the co-operation of the banks operating in the Saorstát." The following were among the main reasons for their decision:

> . . . That the granting of industrial credit is, in present economic conditions, a matter requiring the most careful handling and, secondly, that the organisation that the Corporation would have to set up to deal with industrial credit would probably in the initial stages be expensive in relation to the amount of business transacted, with a consequent increase in overhead charges and additional cost to borrowers for agricultural purposes. . .
>
> A large loss on foot of an important [industrial] loan would have serious effects on the credit of the Corporation and would dispose it to look unfavourably on other similar applications . . . [and] would react seriously on the ability of the Corporation to develop its primary function of granting agricultural credit . . . In present economic conditions, the transfer of the State's activities with regard to industrial credit to the Agricultural Credit Corporation would result in the granting of such credit being made much more stringent than it has been hitherto. . . .
>
> Apart from the difficulties already referred to and the further admitted difficulty adverted to in the Report of the Banking Commission of linking agricultural and industrial assets together as a basis for appealing to the public for capital, and apart also from the possible risk of disturbing the existing functioning of the agricultural credit machine, the Corporation suffers from one very serious disability . . . The rate of interest charged on agricultural loans made by the Corporation is 6%

> and it could not afford to lend money at appreciably under that rate to industry. The Banks, on the other hand, are prepared to make advances to industry on foot of State-guaranteed loans at 4% . . . It does not appear to us to be probable that in the near future the Corporation will be in a position to close the gap between the rate at which it can make advances and the rate at which industry can obtain advances from the Banks.[78]

The "establishment of an Industrial Credit Corporation with a capital of £1,000,000" was duly accepted by the cabinet on the recommendation of the Minister for Industry and Commerce, although it was the Minister for Finance's responsibility to introduce the necessary Bill.[79]

If 1927 was the key year which "saw the invention of the state-sponsored body which has now become so important a part of the administrative life of our community",[80] 1933 ranks only second to it in significance. It witnessed the birth not only of the Industrial Credit Company but also of the Irish Sugar Company and the Hospitals Commission. It saw too the first steps in the process which eventually led to the setting-up of Bord na Móna in 1946. Because of these developments Finance felt compelled to make an explicit statement upon an important aspect of the relationship which, they believed, should exist between the new government and their civil service advisers.

The issue arose from a recommendation of the advisory committee, nominated under the Trade Loans Guarantee Act 1924–34, concerning an application by British and Foreign Fuels Ltd to establish a peat briquetting plant. The committee reported that, while ordinarily they simply recommended either for or against any applicant, and although in this case they were inclined to be against ("on the grounds that complete control of the Company is in the hands of the applicants"), they felt that, in view "of the national importance of any method by which the peat resources of the Saorstát could be utilised", they should first consult the Minister for Industry and Commerce

> . . . as to whether
>
> (a) he was in general principle sufficiently attracted to the scheme as to be likely to find himself later in a position to approve of it, subject to such other conditions as after fuller examination it is found necessary to attach;

(b) he shared the Committee's view that if he were to recommend it this recommendation should be made on the basis of some arrangement by which control would be in the hands of the Government rather than in the hands of the applicants.[81]

Finance's strong objections to such a procedure were expressed in an internal minute which stated that it was

> . . . very disquieting to find a body like the Advisory Committee desiring to know before hand the probable reaction of a Minister to its recommendations. Once an Advisory Committee or the Civil Service, instead of giving disinterested advice to the best of their ability, is going to give the advice which they think will be most acceptable to a Minister, it fails to fulfil any useful purpose. Doubts have unfortunately been expressed as to the complete loyalty of the Civil Service, and . . . there is a growing tendency towards the suppression by some individuals of free expression of their candid opinion, lest it might be considered that civil servants were not fully behind the policy of the Government. It is the duty of civil servants . . . to think all round a subject and give Ministers their unbiased opinions on matters referred to them when policy is being considered, and then, when that policy has been decided on, to carry out that policy to the best of their ability, regardless of their own personal views. We do not want a lot of 'yes men' on Advisory Committees or in the Civil Service.[82]

This classic expression of the proper function of a civil service culminated in the recommendation that the advisory committee should be "told to carry out the duties assigned to them regardless of what the Minister might think of their recommendations" and — having been approved by the Minister for Finance — was embodied in a memorandum circulated to the Executive Council which demanded that the committee be asked to report on the particular application "as a commercial proposition". It was the committee's function, Finance argued,

> . . . to give its own unbiased judgement on matters referred to it and not to give the advice which it considers will be most acceptable. If a civil servant or civil servants were to adopt any other attitude their usefulness would be greatly impaired. Ministers are entitled to receive disinterested advice and then use their own judgement whether to accept or reject the advice offered.[83]

Finance got their way when, at a meeting on 3 July 1933, the government decided that the committee should be asked "to report on the scheme as a commercial proposition."[84]

The Trade Loans Guarantee system led to a further difference of opinion between Finance and Industry and Commerce in 1938, with the expiry of the Act under which it worked, and when the Minister for Industry and Commerce applied for its renewal for a further five-year period.[85] Finance opposed the application on the grounds that it was doubtful whether the system had created "any really appreciable *net* addition to the volume of industrial activity" and because they felt that the demand for the system had been removed by the establishment of the Industrial Credit Company five years earlier. They felt, further, that the "sound borrower" did not use the guarantee system which was "left, in the main, to cater for those who, so far from being able to offer unimpeachable security, are unquestionably inferior to the average industrial borrower as regards the security they can offer . . . the system as a whole has operated in an unfortunate manner and . . . the ratio of loss has been very high."[86] But while Industry and Commerce admitted that the system catered "for borrowers whose security is perhaps not the best", they argued that "since 1931 the number of failures experienced to date has not been material" and stressed that they were satisfied that the system generated sufficient extra employment to mean "a net increase in employment throughout the country as a whole" and that "the Acts have served and are still serving a useful purpose."[87]

Finance remained unconvinced and continued to withhold the permission necessary for Industry and Commerce to introduce legislation, citing in support of their case extracts from the shortly to be published majority report of the commission on banking, currency and credit.[88] Industry and Commerce then referred the matter to the government for decision. They based their case upon the need

> . . . to take into account factors other than purely financial factors . . . in the case of companies whose loans are guaranteed by the Minister, the Trade Loans (Guarantee) system permits of the extension of accommodation or leniency on the occurrence of arrears to a greater extent than the administration by a public credit organisation could permit. . . .
>
> The Minister for Industry and Commerce desires to stress particularly the fact that in the circumstances of this country cases will inevitably arise where industrial projects of reasonable soundness will be unable to get capital subscribed by the public for various reasons, viz., the smallness of the amount required, dependency upon the maintenance of Government protection, the novelty of the enterprise in this country; or to procure other financial accommodation. Another reason which weighs with the Minister . . . is the type of case where the location of the

> industry is, because of Government policy, fixed in a rural area when purely financial considerations would dictate its location at Dublin.[89]

The government considered the matter on 4 August 1938 but postponed making a final decision for a fortnight, during which time Finance submitted a counter-memorandum outlining their objections. The final government decision, which was not taken until 4 October, was a compromise: Industry and Commerce obtained permission to introduce legislation reviving the Trade Loans system for a further five years, subject to the important qualifications "that the Act should be operated much more rigidly in future than in the past and that loans should not be guaranteed save in exceptionable [*sic*] circumstances."[90]

These repeated differences between Finance and Industry and Commerce, of which only some notable examples are cited here, were characteristic of the thirties and are rooted in the major changes in financial and economic policy consequent upon the 1932 change of government. The transition from what T. K. Whitaker has described as "the first Irish Government's desire to establish the standing of the State in the eyes of the world by observing a rather strict orthodoxy . . . in economic and financial matters [when] free trade was the accepted commercial philosophy of the day" to the "vigorous policy of protection and industrialisation" pursued by Fianna Fáil[91] placed Industry and Commerce much nearer the centre of power. The Emergency Imposition of Duties Act of 1932 which became law before the change of government,[92] was the first step in this process. "This Act greatly increased the power and influence of the Department of Industry and Commerce", writes James Meenan. "As a measure for times of emergency, in which swift action might be essential, it was justifiable. The fact remains that the great majority of duties since then and up to the present day have been imposed under this Act so that the Oireachtas has lost a great part of its control over fiscal policy."[93] The Department of Finance, in so far as they had been almost exclusively responsible for fiscal policy under the system which had previously prevailed, shared in this loss.

The likelihood of policy differences between the two departments was accentuated because of the characters of those in charge in Industry and Commerce in these years. Seán Lemass was the most energetic and enterprising of all de Valera's ministerial colleagues. In addition, he had been the party's leading spokesman on economic

affairs since Fianna Fáil first entered the Dáil and was the man most closely identified with the policy of protection. Almost as important was the man he appointed as the secretary of his department — John Leydon. Leydon had served as a higher official in the Department of Finance until 1932 when, after the election but before the change of government, Cosgrave approached him with the news that the then Secretary of Industry and Commerce, Gordon Campbell, wished to resign and offered him the post. Leydon declined on the grounds that his appointment might be unacceptable to Fianna Fáil. Lemass, however, — after the change of government — renewed the offer to Leydon who then thought it necessary to point out that he was not in agreement with all Lemass's policies and ideas as expressed in his public speeches. Lemass replied that he was not looking for a "yes-man" and that he would be prepared to change his policies if Leydon could persuade him of the advisability of his so doing. Following this conversation, Leydon agreed to take the job.[94] The partnership thus forged between Minister and Secretary proved among the most formidable of its kind in the history of the state. Leydon, who had already shown himself one of the most able and outspoken officials in Finance,[95] now brought his many talents to the service of Industry and Commerce. His earlier career in Finance, and the esteem in which he was held there, gave him a bargaining-power with his former colleagues which he did not hesitate to use if he felt the occasion demanded it. That he was wise in the ways of Finance was an added strength: his were the skills, as McElligott was cryptically to observe in later life, of "the gamekeeper turned poacher."[96] Again and again the Lemass-Leydon partnership refused to give way when their policies were opposed by Finance, but insisted on seeking a decision by the government.[97] Sometimes they were successful, sometimes not, but the cumulative effect of their persistence weakened Finance's control of financial and economic policy.

V: The Crisis in Agriculture

Agriculture was another major area where the new government's policy of self-sufficiency caused the winds of change to blow hard through the corridors of Finance. The quest for agricultural self-sufficiency, James Meenan has written, was four-fold:

> there was to be an expansion in the home production of, first, wheat and feeding-stuffs, second, of fruit such as apples and soft fruits, third, of vegetables, fourth, of tobacco production. Thus existing imports would

be saved. Further, there was to be an energetic drive to find new markets. Lastly, and of greatest importance, there would be a gradual run-down of the number of cattle.[98]

The Department of Agriculture argued that this policy was not merely demanded by the political objectives of the government but by economic exigencies in the shape of "the development of intense economic nationalism all over Europe" in 1929–32, which caused the gradual contraction of Irish export markets for agricultural produce.[99]

The Department of Finance could not but become involved, given such major changes in the direction of policy and the large amount of money at stake. In August 1932, for example, the committee set up by the government to report on problems of agricultural production recommended a progressive reduction in the importation of certain animal feeding-stuffs and their replacement by home-grown cereals. The committee also proposed that the extra cost to the livestock producer be offset by "an export bounty on live pigs, butter, bacon, hams, pork and eggs." Finance saw the proposal as raising "a very important question of principle" and took the view that, as "the purpose of these schemes is to benefit the agricultural industry", there was no reason why "one group of producers in that industry should not be called upon to bear some portion of the cost which a benefit granted to another group involves. No case whatever has been made out for obliging the State, that is to say the taxpayer, who is not necessarily or indeed usually a producer, to shoulder the burden."[100] Finance also objected that no estimate had been made of the probable cost of the proposals, but all such objections were in vain, for the Executive Council quickly approved the implementation of the committee's proposals.[101]

Within a fortnight another such issue arose when, on 8 September 1932, the cabinet took the decision to provide bounties for the export of finished cattle.[102] Finance strongly opposed such a scheme and McElligott furnished MacEntee with a minute listing his objections which, following discussions between them, formed the basis of a Finance memorandum circulated to the Executive Council on 13 September. Finance argued that "the expense of any bounty, however small, would be very considerable. . . . Owing to the hold-up in trade, and the still greater hold-up if news of a coming system of bounties leaked out, the export of fat cattle in the final quarter of 1932 would be considerably above last year's figure and a bounty at

the rate of £2 a head on an estimated export of 125,000 would certainly cost us £250,000." They also predicted that "a demand would certainly arise that the bounty be made retrospective in effect" and, worse still, that further demands would be made for the extension of "the principle of bounty" to include all other classes of cattle, as well as sheep and pigs. The expense and technical difficulties of administering the scheme were further grounds for objection, but the most fundamental objection of all was that

> . . . the payment of a bounty now constitutes an admission, which we have not hitherto made, that the exporter is paying the tariff into the British market.
>
> The highest point to which we could raise the bounty would do little more than make up for the fall in prices in recent weeks and thus would not help the farmer very much, while it would impose a considerable, if not an excessive burden on the Exchequer.
>
> A further important consideration is that, owing to the further fall in prices of fat cattle and possibly of other kinds which will follow on the removal of the British tariff, the demand for a continuance of the bounty, if the Tariff War has ceased, would be widespread and insistent.
>
> The only real justification for a bounty system would be as a very temporary measure to promote alternative markets. It is now absolutely clear that no alternative markets for our produce, outside Great Britain, are available owing to tariff and other restrictions and are not likely to be made available as no country will run the risk of doing anything that might possibly be construed as taking sides with us in our dispute with Great Britain.[103]

The Finance view that the country's economic difficulties stemmed almost exclusively from the economic war was central to most of these arguments. McElligott spelled this out even more forcefully in the only paragraph of his minute to MacEntee which, significantly, was deleted before circulation to the Executive Council, where he wrote of "the very serious and even disastrous effects that must attend our public and local finances if the Economic War is prolonged." "Any system of bounties will certainly tend to prolong it", he argued, and thus produce such effects all the more quickly.[104]

But Finance proved powerless to resist the introduction of the bounty system and their apprehensions as to the probable extension of that system to other agricultural products proved justified. In March 1933 the Department equally unsuccessfully opposed the Minister for Agriculture's application to the Executive Council for the renewal of the bounty system, and the Executive Council sub-

sequently renewed the system for the financial years 1933–34 and 1934–35. In December 1934, however, the Minister for Finance circulated another memorandum on the subject to the Executive Council in a major attempt to reverse the government's policy. In it he claimed that recent events had vindicated his earlier arguments.

> The continuance of the bounties has come to be taken for granted by the agricultural community and is not now considered to be offset by the concession in respect of land annuities. It should also be noted that the bounties and the reduction of annuities have not stimulated the payment of current annuities and rates. The British Government has been enabled to collect the major part of the current amount claimed in respect of the non-admitted liabilities and the bounties are operating as a very imperfect price-fixing device.
>
> The Minister for Finance accordingly desires that the Executive Council should at an early date review the whole position relating to agricultural bounties. He wishes to reinforce the views previously submitted by him by pointing out that the existing system causes difficulties under four heads — financial, administrative, agricultural and economic.

The memorandum went on to point out that the estimate for 1934–35 for bounties of £2.13 m. had already been increased by a supplementary estimate of £738,000 and that there were now further "anticipated excesses on certain heads of agricultural bounties aggregating to £202,000 . . . These excesses have not been sanctioned by the Department of Finance, and the Minister has, in consequence, declined to make provision for them and is pressing the Department of Agriculture to secure the necessary saving in those estimates by the reduction of the rates of bounty or by the complete withdrawal of bounties now given." Finance recognised, however, that a further supplementary estimate was probably unavoidable and pointed out that this would bring the total expenditure on bounties for the year to nearly £3 m., which they contrasted with the total of £1.7 m. in the previous year. "This enormous expenditure", they stressed, "is occurring at a period when agricultural exports are at a very low level"; if, therefore, there was any increase in exports for any reason, the state would be called on to provide much more than £3 m.

The other major financial argument adduced by Finance was that two-thirds of the original provision of £2.13 m. was not charged against the revenue for the year but was "treated as an abnormal payment and was regarded as borrowed on the security of the funded arrears of annuities"; in addition, practically all of the extra monies

would have to be borrowed. "The Minister for Finance", the memorandum went on,

> cannot undertake to justify the repetition of this method of treatment in 1935–36. The length of the period for which the economic war has lasted and the improbability of any early settlement make it impossible to justify the continued treatment of any part of the export bounties as an abnormal item of expenditure. Further, the asset created on the funded land purchase annuities has been almost exhausted by previous operations, and must in any case, in the light of the unsatisfactory state of collection of current land annuities, be regarded as of doubtful value. Borrowing (whether on the security of a fund or asset or otherwise) which is undertaken to cover current expenditure without the creation of any capital asset has a direct inflationary effect, and the magnitude of the sums involved in the payment of agricultural bounties increases very materially the difficulty of maintaining the stability of the national currency and of the State's credit, and causes disequilibrium in the balance of our international payments.[105]

Finance then went on to survey the administrative difficulties, which they "traced in large part to the fact that the payment of export bounties has no specific statutory basis."[106] The consequent uncertainties — of producers and exporters as to their rights of entitlement to bounty payments, and of government departments "as to their right to recover payments or penalties from exporters and others who deliberately commit breaches of the accepted principles" — were impossible to resolve. Worse still, the system gave rise to what Finance described as a "disregard of financial control in practice":

> . . . owing to the magnitude of the sums and the nature of the payments, the Vote on which the expenditure is provided must be accounted for by the Office of the Minister for Finance, though the Departments of Agriculture and of Industry and Commerce act as agency departments supervising the actual distribution of expenditure. It has, however, proved impossible in practice to secure from the Department of Agriculture the whole-hearted co-operation which such a division of functions postulates. This is due no doubt to the fact that the Department does not regard itself solely as an agent, but rather as a principal acting largely on behalf of the agricultural community against the Department of Finance.

Having listed some examples in support of this complaint, the Finance memorandum proceeded to set forth what it described as the "agricultural difficulties", the chief of which was that the bounty

system "has proved in practice a very imperfect price-fixing device, and the frequent changes of rates which economic or administrative requirements necessitate cause disturbance and disequilibrium in the flow of agricultural production" — the memorandum cited the instance of the bounty-rate on pigs and pig products which had been changed eight times in an eight-month period. The system was also criticised as inequitable:

> The rates of bounty and the consequential prices secured to producers are the result not of deliberate planning but of the pressure of sectional interests. Dairy farmers as such have been rendered practically immune not only from the effects of the economic war duties but from the general fall in prices which preceded and accompanied it. On the other hand, farmers on poor land in the west who have no alternative except cattle production have been left to bear a large part of the British duties and all the effect of the general fall in cattle prices . . . [because] it would prove impracticable for the Exchequer to grant them adequate relief. The bounty system causes undesirable diversions of agricultural production from one commodity to another . . . [it] may be said to have all the defects of a system of planned economy without any of its advantages, because it is essentially unplanned.

The main economic difficulties highlighted by the memorandum, other than those already mentioned, were those affecting

> . . . the development of the Government's industrial policy. It is the declared policy of the State to foster industrial production in all possible ways, and it will be realised that this must be achieved to some extent at the expense of agricultural production. The maintenance of anything in the nature of a balance of advantage between the industrial and agricultural communities is out of the question. Agriculture can maintain its relative position only by the increase of efficiency secured by its own unaided efforts. The bounties render this impossible. While it cannot be claimed that they deliberately encourage inefficiency they do nothing to promote the development of efficiency and do promote the survival of sections of the agricultural community which would otherwise be liquidated by the operation of economic laws. The burden of the bounties falls in the main on the industrial community and must in many cases offset the advantages which the State has conferred to encourage industrial development . . . and is without question slowing up the rate of industrial development and deferring the date at which a balanced economy can be secured.[107]

This particular Finance memorandum is remarkable on several

counts. It not merely provides a concise summary of many of the main assumptions upon which Finance policy was founded, but reveals the depth of disenchantment with government policy which prevailed in the premier government department at a decisive time in the mid-thirties, just before the announcement of the first coal/cattle pact which marked the initial break in the deadlock of the economic war. Evident, too, is the extent to which the Department of Agriculture was able in the abnormal circumstances of the time to wield an influence in areas which, throughout the twenties, had remained the exclusive preserve of Finance.

This particular indictment of the direction of government policy did not meet with notable success. Although the Minister for Agriculture, Dr James Ryan, gave an undertaking to the Executive Council on 21 December 1934 to consider "the advisability of abolishing the bounty on exports of cattle", he not only reported that he was "satisfied that neither a reduction in, nor the withdrawal of, the bounty in the present condition of the cattle trade could be justified" but sought sanction from the Executive Council for a further supplementary estimate of £118,000 to cover additional anticipated expenditure to the end of the financial year.[108] Finance reiterated their opposition to the proposal, pointing out that "the total additional expenditure on agricultural bounties would be £916,000 or an excess on the original firm figure of 42%", and that this was all the more serious since "the Budget position for the current financial year is far from satisfactory" — expenditure exceeding revenue by nearly £1.8 millions, in contrast with the previous year when there had been a slight excess of revenue over expenditure. In view of the "imperative" need for "an immediate and drastic reduction of expenditure", the Minister for Finance therefore asked the Executive Council to instruct Agriculture "to abolish the bounties on cattle forthwith and to revise downwards the rates of bounty on other agricultural products with a view to avoiding the necessity for a further Supplementary Estimate."[109] But Finance once more argued in vain, and the Executive Council sided with Agriculture in deciding at a meeting on 12 February 1935 "that the export bounties on cattle should be continued until the end of the current year and that an additional sum of approximately £120,000 should be provided for export bounties and subsidies."[110]

The Slaughter of Cattle and Sheep Act 1934 was another cause of contention between the two departments. Finance felt that the need

for such legislation was unproven and that there was no evidence that the scheme would fulfil its objective of ensuring a market for the producer. "Exports are as large as possible in present circumstances", an internal Finance memorandum noted; "a glut of cattle will always depress prices; government interference will not help to raise them so long as the glut continues. The scheme is for the benefit of the producer; there is no mention of the consumer."[111] But while Finance expressed their reservations to Agriculture,[112] they did not oppose the measure outright: "the legislation contemplated bristles with difficulties and administrative problems", noted a Finance minute; "the most serious problem of all will be to find trained staff capable of attempting to put it into operation." But the writer, although "full of foreboding as to how it will work out in practice", concluded that his Department had "no option but to give it our reluctant blessing."[113] The comment reflects a realistic, albeit somewhat grudging, acceptance of a situation curiously characteristic of the thirties, for Finance were not slow to recognise that the novel combination of economic crisis and political innovation sometimes constrained them to endorse policies which had become almost inevitable, if still highly indigestible. Under such circumstances "forebodings" and "reluctant blessings" frequently became the order of the day.

VI: The 1937 Constitution and the End of the Economic War

The prospect of constitutional change had been first mooted in the summer of 1934 when President de Valera set up an informal committee "to consider and make recommendations as to what Articles of the Constitution should be immune from amendment by the ordinary process of legislation, on the ground that they are fundamental from the point of view of safeguarding the rights of individuals, of Parliament, or of the Executive" and it was then suggested that "certain Articles dealing with Finance" might be so regarded.[114] The suggestion was an early and reassuring indication to Finance that, whatever major changes were being contemplated, their powers seemed unlikely to be diminished and such, indeed, proved to be the case. When, on 2 January 1937, MacEntee, as Minister for Finance, sent the President a memorandum on the financial articles of the 1922 Constitution, he wrote that those articles "have worked well in practice and have not been seriously attacked in public." The amendments he

proposed were accordingly more "matters of phraseology" than of substance.[115]

But Finance were not merely concerned with the prospect of change in the financial articles of the constitution, as is clear from a memorandum of 23 March 1937, in response to a request from the President's Office for their observations upon the draft constitution. The Department of Finance, their memorandum began, took "the line that it was not called upon to praise but rather to point out possible defects and difficulties, so what follows is conceived in that spirit." The ensuing memorandum ran to thirty-nine pages and much of its detail need not concern us. What does concern us are those observations which relate, first, to the existing administrative system in which Finance, of all government departments, occupied a key place; second, to proposals bearing implications for the general financial and economic climate; and, third and most important in the context of this chapter, to Finance's endeavours at least to preserve, at most to increase, its pre-eminence among government departments. Thus, in the first instance, Finance's preliminary observations (which followed closely upon the arguments laid out in a memorandum from McElligott to the Minister[116] — the memorandum as a whole, indeed, bore the same stamp) suggested that, "apart from questions of complexity and expense involved in the Constitution, it seems that there will be a degree of uncertainty introduced into our legislative system by the extent to which recognition is given to the doctrine of repugnance." In the second instance, Finance expressed concern at the failure to admit "the possibility of reprisals of an economic or other character following the enactment of the Constitution" which might "be held to deprive us automatically of any preference we enjoy in the British and Dominion markets"; reference was also made to the possibility of the state having to undertake the entire cost of its own defence, a prospect which "would add considerably to what will, in any case, be a heavier bill presented by the new Constitution to the taxpayer." In the third instance, Finance voiced the general fear that "an enormous mass of consequential legislation will necessarily follow the adoption of the Constitution and will occupy the attention . . . of government departments for a year or two, to the almost total exclusion of other business, and certainly to the detriment of their daily administration"; this likelihood made it essential "to provide that those parts of the existing government machine which have worked efficiently should be

preserved, and with them the laws under which they operate."

McElligott's personal antipathy for the new constitution is most clearly reflected in his observations upon the original draft of Articles 1–4:

> These Articles, dealing with the Nation as distinct from the State, (a distinction which many political scientists would not admit), seems rather to vitiate the Constitution, by stating at the outset what will be described, and with some justice, as a fiction, and one which will give offence to neighbouring countries with whom we are constantly protesting our desire to live on terms of friendship.
>
> Having been at such pains to expel fictions from the existing Constitution and to bring theory into line with practice, it seems inconsistent now to import an even greater fiction.
>
> Further, from the point of view of international law, it is not clear whether we are on safe ground in claiming sovereignty and jurisdiction over land recognised internationally, *de jure* and *de facto,* as belonging to another country . . .
>
> From the practical point of view, apart from the fear of consequences, these Articles will not contribute anything to effecting the unity of Ireland, but rather the reverse. Besides they will impose an additional and more severe strain on our relations with the members of the British Commonwealth of Nations, relations which are already difficult enough, and which coming events, apart from the Constitution, will make even more difficult.

McElligott was equally unhappy about "the adoption of the name of Éire", entailing as it did "the alteration of Currency and Bank Notes, Coinage, Seals of State and of Government Departments, and all kinds of government stationery" and all the additional expense which this would involve. He suggested, moreover, that, while 'Éire' might

> . . . be quite justifiable from the traditional and scholarly points of view, . . . from a realistic point of view it seems a mistake. This land is generally known internationally as Ireland or one of the derivatives of that name, and so there will probably be a long period of confusion and misunderstanding before the unaccustomed name conveys a definite meaning to educated people throughout the world.

But McElligott's criticisms were in vain, for, as the text of the 1937 Constitution as finally enacted plainly shows, none of the characteristics to which he objected in the first four articles were expunged.

One aspect of the first draft of the new constitution which Finance

objected to in principle was the treatment of private property and social policy. Although their objections met with no success — the passages in question were duly enacted as articles 43 and 45 of the 1937 constitution — they are not without interest. These articles, a Finance memorandum argued, were

> . . . not of a kind usually enshrined in a Constitution. They will not be helpful to Ministers in the future but will provide a breeding ground for discontent, and so create instability and insecurity. They are consequently objectionable and even dangerous. Their provisions are too vague to be of positive assistance to any Government and are yet sufficiently definite to afford grounds for disaffection to sections of the community, who might claim that the Government were not living up to the Constitution.
>
> The provisions are the more objectionable by reason of the earlier Articles relating to repugnance under which laws may be disallowed after reference to the Supreme Court or to a Referendum. Some of the provisions are too advanced, some too conservative and many cut across actions taken daily by the Government e.g. restrictions on private property and initiative.
>
> Further, the provisions are mostly unnecessary. Distinct advance along the lines of social and economic policy outlined have already been made without the aid of these declaratory provisions, some of which are themselves, it should be noted, repugnant to present Government policy e.g. we do not settle 'as many families as practicable' on the land [see Art. 45, 2, v]. 'Five acres and a cow' would suffice if that were the policy. We create economic holdings of twenty-five acres . . .
>
> Also, the provisions are contradictory. The State has established monopolies in important articles such as sugar, electricity, cement, tyres, oil, etc. [despite Art. 45, 2, iii]. The reference to the 'economic domination of the few in what pertains to the control of credit' is not understood [the phrase, in diluted form, appears in Art. 45, 2, iv]. In so far as one can attach any intelligible meaning to it, it is untrue, but it could easily be worked up by agitators as a weapon of attack on the Banks, the Agricultural Credit Corporation, the Industrial Credit Co., or against any large joint-stock concern.

Overall, then, Finance objected to "these various declaratory phrases" because of their "idealistic tendency which, while individually unobjectionable as a statement of social policy, may, if launched out into the void in the draft Constitution, recoil like a boomerang on the Government of some future day in circumstances not anticipated by the originators."[117] It should be noted, incidentally, that the controversial article dealing with religion, church and state

was not submitted to Finance with either the first or second draft of the Constitution and that the first section of that article seems never to have been submitted to Finance. The Department was much more successful, however, in respect of its endeavours to preserve financial control in a form very close to that which it had enjoyed since 1922; but that subject forms part of the section of this book dealing with Finance's relations with other government departments.[118]

Whatever the shortcomings, in Finance eyes, of the 1937 Constitution, it had the undoubted merit of paving the way for de Valera's initiative which led to the Anglo-Irish negotiations and which brought the Economic War to an end.[119] On 9 November 1937, just a few weeks before the new Constitution came into effect, Seán MacEntee circulated a twenty-five page memorandum on the economic situation to his colleagues on the Executive Council.[120] The memorandum was based upon a series of notes which McElligott had prepared for his Minister a month earlier and it affords a clear yet comprehensive picture of the state's economic and financial problems as they then appeared to Finance.

The memorandum began with an analysis of the external trade figures, which revealed that a deterioration in the trade balance throughout 1937 had "markedly accelerated" and which attributed this development to a "fall in agricultural exports due to rising costs here and to obstacles in Great Britain" and which was also seen as the

> . . . inevitable consequence of the pro-urban policy pursued by the Government and large capital expenditure carried out by the State or with State aid or in pursuance of State policy. Most of the expenditure is *non-economic* (i.e. its value is not capable of being assessed in terms of money, e.g. housing, roads, land division, Widows' and Orphans' Pensions, etc.) or *un-economic* requiring subsidisation and protection (e.g. industrial development, especially aviation and production of sugar, turf and industrial alcohol). All such expenditure involves importation for current consumption by its immediate or ultimate recipients; it does nothing to help exports but impedes them or diminishes their volume by increasing domestic consumption of exportable surplus.[121]

The consequence of this pattern of rising imports and falling exports was a worsening trade balance which now amounted "to over 90% of our export trade, which is higher than in any other country in the world" and which was "specially dangerous as a *visible* sign that our national economy is being weakened and our currency position becoming undermined."

Finance then turned to a survey of agricultural policy, which it criticised as being "based on the view that cereal production is desirable as an *end* and not merely as a *means*" and as being only sustainable through "progressive subsidisation" which obscured

> . . . the true economic position and work[ed] to the disadvantage of the other forms of agriculture on which the country must rely for employment, exports and the growth of national income. On a long-term view, [the] only possible hope of expanding our agricultural exports lies with those products in which the country has a natural (even partial) monopoly advantage, e.g., fat cattle, pigs and pig products, poultry and eggs, dairy produce etc. The desire to foster tillage should not disregard the need to achieve maximum production at minimum cost in those lines in which by reason of the natural character of the soil, the natural aptitude and experience of the farming population and the geographical location of the country next to the greatest market for agricultural products, we can most profitably engage.

An overriding concern with the feared loss of a strong position in the British market is a striking feature of Finance's view of the situation, and the Department attached a series of tables showing how other major food-producing countries, notably the Dominions, were "sending vastly increased supplies of food to [the] United Kingdom." Finance further argued that, "apart from the political factor, present conditions in Great Britain would seem to offer an opportunity to re-establish ourselves in the market there if a suitable arrangement could be made. Government and public opinion there [are] vitally alive to the imperative need of strengthening their defences and planning for food supplies in the event of war" — a judgment subsequently borne out by the British records on the subject.[122] Finance were equally critical of the government's policy of land division which, they felt, while admittedly increasing "production for immediate consumption and . . . social stability in rural areas", had inherent dangers which tended to be ignored:

> (1) enormous cost of policy on both capital and current account,
>
> (2) reduced taxable capacity of new land holders as compared with former landlords who are set free to leave the country,
>
> (3) destruction of free market in land with resulting shock to credit and loss of land as acceptable security for credit to the farming community,

(4) dislocation of existing agricultural economy and loss or diminution of export outlets depending on relatively large holdings.

While Finance accepted that it was not now possible "to reverse or terminate" the land division policy, they pressed that it be "reduced" to enable the country "to absorb without risk of serious dislocation the revolutionary economic changes now being forced upon it by, *inter alia,* the land division policy."

Another cause for concern was "finance in general". The Finance memorandum here emphasised the "failure of bank deposits to expand here as they have done elsewhere in recent years", which they again ascribed to the crisis in agriculture. The "decline in recent years in excess of sterling assets of Irish banks over sterling liabilities" was also highlighted as being "widely interpreted as conclusive proof that we are living on our capital", which was in turn seen as "easily" leading "to a run on bank deposits and [a] consequent currency and credit crisis."

Attention was also drawn, under the heading of "public finance", to the marked increase both in the public debt and in direct and indirect taxation that had taken place since 1932. The public debt figures showed that total liabilities, which stood at £26 million in 1930 and at £31·8 million in 1932, had climbed steadily throughout the thirties, reaching £48·7 million in 1937. The deadweight debt figures showed similar increases — from £14·98 million in 1930 to £18·82 million in 1937;[123] and so too did the figures relating to the indebtedness of local authorities. The full extent of these increases, Finance pointed out, was even greater because of "falls in (a) population, (b) volume of trade, (c) wholesale prices, (d) national income"; hence the necessity for increased taxation, of which a "greater proportion . . . must be indirect taxation falling with increased severity on the poorer members of the community." Already the growth of taxation since 1930–31 was viewed with alarm: an estimated grand total of £31 million for 1937–38, compared with £24 million in 1930–31. "The considerable sums made available by the retention of the land annuities and the withholding of the pensions, local loans and other payments claimed by the United Kingdom", together with "the large temporary revenue resulting from the wide range of prohibitive Customs duties", had been "completely used up". Nor was there any prospect of a "fall in administrative costs" which might facilitate a reduction in taxation: "everything points in [the] opposite direction and the Department of Finance is snowed

under with proposals for additional expenditure both capital and recurring. Any opportunities which may exist here and there for economies are not availed of or [*sic*] cannot be followed up by Departments either because of pressure of work in other directions or because of political reactions."

A further alarming phenomenon was the rising cost of living. While it was admitted that this factor was not peculiar to Ireland, it was suggested that the Irish rise was "exaggerated . . . by high tariffs and restrictive quotas . . . internal competition is either not permitted or is not effective owing to agreements and understandings between producers." Also significant in this respect was the consequent increase in the pay and pensions of a civil service "which has swollen to a dangerous extent in recent years."[124]

Possibly the most interesting passage in the memorandum, however, was that dealing with the deleterious effects of the economic war, which was described as

> . . . one of the major causes of disturbance. So long as war lasts, firm planning for the future is impossible as no government department and no farmer or business man can plan ahead with so many major uncertainties. An early settlement must therefore be looked for particularly as considerations of defence as well as of economics now enter into the question.
>
> Extensive unemployment still exists here despite the fact that [the] world is passing through a relatively prosperous period. . . . A settlement would go far towards absorption into normal employment of the employable sections of these people. When a depression appears — as it inevitably will — in Great Britain many of our emigrants of recent years will return and, unable to find employment here, will be a burden on the rates or on the Exchequer. The only possible method of employing them is in agriculture, and that cannot be done unless agriculture is made profitable once more and is given access again to its best market on terms at least equal to those enjoyed by its competitors in that market. The British market has been expanding in recent years but we have not benefited and our rivals have got ahead of us, and are increasing their advantage every day.[125]

Any analysis of the precise reasons why de Valera took the initiative which was rapidly to lead to the end of the economic war lies outside the scope of this work and it is therefore difficult to assess with accuracy just how much weight he and his colleagues may have attached to these prognostications. But two points should be noted in passing. First, the coincidence in point of time between the initiative

and the govèrnment's receipt of the Finance memorandum: the latter was dated 9 November 1937, de Valera's key despatch to MacDonald 24 November; and the Finance memorandum was considered at a government meeting on 14 December and was again placed on the agenda for a meeting on 21 January (four days after the Anglo-Irish negotiations began) but then it "was withdrawn until further notice."[126] The second noteworthy point was that McElligott's views on the subject at this juncture were even stronger than as expressed in the Finance memorandum, which considerably watered down his opinions as set forth in the memorandum prepared for MacEntee in October. He had here written that

> . . . it is recognised that it takes two sides to make a settlement and that any settlement is going to cost us something, but it must be stressed that a settlement is now as far round the corner as it has been since the economic war began. It is suggested that the Government should make up its mind whether a genuine effort is going to be made forthwith to settle the dispute or whether we are going to maintain our policy of passive resistance.[127]

The passage seems to have been amended at the suggestion of Seán Moynihan, formerly the secretary to the government (and, as such, close to de Valera), who had succeeded H.P. Boland as assistant secretary in Finance in charge of establishments on 1 March 1937,[128] and whose comments McElligott had invited. While Moynihan declared that he was "in general agreement with the views expressed", he was unhappy with the above passage on the Economic War "because of the underlying assumption that a satisfactory settlement of the dispute could be achieved at any moment if our Government wanted it", although he agreed "entirely that a settlement is most desirable."[129]

The impact of the economic war also figured prominently in the general remarks with which McElligott concluded his memorandum and where he argued that it was

> . . . essential to disabuse people of the notion that this is a land flowing with milk and honey. Our national resources are limited and are not increasing. Between 1929–30 and 1934–35 our agricultural output declined from £64·9 millions to £40·5 millions, which meant a decline in the income of the agricultural community by £24·4 millions. . . .
>
> Owing to the limited nature of our natural resources we must continue to permit imports such as iron and steel, machinery, fine chemicals, cotton, coal, tropical produce, and various raw materials, and even to

> increase them if the standard of living is to be improved. Our present volume of imports per head is not excessive by world standards. . . . It is not the case that our imports are too high but our exports are too low and will not be capable of being increased as long as we wage an economic war with our best customer. Any policy which attempts to rectify the adverse trade balance either by reducing imports or by finding markets other than the United Kingdom for our exports is doomed to failure.
>
> In every sphere of activity there is a dangerous tendency to go ahead without reckoning the cost and on every side except the one that matters viz., most profitable agricultural export [*sic*], the optimum is aimed at. It is not so much that financial considerations are forgotten as that they are completely ignored and if thought of at all are dismissed as irrelevant and even impertinent.[130]

Reflected in this last, bitter sentence, one may detect much of the cumulative frustration and disillusion at the dilution of financial control in many areas during the thirties, only some of which we have discussed in the present chapter.

MacEntee, in the course of a brief introductory note accompanying the memorandum to the Executive Council, suggested that the principal conclusions to be drawn from that memorandum were three:

> (1) The need for securing freer and more profitable access to our principal external market.
>
> (2) The need for strictest economy in regard to governmental expenditure under all heads and for avoiding either fresh commitments or the extension of existing commitments.
>
> (3) The need to avoid any further legislative or other measures which might tend to increase our internal costs of production and distribution.[131]

These last two points are unremarkable, in as much as they embodied sentiments which might equally well have been voiced by other Ministers of Finance at other times. The first conclusion, on the other hand, is of a different order: it called for a particular initiative at a particular time — an initiative which would end the economic war.

But when the economic war finally came to an end in 1938, under circumstances which we shall shortly examine, it was not to open the way for the kind of long-term expansion and development for which Finance had hoped. Little more than a year was to elapse before the beginning of a larger and more deadly conflict; and while Ireland was

successfully to pursue a policy of neutrality throughout World War II, she could not hope to escape the financial and economic ramifications of that conflict. For Finance, then, there was to be no breathing space. One highly abnormal period, when the direction and control of financial policy was peculiarly difficult, had ended, only to be quickly followed by another period of still greater abnormality.

CHAPTER SEVEN

Anglo-Irish Financial Relations: The Economic War 1932–38

I: The Crisis of 1932

The 1932 change of government was no less of a watershed in the history of Anglo-Irish financial relations than in the history of the Department of Finance in the more general sense outlined in the previous chapter. That this was likely to be so had been evident since Fianna Fáil had made the withholding of the land annuities a main plank in their party platform. Such an action would clearly jeopardise the fabric of Anglo-Irish financial agreements which had been laboriously woven together in 1922–26, and the impending sense of crisis was such that the British government undertook a comprehensive review of the annuities issue even before the new Fianna Fáil government had the opportunity of implementing its promised policy.

On 8 March 1932, the day before the new government took office, the British Chancellor of the Exchequer, Neville Chamberlain, presented his colleagues with a special memorandum on the annuities, to which was attached a weighty and technical twelve-page Treasury memorandum. The memoranda revealed, first, the gravity with which the British viewed the dispute and, second, the nature of the British case.

The annuities, Chamberlain argued, were

> . . . payments which the tenants make in order to repay with interest the sums (or rather part of the sums) lent to them to enable them to buy their land. The Irish Free State have no more right to pocket these annuities than they have to pocket the rents paid in Oxford Street or Pall Mall. Mr Cosgrave's Government have agreed in the most plain and definite

fashion to pay over the annuities to the National Debt Commissioners, and their promise is clearly binding on their successors.

Mr de Valera does not seek to rest his case on any ground of equity or commonsense, but thinks that he could succeed in proving that various formal documents which were drawn up under circumstances of acute tension and in great haste were so faultily drafted that they do not carry out what was obviously the intention of both contracting parties. If this is, indeed, the case most people would be led to the conclusion that the proper course is to amend the formal documents so that they shall carry out the intention of both contracting parties without ambiguity; but that, of course, is not what Mr de Valera intends to suggest.

The Government of Ireland Act, 1920, never came into force as regards Southern Ireland, and was repealed as regards that country in 1922, but Mr de Valera argues that the formal steps taken to postpone the coming into force of the Act as regards Southern Ireland were *ultra vires* and invalid since they consisted in postponing the "appointed day" in a manner which was inconsistent with the terms of the Act. The legal point is not free from doubt and we could not be certain that an arbitrator would dismiss Mr de Valera's contention as totally invalid. If it were upheld, it could be argued that the Irish Free State are entitled to receive the amount of the Land Annuities from the 8th August, 1921 (when the Act came into force on Mr de Valera's thesis), to the 5th December, 1922.

Mr de Valera's second argument is that by Article 5 of the 1925 Agreement the Irish Free State were liberated from liability for the service of the Public Debt of the United Kingdom, and that the Irish Land Annuities form part of the Public Debt. This also might be regarded as an arguable point, if it is treated as a mere matter of the legal interpretation of a particular phrase. Loans guaranteed by a government are a potential, if not an actual, part of its public debt, and if default occurs on any particular loan, the guaranteeing government has to pay the service of that loan.

The balance of legal argument may be in our favour on both points, but there is at any rate a certain risk that an arbitrator might hold that Mr de Valera is right from a purely legal and technical point of view, and it would seem most undesirable that we should expose ourselves to such a decision when there is not the slightest element of doubt about the facts (1) that the Irish Free State ought in equity to pay over the annuities, and (2) that they have clearly and definitely promised to do so. Our right attitude seems, therefore, to be to insist on treating the matter from the point of view of commonsense and of good faith, and not from the point of view of hair splitting about the legal interpretation of particular texts.

For the above reasons I think that there is great force in the view that we should be very ill-advised either to suggest, or to consent to, arbitration.[1]

Chamberlain's memorandum serves as a concise yet illuminating prelude to the bitter controversy which followed and provides the key to why that dispute was so difficult to resolve. It was clear from the outset that the British government were not disposed to reopen the complex financial negotiations of the nineteen twenties. Neither, as Chamberlain so emphatically declared, were they disposed to resort to arbitration.

But Chamberlain's memorandum reveals something else about the impact of the 1932 change of government in Ireland upon Anglo-Irish relations, which is of particular relevance to the history of the Department of Finance: differences, which in the twenties had been essentially financial in character, were, in the thirties, essentially political. We have already seen how political considerations could never be ignored in the financial negotiations of the twenties and how they sometimes assumed major importance;[2] but the Finance and Treasury officials who took part in those negotiations were fully aware that their political masters were *politically* anxious for, and assumed the possibility of, *financial* agreement. The post-1932 situation was very different. The background of political consensus, against which financial agreement had previously been sought, no longer existed. Circumstances had been completely reversed. Anglo-Irish *political* differences were now so acute that they not merely jeopardised the financial agreements of the past but also militated against any quest for harmonious financial relations in the present or in the immediate future. It was not, as we shall see, that the Finance view of the Treasury or the Treasury view of Finance underwent any sudden change after 1932 but, simply, that their views were no longer relevant.[3]

This politicisation of Anglo-Irish financial relations greatly diminished Finance's influence in areas where they had hitherto exercised practical, if not theoretical, control. Aspects of Anglo-Irish financial relations which had hitherto fallen within the Finance ambit now became highly sensitive politically, and much of what had earlier fallen to Finance officials now fell instead to the politicians. The balance of power within the new government, or, more precisely, the personal pre-eminence of de Valera, also contributed to this development. In the twenties the balance had tilted towards Finance. President Cosgrave had not only held the Finance portfolio during the decisive formative years of the new state but had also shown himself extremely sympathetic to the Finance officials who, above all in

Brennan's case, could lean heavily upon his confidence and co-operation.[4] De Valera too, felt that the President of the Executive Council should hold an additional ministerial portfolio; but where Cosgrave had chosen Finance, de Valera chose External Affairs, feeling "that this was a post which should, if possible, be held by the Head of Government, so that there might be no doubt as to the authority with which the Minister spoke."[5]

The impact of these changes upon Finance was immediate. Within a month of Fianna Fáil's assuming office, McElligott was constrained to ask External Affairs for copies of that department's correspondence with J. H. Thomas, the Secretary of State for the Dominions, — correspondence which vitally affected the annuities issue which had hitherto been Finance's preserve.[6] This correspondence had begun on 22 March 1932 when J. W. Dulanty, the Irish High Commissioner in London, had written to Thomas confirming statements he had made during a meeting between the two men that same day. Dulanty's principal concern, mirroring that of his government, was with the question of the oath of allegiance embodied in the 1921 Treaty and he made no mention of the annuities in this first letter. But the annuities were mentioned in Thomas's letter to de Valera the following day when he wrote that his government understood from de Valera's public statements that the Irish Government intended to retain the annuities although he had "received no official communication on the point". Thomas put on record the essence of the British case as laid down by Chamberlain, saying that the Irish Government were

> . . . bound by the most formal and explicit undertaking to continue to pay the land annuities to the National Debt Commissioners, and the failure to do so would be a manifest violation of an engagement which is binding in law and in honour on the Irish Free State, whatever administration may be in power, in exactly the same way as the Treaty itself is binding on both countries.[7]

De Valera's reply of 5 April, while again primarily concerned with the oath, also took up the question of the annuities when he asked for a statement of what the British understood to be the "formal and explicit undertaking to continue to pay the Land Annuities". His government, de Valera continued, was "not aware of any such undertaking, but the British Government can rest assured that any just and lawful claims of Great Britain, or of any creditor of the Irish Free State, will be scrupulously honoured by its Government."[8] Thomas's response was unequivocal: "the formal and explicit undertakings", he

wrote, were the Financial Agreement of 12 February 1923 and the Ultimate Financial Settlement of 19 March 1926 "discussed in Dáil Éireann on the 8th December, 1926."[9]

The 1923 agreement, as we have seen already,[10] had never been published and this was the new government's first formal intimation of its existence. The Department of Finance was asked for all their files relating to Anglo-Irish financial agreements since the state's foundation and these were duly sent for examination by the Attorney General on 23 April 1932.[11] While the government subsequently "decided that any payment, which in the opinion of the Attorney General is required by the Treaty of 1921, or by the Agreement of 1925 amending and supplementing the Treaty, to be made to the British Government should be duly made",[12] the contrary decision was taken in respect of the 1923 Agreement and the Ultimate Financial Settlement. The distinction was that neither of these latter agreements had been ratified by the Dáil — that they had been "discussed" in that assembly, as Thomas had pointed out, was insufficient. Nor should the fact that all three agreements were concluded *before* the Fianna Fáil party entered the Dáil be overlooked.

Ministerial talks which took place in Dublin on 7 June between de Valera and the Minister for Justice, James Geoghegan, on the Irish side, and Thomas and Viscount Hailsham on the British, failed to bridge the gap. No officials (either from the Department of Finance or from any other department) were present at these talks which, together with the absence of the Minister for Finance, starkly revealed the chasm which separated the conduct of Anglo-Irish financial relations in the thirties from the practice of the twenties. Neither were any Finance officials present when further talks took place in London on 10 June, although de Valera and his Vice-President of the Executive Council, Seán T. O'Kelly, were then accompanied by the Secretary to the Executive Council, Seán Moynihan, and the Secretary of the Department of External Affairs, J. P. Walshe. These talks were equally unproductive, although the British did unbend sufficiently to propose that the dispute should be submitted for arbitration.[13]

De Valera summed up the position in a statement to the Dáil on 17 June when he reaffirmed his government's intention "to retain the land annuities in the State Treasury". There was "no contractual obligation binding us to hand these annuities over to the British", he said. "Since we came into office with the responsibility which it involves," he continued, "we have given more detailed study to these

matters than was possible when we were in Opposition, and the more we study them, the more we are satisfied that the position we took up in regard to them was sound both in law and justice." De Valera made it clear that his talks with British ministers, had been merely "friendly discussions" and not "formal negotiations". While, in a letter which he had sent to Thomas the previous day, he had not rejected a British proposal that the dispute be referred to an arbitration tribunal, he had refused to accept that such a tribunal should be confined to members drawn from countries within the Commonwealth as the British proposed. He told the Dáil that he had further required that "the matters to be submitted to the tribunal for determination must include not merely the land annuities, but also the item of the other annual payments to the British Government by the Government of the Irish Free State, except those in pursuance of agreements formally ratified by the Parliaments of both states". But de Valera realised that the prospects of an immediate compromise were remote, as he made clear when he said that, while he had not received any official reply from Thomas, he did not believe that the British government would find his counter-proposals acceptable.[14]

De Valera's pessimism was fully justified. The British viewed the arbitration solution with very considerable suspicion — as Chamberlain's March memorandum abundantly testifies — and the proposal of an "Empire Tribunal" (which emanated from a meeting of the British Cabinet's Irish Situation Committee on 9 May)[15] represented, in their eyes, a considerable concession. By mid-June they too seemed prepared for a long drawn-out dispute as is seen from a series of Treasury memoranda on the financial arrangements between the United Kingdom and the Free State, circulated to the cabinet at the instance of the Irish Situation Committee.[16]

The dispute worsened when the House of Commons resolved to make up the British losses on the annuities by imposing customs duties on Irish imports. One last effort to avoid an impasse was made on 15 July when de Valera (accompanied only by his secretary, Maurice Moynihan) had talks in London with the Prime Minister, Ramsay MacDonald, and the British Lord Chancellor (Lord Sankey) and Attorney General (Sir T. Inskip). The talks, which went on from 7.50 to 10.35 that night, came to nothing when de Valera rejected the British offer to suspend their duties in return for his resuming payment of the land annuities. De Valera argued that his government's "decision to pay the [land annuity] monies into a suspense account

was ample evidence of their good faith", but MacDonald insisted "that if there was to be a suspension of the duties there ought to be a complete return to the *status quo* which the Irish Free State Government had been the first to disturb".[17] Breakdown was thus inevitable since as the press communiqué bluntly noted, "neither party was able to depart from the position taken up in the published despatches".[18] The economic war began next day with the imposition of the 20 per cent *ad valorem* British duty on Irish imports.

Why were the British Government so unyielding on the annuities issue? There is little doubt that many of the reasons for their intransigence (notably the British hope that the de Valera government would be short-lived and that Cumann na nGaedheal might soon regain power) may be found in the realm of the broader political and constitutional dispute which falls outside the scope of this book. However, the specifically *financial* arguments underlying British policy do merit closer examination. Some of these arguments may be found in a Treasury note of 18 July, drawn up in response to de Valera's statement, published the same day, which declared that the Irish people were "being unjustly compelled to bear the crushing burden of these payments". Such a phrase, the Treasury claimed,

> . . . could only be appropriate if the payments made by the Irish Free State were a tribute, or even a contribution, from one Government to the other. So far from being asked to pay a tribute, the Irish Free State was in 1926 entirely released from its Treaty liability to contribute to the service of the Public Debt of the United Kingdom, which had been incurred for the joint benefit of all the people of the United Kingdom, including those now belonging to the Free State. Such a contribution to joint Public Debt is normally payable when one area is separated financially from another and the release of all such obligations was a signal act of generosity on the part of Great Britain and was so recognised in both countries at the time. . .
>
> In short, these payments consist either of private payments in the nature of rent, etc., or repayment of loans advanced for public works, which form no burden on the Free State Budget, or else, for the most part, of normal administrative expenses, such as Pensions, which all Governments have to bear; and of the total payments made a large part are retained in the Irish Free State and represent no burden on its balance of payments.[19]

Another Treasury memorandum, entitled "Financial relations between Great Britain and the Irish Free State" and written by T. K. Bewley, "for the use of the British Library of Information at

Washington in counter-acting Irish-American propaganda", is of special interest for the light which it throws upon British attitudes.[20] Bewley, who had been one of the Treasury officers lent to the Department of Finance under the Provisional Government, argued that under articles 1 and 2 of the Treaty, the Free State had been "given the same constitutional status and relation to the government of the United Kingdom as the Dominion of Canada", the effect of which completely separated the finances of the two states and gave the Free State "complete control of her own finances". When it came to how this financial control could be best transferred, Bewley continued, it was agreed

> . . . that the Irish Free State Government should assume control of the Free State as of a 'going concern' i.e. that they should take over both the assets and the liabilities attaching thereto.
>
> In accordance with this principle Government property in the Irish Free State was, in general, handed over free of charge to the Government of the Irish Free State. The civil government offices in the territory of the Irish Free State with their furniture and equipment, lands and buildings, etc., were thus transferred to the ownership of the Irish Free State Government.
>
> On the other hand, in accordance with the same principle, the Irish Free State were expected to accept responsibility for the liabilities attaching to the territory which they took over.

Bewley went on to emphasise that, where these general principles of transfer had been modified, the "two very important modifications" were "to the advantage of the Irish Free State Government", who had, first, "been absolved of all liability in connection with the British National Debt" and who had, second, "not been required to shoulder their full liability in connection with Irish Land Purchase." The remaining payments from the Irish to the British government amounted to something over £5 millions a year and it was these, wrote Bewley,

> . . . which have given rise to the wholly erroneous idea that some form of 'tribute' is still paid by Ireland. These payments arise purely from the fact that the Irish Free State was taken over as a 'going concern' with its assets and liabilities. The assets were handed over as capital assets, while the liabilities for the most part take the form of annuities paid for the service of loans long since expended on purposes relating to the area which has now become the Irish Free State.[21]

The Treasury, too, were responsible for that sudden stiffening in the

British government's attitude in early July which had led to the breakdown of the de Valera-MacDonald conversations in London and the outbreak of the economic war. On 7 July Sir Richard Hopkins, one of the Treasury "knights", sent Sir Warren Fisher a special minute marked "very urgent" in which he recorded how "very uncomfortable" he felt "about the way the Irish question is developing". Hopkins reckoned that the "Irish default" would be about £4·7 millions whereas the British punitive tariffs would not produce more than £3·5 millions. But Hopkins's decisive intervention was to suggest that his government would be "embarrassed if de Valera accepts the latest position taken up by Mr Thomas as I cannot see that he has made it clear that the money has to be paid to us *pending arbitration*. Suppose he goes on paying his receipts to a suspense a/c, where is our Budget?"[22] It was the British Prime Minister's refusal to accept precisely this alternative which led to the breakdown of his talks with de Valera on 15 July.[23] However sympathetic the Treasury may have been to Ireland's financial problems in the past and might be again in the future, the withholding of the annuities affronted Treasury principles of financial orthodoxy too severely for their immediate reaction to be other than one of outright opposition.

Finance, their good relations with Treasury officials notwithstanding, were powerless to alter the course of events. Although the 1932 crisis brought sweeping changes in the climate of opinion and in the economic circumstances within which Finance had to function for the better part of the next decade, the fact that the crisis was essentially political rather than financial rendered Finance officials impotent. For the historian, this impotence is starkly displayed in the paucity of material in the Department's archives relating to the crisis. Whereas for Anglo-Irish financial relations in the nineteen twenties there is an abundance of material, for the thirties there is little or nothing; and the change aptly symbolises Finance's loss of control over the direction of financial policy.

To say this, of course, is not to suggest that there was any fundamental change in Finance attitudes, but rather to argue that some of those attitudes temporarily became less relevant in the context of the economic war. Finance continued to try to uphold the same policies which they had advocated in the past. One example will suffice.

The Sale of British Government Securities

In July 1932, when Anglo-Irish relations were deteriorating rapidly,

there was some anxiety in Irish government circles that one British retaliatory action might be to impound Irish government holdings in British government securities — an anxiety which prompted the suggestion that such securities should be realised and the proceeds reinvested. On 8 July the government decided that all disputed moneys, should be paid into "special suspense accounts in the Bank of Ireland", and not to the British Government. Finance however, threw cold water on the suggestion that Britain might impound Irish government holdings in British government securities in a series of four lengthy and detailed minutes to their minister between 18 and 28 July. Finance's main arguments were as follows:

1. No reason for the fear of impounding the Free State holdings has yet emerged.
2. One British contention is that the Free State has not acted honourably in seizing the annuities on their way from the pockets of Irish farmers to the pockets of the persons who (in effect) lent the money to enable Irish land to be purchased. From this angle, the British would not be so foolish as to act dishonourably and (in effect) repudiate their obligations.
3. Any such action as impounding would give a shattering blow to the British reputation for financial integrity and determination to meet obligations at all costs. Their credit would be greatly lowered for many years to come. Especially at the present time, the suggested action would be immeasurably foolish.
4. Even if the fear had substance, *you have no proper alternative* to taking any risk which may be involved in retaining British Government stocks.
    (a) You have no legal authority for investing in any external Government securities save British, and
    (b) even if you had authority to make other investments, the position of the Exchanges stands in the way of investing in the securities of a country still on gold . . .

In these circumstances . . . a Trustee would be speculating, not investing, with the practical certainty of incurring substantial loss of both income and capital.
A major politico-financial scandal would in any event sooner or later

> emerge, via the Public Accounts Committee, with the usual disastrous consequences to individuals and serious damage to the credit of the State.[24]

McElligott, then in Ottawa as adviser to the Irish delegation to the Imperial Economic Conference, backed up these arguments by telegram. He argued that British seizure of Irish holdings was "unlikely", advised against reinvestment in the securities of other Dominions or of the United States, raised the spectre of a "possible run on Savings Banks, Savings Certificates, Government securities and bank deposits" (a possibility described as a "greater disaster than British seizure of our assets") and, generally, threw all his authority against the "suggestion [*sic*] to realise our securities".[25]

But if Finance officials held strong opinions on the subject, so too did their minister and, at 5.30 p.m. on the day McElligott's telegram had been received — 28 July — Arthur Codling (Acting Secretary in McElligott's absence) received a final, one-sentence minute from his minister instructing him to sell the government's holdings of the British 5 per cent War Loan immediately — a decision both implemented by Finance officials and approved at a government meeting on the next day.[26] The holdings of some £2·8 millions were duly sold and the proceeds placed on deposit with the Bank of Ireland at 1 per cent interest per annum pending the enactment of the Approved Investments Bill 1933. This Bill loosed the restrictions (embodied in the British Trustee Act of 1893 and even earlier British acts) which had until then, as his officials had pointed out, prohibited the Minister for Finance from investing "in any external government securities save British".[27]

Nineteen thirty-two saw another abortive attempt to end the dispute: a conference held in London on 14–15 October, at which Seán MacEntee, as Minister for Finance, accompanied by McElligott, was included in the Irish delegation for the first time since the change of government. But the composition of the Irish delegation, again headed by de Valera and including his two departmental secretaries (J. P. Walshe and Seán Moynihan) as well as Dulanty as Irish High Commissioner in London, once more reflected the diminution of the significance of financial, as opposed to political and constitutional, considerations. The British delegation, in contrast, was headed by the Chancellor of the Exchequer, Neville Chamberlain. MacEntee's own contributions to the discussions, most notably at the third session on the morning of 15 October, were also characterised by their political

content. He argued, for instance, that "the question of over-taxation had never been taken into consideration . . . although it had for long been a major political issue in Ireland, and the view that Ireland had been overtaxed had received full support from all sides in Irish politics" — a declaration curiously echoing Michael Collins's contribution to the meeting of the financial sub-committee during the Treaty negotiations.[28] MacEntee also argued that the 1926 agreement, "whether valid or invalid . . . was not in fact what it purported to be — a final financial settlement. . . . There had, in the view of the Irish Free State representatives, never been any final financial settlement". The Irish Free State, he declared, "were trying to wipe out a long-standing dispute that had lasted for many years. They wanted to have no further irritants. . . . They were only explaining that so long as there was money being paid in respect of Irish land there was bound to be irritation."[29]

MacEntee's arguments were formally reinforced in the Irish despatch of 12 October which justified the denial that there was "any binding force" in either the 1923 financial agreement or the Ultimate Financial Settlement because, "amongst other reasons", they were "not submitted to the Oireachtas for ratification", they did "not purport to have been signed by accredited representatives" and were "merely provisional". On the question of land purchase annuities, the same Irish despatch rejected the British contention that the payments were not inter-governmental debts but contended instead

> . . . that the Land Stocks are part of the Public Debt of the United Kingdom and should, therefore, under the Agreement of the 3rd December, 1925, which amended the Treaty, remain a liability of the United Kingdom. . . . Further, in view of all the historical circumstances, it is not equitable that the Irish people should be obliged to pay away these moneys.

History was similarly called to witness in the matter of the payment of Royal Irish Constabulary pensions, when it was argued that "historically, as the Royal Irish Constabulary was an occupying force, hostile to the national aspirations of the Irish people, it would not be right or equitable to impose a charge for their pensions, etc., on the Irish people."

The British replied by arguing that

> . . . according to the recognised practice of nations, agreements concluded between representatives of Governments are binding upon the Govern-

> ments concerned unless they are expressly stated to be subject to ratification. No such statement occurs in the agreements either of 1923 or of 1926 which were signed by Ministers on each side.

The British similarly denied that the land annuities were any part of their Public Debt or, as they had always done, that they could be regarded as inter-governmental debts; and they interpreted "the statement that in view of all the historical circumstances it is not equitable that the Irish people should be obliged to pay away these moneys . . . to mean that Ireland was over-taxed in the past"[30] — the data upon which this argument was based, the British declared, were "in many respects fallacious . . . taking the whole period from the date of the Union until the present time, it would be impossible to establish any clear proof that Ireland has been over-taxed at all".[31]

These fundamental divisions, evident in the memoranda formally exchanged between the two governments, emerged equally clearly in the exchanges between Chamberlain and de Valera in their London meeting on 15 October. Chamberlain said that he saw the Irish claims as falling

> . . . into two separate categories. The first category was that of claims whose sole basis was that certain agreements between the Irish Free State and Great Britain were not valid. Of course they [the British government] did not accept that. The second category consisted of claims which are not based upon any alleged invalidity of agreement but were rather claims addressed to the British sense of fairness and natural justice.
>
> The atmosphere in which the British looked at what he would call the generosity claims was not improved by the fact that other claims were based upon legal technicalities.[32]

In reply, de Valera argued "that the whole purpose of the Conference was to arrive at a financial settlement between the two countries" and admitted that from "the Irish point of view the present relations were not satisfactory. His hope was that all those items which are a source of friction might be settled". But while, in this context, de Valera did not dispute the validity of one particular agreement when questioned by Chamberlain, he still refused to relinquish the Irish claim "on the basis of fair play and natural justice".[33]

Given these circumstances, it was hardly surprising that the October conference failed. The reasons for its failure were embodied in a final, unyielding Irish memorandum of 26 October which reiterated the Irish government's point of view on the various disputed financial

issues and which demonstrated that the gulf dividing the Irish from the British view of the financial relationship between the two countries was just as unbridgeable as when the 1932 crisis had begun.[34]

II: The Coal-Cattle Pacts

More than two years elapsed before there was any sign of a thaw in Anglo-Irish financial relations. Finance's impotence to restore harmony during these years seems to have been just as pronounced as in 1932. Here again the historian can find no traces in the Department's records of any significant Finance intervention or initiative. When the first crack finally appeared in the ice which was freezing financial relations, it was the work, not of Finance, but of J. W. Dulanty, the Irish High Commissioner in London. Dulanty's role is recorded in an illuminating Treasury memorandum which reports that Dulanty first went to Thomas, the Secretary of State for the Dominions, in October 1934 with the idea as to

> . . . whether it would not be possible to take a suitable opportunity to improve relations between the United Kingdom and the Irish Free State by arranging for the present economic restrictions to be relaxed, to the benefit of both, without prejudice to the wider financial or political issues involved. . . The United Kingdom should increase the quota of Irish Free State cattle to the full extent possible and that, in return, the Irish Free State should arrange to divert orders for coal from Poland and Germany to e.g. South Wales to an equivalent amount. With this idea in view Mr Dulanty had, on his own responsibility, gone over to Dublin and had had talks with Mr Lemass, Mr Ryan and Mr de Valera. He had found Mr Lemass and Mr Ryan favourable to his idea and, after some difficulty, had brought Mr de Valera round to it.

Dulanty now thought, the Treasury memorandum continued, that "if anything could be done" on the British side, "there would be a response" on the Irish side, although he envisaged "nothing in the nature of a formal agreement — merely that each side should take a suitable opportunity to make concessions. His idea was a purely commercial arrangement." Dulanty felt "that, if this could be done, the psychological effect on, at any rate, several of the members of the Irish Free State Cabinet would be good".[35] On the other hand, as the Treasury immediately realised and accordingly minuted, if they were to turn down Dulanty's scheme, "the effect would be proportionately bad".[36]

The genesis of the coal-cattle pacts is another confirmation of the new government's tendency effectively to exclude the officials of the Department of Finance from key areas affecting Anglo-Irish financial relations. One fascinating explanation of how this came about was provided by Dulanty himself in the course of an extraordinarily frank conversation with Malcolm MacDonald (Thomas's successor as Secretary of State for the Dominions) on 26 August 1936. Dulanty, speaking of de Valera's marked reluctance to agree to sending officials from Dublin to participate in secret negotiations in London then being proposed by the British, suggested that de Valera "might be influenced a little" by the consideration that

> . . . at the head of his Government Departments were men who worked with Cosgrave. They were suspect to many in the President's own party. Some of them were well known as being pro-British connection. The head of the Treasury [McElligott], for example, had never attempted to hide his view that the struggle against Great Britain was all nonsense. A resolution had actually been proposed at a recent Conference of Mr de Valera's party to the effect that certain permanent officials should be dismissed.[37] Therefore, he [Dulanty] thought it just possible that Mr de Valera was anxious that such men should not have too much responsibility in the discussions. . . . This was not because of any lack of confidence in his men on Mr de Valera's part, but simply on account of the political expediency of not letting his Government be represented in these important talks by officials who had not the confidence of his own followers.[38]

But if Finance played no immediate part in bringing about the coal-cattle pacts, it may well have been that the harmonious relations which they so carefully nurtured with their Treasury counterparts during the twenties now paid handsome dividends. Otherwise it seems difficult to explain the Treasury's remarkably sympathetic reaction to Dulanty's scheme: "Dulanty would seem to have acted with courage and foresight in the interests of both countries",[39] minuted A. P. Waterfield, the former head of Treasury (Ireland) in the days of the provisional government and before. The Permanent Secretary, Sir Warren Fisher, was even more blunt: "I hope", he wrote, "we shall adopt a liberal policy as regards the Irish Free State in this matter."[40]

On 3 January 1935 the first of the coal-cattle pacts along the lines suggested by Dulanty was duly published;[41] while it marked a step forward in as much as some kind of dialogue was re-established between the two sides, it did not serve as a foundation for any further

immediate advances. But the pact was for one year only and when, at the end of 1935, it became due for renegotiation, it provided the occasion for a further, more remarkable demonstration of Treasury sympathy for the Irish position in the Anglo-Irish financial impasse.

On 7 December 1935 the Chancellor of the Exchequer, Neville Chamberlain, approved negotiations for the renewal of the pact

> . . . on the existing quantitative basis and a reduction of not more than 20% of the existing duties on cattle in return for removal as far as possible of tariff discrimination against United Kingdom goods (except coal where the duty is borne by the Irish consumer) and the cessation of administrative discrimination. Also a modification of the existing special duties on Irish horses and dogs. This was to cost £740,000, none of which would actually fall on the Budget.[42]

But, in the negotiations which followed, the Irish sought better terms. They demurred at taking all their imported coal from the United Kingdom — "an order continuing the United Kingdom coal monopoly for the current year . . . [was] provisional only" — "unless the United Kingdom would take the extra fat cattle (said to be 50,000)" for which they would otherwise have to seek another market.[43] The Treasury reacted sympathetically and "authority was asked to get the best settlement possible, conceding anything up to 30% . . . reduction in special duties, all subject to the cost not exceeding the £740,000 first proposed". In a personal minute to the Chancellor, Fisher threw his full weight as Permanent Secretary behind this substantially more generous Treasury proposal. But Chamberlain flatly rejected Fisher's advice. "I do not much like this proposal at this stage", he wrote;

> I think we have laid down the limits of the concessions we would make without any very definite specification of the concessions to be made in return. Until we have got some clearer idea of what these will be I do not see any reason for enlarging the limits of our concessions.
>
> The disadvantages of the extra import of fat cattle are considerable and the loss of revenue is also extensive. Other considerations have also to be taken into account and they are not very easy to state in justification of what may seem on the face of it a one sided bargain.[44]

Such open disagreement between Chancellor and Permanent Secretary was unusual, so much so that it prompted Fisher to relinquish responsibility for the matter in question and hand it over to one of his subordinates, Sir Richard Hopkins.[45] The disagreement was

symptomatic of the extreme political sensitivity of Anglo-Irish financial relations for British as much as for Irish civil servants. Fisher had by now served as Permanent Secretary to the Treasury for almost twenty years and the views he expressed were not fundamentally different from opinions he had expressed as early as 1920 and would, more successfully, again express in 1938;[46] but, in January 1936, they were politically unacceptable. Yet Fisher was not long before his time. There had already been a significant change at the Dominions Office, where Thomas was succeeded as Secretary of State by Malcolm MacDonald in late November 1935. MacDonald, it was soon apparent,[47] was much more interested in seeking an early compromise in Anglo-Irish relations than his predecessor and, on 10 July 1936, he circulated to his cabinet colleagues a memorandum which served as a starting-point for the first conciliatory British initiative in Anglo-Irish financial relations since the beginning of the economic war.

The memorandum, which was "drawn up departmentally in consultation between the Treasury and the Dominions Office", set out the "considerations to be borne in mind in reaching a decision as to the lines of a possible settlement of the financial dispute with the Irish Free State".[48] The memorandum argued that it was clear

> . . . from the political point of view, [that] the most satisfactory settlement of the financial dispute with the Free State would be by means of a lump sum payment by the Irish Free State. By this means it would be possible to eliminate the continual source of friction arising from the need for an annual vote of money in the Free State Parliament, with the possibility at any time of further repudiation.

But the Treasury saw "serious practical difficulties" in such a solution; they calculated that the "*total* capital value" of the disputed payments on which the Irish were in default was about £100 millions of which about £75 millions were represented by the land annuities, £12 millions by RIC pensions, £7 millions by local loans, and the remainder by smaller, sundry items. The Treasury thought it was impossible to estimate accurately how much the Irish government would be able to borrow to pay off the disputed claims, but they were "confident" that "they could *not* borrow as much as, say, £25,000,000 (except on condition that the loan would be guaranteed by the Government of the United Kingdom, a condition to which the objections are obvious)" — £10 millions, the Treasury tentatively suggested, was as much as the Irish Free State "*could* borrow".[49]

The Treasury's fears were spelt out more cogently in an internal minute which argued that

> . . . the difficulty in connection with the suggestion that the Free State might pay a large lump sum is simply that one does not see how the Free State Government could raise the money. A loan for this purpose would be unpopular in Ireland and certainly de Valera could borrow very little in London. He might dragoon his banks into taking a share in a new loan, but they cannot accept unsaleable assets to more than a very limited extent. No one could tell until the experiment was tried, but I certainly think it improbable that by any combination of methods de Valera could raise and pay over to us more than, say, £10 millions.[50]

But Fisher took a very different line: "if the age-old tension between Ireland and England could be effectively and permanently ended", he minuted magnanimously, "the importance to us of these particular money claims is in my view negligible".[51]

Whatever the difficulties in the path of a "lump-sum settlement", the British found the alternative of settlement by arbitration still less palatable on the grounds that

> . . . the Irish Free State have resisted any tribunal limited to within the British Commonwealth . . . while the Government of the United Kingdom have maintained firmly the position that they cannot accept arbitration except by a British Commonwealth arbitrator. Even, therefore, if it were possible to regard an arbitration as a satisfactory method of settling the question, it may not be considered practicable, on political grounds, to reach agreement as to an arbitration. Moreover, it might be very difficult to agree on terms of reference. The Free State Government might want to include capacity of payment and transfer, and also the question of the alleged over-taxation of Ireland for the past century or more.[52]

But the more serious differences, of course, were still political and constitutional rather than financial, as a meeting of the cabinet's Irish Situation Committee on 22 July 1936 made plain.

Although that meeting was primarily concerned with the constitutional issue, it also witnessed the further development of British policy in respect of Anglo-Irish financial relations, despite the unanimous view, as expressed by the Prime Minister, Stanley Baldwin, that the "question of allegiance was fundamental" and that, in the absence of agreement on that question, "no useful purpose would be served by attempting to reach agreement on the other outstanding issues".[53] But this was not regarded as sufficient justification for ignoring the finan-

cial issue since, as MacDonald argued, "it would be desirable to put in two or three other proposals in addition to the Constitutional question, in order to enable the representatives to switch over to some other subject of discussion if the Constitutional issue proved awkward in the beginning."[54]

This was the background against which MacDonald proposed that British representatives might be authorised to say "that as regards the financial dispute we were ready to discuss the matter, and if we could settle that we should be prepared to take off the special duties if the Irish Free State also took off theirs". But Chamberlain, speaking as Chancellor of the Exchequer, took a less lenient view. He thought it

> . . . important not to balance the United Kingdom special duties against the Irish Free State special duties. He did not mind linking the special duties with the financial dispute, indeed he thought it was right that they should not be treated as separate issues. . . . He was not able to see what the Irish Free State could propose. To his mind there was no possible solution except one by which we gave up something to which, in his view, we were entitled. He felt that we ought not to be in a hurry to suggest giving up anything. . . The Irish Free State might offer something which we might have to accept; and we should then lose the card of the special duties, which was obviously of great value in bargaining. He urged, therefore, that the duties should not be separated from the question of the financial agreement.[55]

Chamberlain had his way and the official position adopted by the British government was that their representatives would "not be authorised to put forward any definite proposals" but would merely "indicate . . . willingness to consider whatever suggestions for a comprehensive settlement of this aspect of the problem the Irish Free State might wish to offer"; at the same time it was recorded that the Irish representatives were unlikely to be able to make "any suggestions likely to be acceptable". British policy in respect of Anglo-Irish financial relations were then summed up as follows:

> . . . our position in this matter should be entirely reserved until we are in a position to see what prospect there is of obtaining a satisfactory settlement on the other items, especially the constitutional issue. Great care must, of course, be taken to avoid conveying the impression that we are anxious by making some financial sacrifice to purchase the allegiance of the Irish Free State.[56]

The deliberations of May-July 1936 thus led to the clearest and most comprehensive expression of the British view of Anglo-Irish financial

relations since the first months of the economic war. They reflect a shift in the British stance and the emergence of a more flexible attitude, characteristic of the anxiety to seek compromise which is associated with MacDonald's tenure of office as Dominions' Secretary. They reflect also the outline of British thinking as to the form which a compromise financial settlement might take. But they show that it was not yet the time for compromise in as much as the fundamental problem of disentangling the financial from the constitutional issue was no nearer to solution. This is the reason why the British willingness to seek agreement on the financial issue, evident as early as July 1936, produces no practical results before 1938.

The exploratory talks between British representatives and Dulanty in September 1936 — the outcome of the British deliberations in July — made this much plain. "Sir Warren Fisher", reported Dulanty, "thought a good deal could be done on the question of defence, but he did not think we could make progress on that subject, nor on finance and trade policy, until we could get closer to some solution of the Constitutional question".[57] Anglo-Irish constitutional relations, moreover, were to get much worse before they got better, and their deterioration over the course of the next twelve months created a political tension so acute as to make the possibility of financial agreement still more remote.

This was because 1936–37 saw a dramatic acceleration in de Valera's campaign to dismantle the Treaty and to reconstruct his own edifice of Anglo-Irish constitutional relations. He used the abdication crisis, which came to a head in early December 1936, to eliminate all mention of the King and of the Governor-General from the Irish Constitution, and much of 1937, as we have already observed, was given over to drafting and enacting a new Constitution which was approved by the electorate in July and which came into force on 29 December 1937. We have seen, too, how in early November 1937, the Minister for Finance had circulated a major memorandum to the Executive Council outlining the grave consequences of the economic war for the country's economic and financial situation, and how McElligott, in particular, was by now "stressing the absolute necessity, from our point of view, of finally settling all our outstanding economic and financial differences with Great Britain. . . . The international outlook is at present so obscure", wrote McElligott in a minute for his minister, "and the Government as well as public opinion in Great Britain are so alive to the imperative need of

strengthening their defences that we should take advantage of this situation. Great Britain can provide most of her war requirements, except food, and she undoubtedly wishes to draw her imported food supplies from the nearest source possible".[58]

McElligott's proposals must be set against the background of the growing British concern with international relations and of the great debates about appeasement and rearmament in the face of the threat posed by Hitler's Germany, which had by now become the principal pre-occupation of the new British Prime Minister, Neville Chamberlain, and his colleagues. What followed may be seen, perhaps, as an illustration of Chamberlain's preference for policies of appeasement in Anglo-Irish, as in Anglo-German, relations.

De Valera and his colleagues were also more disposed to appeasement, if only because they had now successfully rewritten the 1921 Treaty and, in the 1937 Constitution, had restructured Anglo-Irish relations. De Valera himself stressed the significance of this sequence of events when he emphasised how the "question of the financial arrangements" had been "mixed up" with "certain constitutional questions". Agreement on financial and economic matters, he later argued, would have been impossible "without the sacrifice of constitutional rights before the Constitution was introduced".[59]

Under these changed circumstances, de Valera took the initiative at a special cabinet meeting on 23 November 1937 when he submitted a draft despatch to be sent to the British government "in reference to discussions between officials of the two governments in regard to economic and other measures to be adopted in time of war". The despatch declared

> . . . that such measures would depend fundamentally upon the relations existing between the two countries on the outbreak of war, and that the steps to be taken in preparation should be guided by a just appreciation of what those relations were likely to be.
>
> If the Irish government had to envisage a continuance of the existing strained relations between the two countries their plans should [*sic*] obviously be very different from those appropriate to a situation in which there would exist between the two peoples a feeling of mutual trust and a disposition to cooperate in matters regarded by both as of common concern.

De Valera's antipathy to negotiations at official, as opposed to ministerial, level, and his recognition that the dispute was essentially political rather than financial or economic, were both reflected in the

further declaration that the Irish government "were satisfied that piecemeal discussions between civil servants on the economic and other aspects of the situation which would arise in the case of a major war could achieve no useful purposes until some prior understanding in principle had been reached between the two governments." The despatch therefore proposed "that members of the two governments should meet as soon as possible to consider all the important matters involved."[60]

De Valera's proposal was duly approved and the despatch was sent the next day. The British response was favourable and, on 7 January 1938, the Irish cabinet approved of a delegation led by de Valera and also including the Ministers for Finance, for Industry and Commerce and for Agriculture. The secretaries of these three departments — McElligott, Leydon and Daniel Twomey — were also in the delegation which crossed to London for the first time on 15 January for the first round of the negotiations which led to the end of the economic war.[61]

III: The 1938 Agreement

Once the constitutional obstacles to agreement had been removed and both sides had decided to negotiate, the more liberal Treasury attitudes, which had become apparent in the mid-thirties, became of immediate practical importance. Warren Fisher, who handled the general question of the Irish negotiations for the Treasury,[62] again played a key role in urging a liberal and open-handed policy at variance with the traditional Treasury image. "I feel strongly", minuted Fisher, "that it would pay England — in the long run and in every way — to take a generous view of this most unhappy financial tangle."[63] Again, in a preparatory Treasury memorandum for the January talks, Fisher commented on an attached note which dealt with the historical background to Anglo-Irish relations.

> It is too readily forgotten by us English that our record over the larger part of the period has been outrageous. And we also don't understand the Irishman's habit of living in the past. I sincerely trust that these considerations will be taken into account in the present negotiations which, if liberally handled on our part, may prove a future blessing and strength.[64]

The complex narrative of the Anglo-Irish negotiations of January-April 1938 falls outside the scope of this work, although it is sometimes difficult to distinguish clearly between the financial and other aspects as "in point of fact the discussions on the different topics

would almost necessarily tend insensibly to slide one into another."[65] Before attempting to trace the financial strand of the negotiations, moreover, it is necessary to point out that, while political considerations no longer precluded negotiation, they continued to overshadow considerations of a simply financial character. For example, following a preliminary conversation Malcolm MacDonald had with de Valera before the formal negotiations began, he declared that the latter's order of priorities in discussion was partition, defence, finance and trade.

The Irish government's point of departure on the finance issue was that they "could not consent to paying a penny of the land annuity money".[66] The British, and MacDonald in particular, were anxious to "avoid a repetition of the old wrangles in regard to the land annuities" and to "endeavour to find some other payment to substitute for the land annuities". The strength of the British position as expressed by the Prime Minister, Neville Chamberlain, was that they were now getting an amount equivalent to that withheld on the annuities through their special duties, and that, "as Mr. de Valera was very anxious to escape the further payment of the special duties, he would have to say what precisely he was prepared to do."[67] But the British foresaw problems in trying to squeeze the maximum advantage from their undoubtedly strong financial position. They were anxious to maintain a good atmosphere in the discussions and, in MacDonald's words, feared "that if in the discussions on finance we appeared to attempt to maintain a position under which in effect we would be making no financial concessions we should create the impression in the minds of Mr de Valera and his colleagues that we were not anxious to secure an agreement."[68]

Now, as always, the overriding British concern was political. In 1938, more than ever before since the foundation of the Free State, political considerations reigned supreme as the stark prospect of war with Hitler's Germany loomed ever closer. Hence, when the Chancellor of the Exchequer, Sir John Simon, remarked that his "country seemed fated to hand over tangible possessions in exchange for assurances of goodwill", he was immediately reminded "that the chief assurance to be sought was one that Mr de Valera would not allow an enemy to use the defended ports."[69]

Such apprehensions as these equally influenced the Treasury view and ensured that its tendency to throw principles of financial orthodoxy to the winds in its anxiety for an Anglo-Irish financial agree-

ment now became still more pronounced. This much was plain when the Treasury prepared a memorandum on the question of how much Ireland could borrow for the purpose of making the lump-sum payment which would finally dispose of the financial disagreements between the two governments. The memorandum concluded, after various complex calculations, that there was "nothing in theory to make it impracticable for Ireland to pay £37 millions or an even larger sum"; nor "in actual life" would it be impossible for the Irish government to raise this sum, spread over two years, by persuading "its citizens to sell out sterling securities for the purpose of taking up Free State [*sic*] Government stock."[70]

But Warren Fisher took a very different line. "Statistics are a sealed book to me", he minuted grandly before going on to say that he would "not dream of contesting" his colleagues' "*mathematical*" conclusions.

> But this is primarily a psychological problem. The Irish are historically on incontestable ground in their view of England as an oppressor. If we adopt a niggling, huckstering attitude we shall — and will deserve to — get nowhere. The practical question is whether England thinks it is to *her own* interest to start a fresh chapter with Ireland. In other words, if a show-down is forced by Germany, do we want to face both East *and* West? Obviously an Ireland gradually becoming less hostile to England would be to us of great value, positive and negative — alike militarily and agriculturally.
>
> I therefore sincerely trust that HMG will seize this opportunity to treat the issue practically for England. The fact that that would coincide with Ireland's devotion to sentiment is not an argument against but for such an attitude.[71]

Whether Fisher's arguments were decisive for the Chancellor of the Exchequer is uncertain; but what is certain is that the latter did not see the size of the lump-sum payment as an insuperable obstacle to agreement. After only one meeting with the Irish delegation (which was generally regarded by all sides as having been satisfactory) and when an early agreement on defence and finance seemed in prospect, the Prime Minister informed his fellow-negotiators that he "understood that the Chancellor of the Exchequer was prepared in the last resort to accept a much smaller capital sum payment than had hitherto been contemplated; a figure of £10,000,000 had been mentioned."[72] When, shortly afterwards, the Chancellor himself joined this meeting of the British negotiators, he reported

> . . . that a meeting between the officials of the respective Treasuries was at present taking place. *If financial questions alone were to be considered and other matters disregarded, he had no doubt that an agreement could be reached.* The Éire representatives were hard bargainers and the result would no doubt involve concessions on our part, but the sums concerned were not enormous. He did not think, however, that the financial questions should be dealt with by themselves. Advantage must be taken of our ability to exercise financial pressure in order to help the negotiations on the other issues. Accordingly he had instructed Mr Waley [the Treasury negotiator], when he saw the Éire representative, to ascertain as best he could what their proposals were so that they might be examined, but not to encourage the idea of a separate settlement.[73]

McElligott was the Irish negotiator and this meeting with Waley saw both men outlining their positions as a prelude to the anticipated hard bargaining. McElligott first suggested a capital sum of £2 million, but had been prepared to contemplate increasing this to £8 million. Waley had begun with the Treasury's official calculation of £37½ million, but reported that he thought an agreement to pay a capital sum of £15 million over two years the most that could be expected.[74] "I presume", concluded Waley in the minute on his meeting with McElligott, "that Mr de Valera will go up from £8 millions to £10 millions or even £12 millions. I am not confident that he will go further."[75]

But a £10 million settlement was, as we have seen, the British ultimate negotiating position, a last resort which they were not prepared to countenance when the other agreements on trade and defence were still pending. This became clear two days later when McElligott again called on Waley at the Treasury to discuss the capital value of British claims "other than those in respect of the land annuities. He said that his Government could not agree to accept the claim for RIC pensions outside Éire but would be prepared to consider the claim for RIC pensions in Éire." On this basis, Waley recorded, McElligott's calculation of the British and Irish figures was as follows:

	British Figure	Irish Figure
RIC pensions in Éire	£9·10	£6·50
Civil etc. pensions	£0·40	£0·40
Local loans	£7·35	£3·90
Administration etc.	£0·15	—
	£17 million	£10·80 million[76]

Waley again refused to accept these figures and argued in reply that the Chancellor was not

> . . . prepared to abandon all claim for land annuities and then to discuss the other claims in detail and accept a capital sum representing the total of the other claims. . . . The Chancellor's desire was to put aside all labels of particular items and to proceed on the basis that we are at present collecting £4 millions a year in Special Duties and are prepared to accept £2 millions a year, or a capital sum which could be regarded as broadly speaking equivalent thereto. The lowest capital sum which the Chancellor was prepared to regard as a possible basis for discussion was £25 millions, which would not cover the compensation for damage to property.[77] In agreeing to accept £25 millions as a basis for discussion the Chancellor was taking full account of the expenditure which would be incurred on the ports by the Government of Éire if these were handed back to them, and also of the expenditure on armaments which the Government of Éire might have to incur generally.[78]

The essence of the British strategy in the financial negotiations was summed up by Waley when, observing that McElligott was going to call on him the following day, he proposed

> . . . to repeat that £25 millions is the least which we can accept as a basis for discussion and to say that any further negotiations must . . . necessarily wait until the trade discussions have progressed and until the possibility of agreement on defence, finance and trade can be reviewed as a whole.[79]

There matters rested after the first round of negotiations and the next round did not begin until 23 February. In the meantime both sides set about consolidating their positions. The Treasury's claims, as laid out in a memorandum of 24 January,[80] were slightly different from the claims attributed to them by McElligott in his discussions with Waley. The Treasury calculated pensions as being worth £11·7 millions and local loans just under £7 millions, making a total of £18·6 millions for the items other than the land annuities and the compensation for damage to property annuity.

Finance, however, calculated that "the amount which might be equitably claimed by the British" was £12·4 millions — composed of £4·2 millions for local loans, £8 millions for RIC pensions and £0·2 millions for civil and judicial pensions — which, although significantly higher than the total admitted by McElligott in his talks with Waley, still fell well below the British assessment.[81] Finance saw "the fundamental basis" for its case as dependent upon two principles. First, "that it has been accepted that should a settlement take place we

shall not be called upon to pay anything either directly or indirectly in respect of Land Annuities. Some regard should also be had to the fact that the British have been improperly collecting the Land Annuities from us since 1932 by means of penal duties." The second principle was that "the British, on their own election, adopted the special duties as a means of recovering the other moneys . . . withheld . . . by permitting an increased import into their markets, to recoup themselves fully for the non-payment of such moneys. . . . We must take up the attitude that the special duties have kept, and will keep, all the accounts, even the Land Annuity accounts, square between us until these duties have been withdrawn."[82]

But Finance also argued that there were other factors, arising from the Irish anxiety "to wind up the whole matter by making one single payment", which should be taken into account, namely:

1. That the rate of interest, which is now artificially maintained at a low level, will rise, in view of the international situation and the pressure on certain currencies associated with the sterling block. . . .

2. That the expectation of life of the largest and most expensive category of pensioners . . . the RIC, will not be materially reduced by certain not unlikely international vicissitudes. In other words, war might quite conceivably make it unjustifiable to rate these payments at more than 6 or 8 years' purchase as against the 11 years' we have taken.

3. If a certain international situation did arise in which Great Britain was to become much more dependent upon us than at present for her food supplies, it is quite clear that all questions of the special duties would go by the board. Looking at the present international situation, in fact, it is doubtful whether it would be reasonable to rate the capital value of all the special duties at much more than two, or at most three, years' purchase.

All these factors, Finance argued, justified "a reduction of at least 25 per cent" on the lump-sum Irish payment, leaving Irish "net liability at 9·3 million pounds, or, say, 9 million pounds in all."[83]

Compromise on the size of the lump-sum was no nearer on 23 February when the ministerial negotiations resumed in London, although a draft agreement on finance had already been drawn up. This was short and simple and provided "for the final settlement of disputed claims on both sides by means of a lump-sum payment to the United Kingdom Government on a date to be agreed and the abolition of the Special Duties on our side and of the retaliatory duties on

the side of Éire, also on a date to be agreed."[84] Although no progress had yet been made towards bridging the gap between the Irish figure of £10 millions and the British £18½ millions, the British negotiators recognised that they "might have to contemplate some reduction" of the latter figure and, at a meeting on 17 February, had accepted Chamberlain's proposal that their

> . . . best course would be to reserve until the very end of the negotiations any settlement on the amount of the lump-sum. This was a trump card which should be used to secure as favourable terms as possible in the Defence, Finance and Trade Agreements. When the concluding stages were reached it would probably be better for the discussion on the amount of the lump sum to be undertaken by the Chancellor of the Exchequer and Mr MacEntee.[85]

On 23 February McElligott again called on Waley at the Treasury to discuss the Finance case. He did not tell Waley "what figure his Ministers [were] prepared to accept" but Waley "gathered that it [was] £10 millions, including a capital sum in lieu of the £250,000 a year for compensation for damage to property which would cease to be payable as an annuity."[86] This meeting consisted in the main of McElligott's elaborating the arguments laid down in Finance's memorandum of 14 February.[87] Waley continued to stand firm and took particular exception to McElligott's argument that there should be an overall deduction of 25 per cent in the British claim because of the changed situation which would exist in the event of war. "This seemed to me as ridiculous", replied Waley, "as if I were to tell my tailor that he must allow me a 25% reduction on his bill because if war came I might be killed and his bill would never get paid at all."[88]

In the meantime, defence and trade continued to cause the main problems obstructing settlement and, pending progress on these matters, no further significant discussions took place on the problem of the lump-sum. But while the resolution of one was dependent upon the resolution of the other, the British negotiators were unanimous that the finance and trade agreements should be separate. Discussions of this distinction were important in as much as they gave rise to a definitive statement of the *private,* as opposed to public, British understanding of the meaning and purpose of the finance agreement. Whereas the trade agreement "was a temporary arrangement for three years or for a shorter period if the break clause was brought into operation" under which "both parties had complete freedom to im-

pose any tariffs whatsoever after its termination", the finance agreement

> . . . was in the nature of a complete and final settlement of all financial disputes of the past. . . The Financial Agreement did not set out the reasons why it was made because we [the British] did not wish to offend Irish susceptibilities, but if the document had recited the position at length it would have stated that the United Kingdom had claims against Eire which, if capitalised, were of the order of £100,000,000; that these claims were disputed by Eire, and that it had been agreed to settle them for a lump sum payment by Eire of £X, and that it had also been agreed by the United Kingdom to abandon the Special Duties and by Eire to abandon the retaliatory duties which had been imposed in consequence of Eire's financial defaults. The Financial Agreement had, therefore, nothing to do with the Trade Agreement and . . . [they] should be treated as quite separate arrangements.[89]

Pending satisfactory progress in the other negotiations, the British negotiators continued to withhold what they thought of as their lump-sum trump-card and the Chancellor of the Exchequer, when questioned at a meeting of the Irish Situation Committee on 1 March, declared "that there was nothing new to report on the finance side of the negotiations".[90] The third and final meeting of the British Irish Negotiations Committee, on 3 March, saw little or no discussion of the finance agreement but dwelt mainly on de Valera's objections to taking over the defences of the ports and to the intractable problem of partition. It was in the light of these difficulties that the meeting decided that de Valera "should be told that the draft Financial Agreement must remain for the present in the background."[91]

There was still no real progress a week later when Malcolm MacDonald reported to the cabinet on his and Chamberlain's meetings with de Valera.[92] Chamberlain, according to MacDonald,

> . . . had made it clear that there would be no question of handing back the ports unless something was done for Northern Ireland and that perhaps there would be no trade agreement and no finance agreement either. This had had a salutary effect.[93] The present position of the negotiations was that on finance there was no change. We were keeping this subject back to the end.[94]

The end was now in sight and the British were ready at last to compromise on the size of the lump-sum. The crucial decisions were made at a meeting of the Irish Situation Committee on 10 March, after the Chancellor of the Exchequer had argued that "it would be right and

proper" to contemplate a reduction in the sum of £18½ millions, although "he hoped that it would not be necessary to go to such a low capital sum figure as £10 millions." But — and this was the crucial point — he did not think

> . . . that the settlement should be allowed to break down on the amount of the capital sum payment to be made by Eire, and he suggested that the best course would be to leave the Prime Minister full discretion as to the sum to be named to de Valera.[95]

The committee approved of the proposal and gave Chamberlain authority to negotiate along these lines when he met de Valera next day before he returned to Dublin. Given the nature of the history of the financial dispute, it was appropriate that, in the last analysis, the final obstacle should be negotiated at the very highest political level — not, as was originally envisaged,[96] between Minister for Finance and Chancellor of the Exchequer, but between Taoiseach and Prime Minister. The payment of a lump-sum of £10 millions was finally agreed upon at the meeting of 11 March and, although outstanding difficulties in other areas postponed the signature of all agreements until 25 April,[97] the financial dispute was thus effectively at an end.

There remained only the method of payment. It was originally agreed that the £10 millions should be paid by 30 June but, in view of the technical difficulties involved in raising such a sum of money at short notice, the Irish sought to defer payment until 30 October. The Treasury's initial reluctance was dispelled by their enquiries from the Bank of England "as to the reasonableness of [the] request", and the Governor of the Bank of England confirmed that it was "a great operation" for the Irish government and adjudged that "it would be very unwise to assume that they could carry such a thing through" in the time originally specified. The new deadline was accordingly agreed as 30 November 1938 and the final payment was in fact made two months in advance of that date.[98]

"In politics", John Morley once observed, "the choice is constantly between two evils." The politicians, both British and Irish, who were party to the 1938 negotiations would probably have concurred as far as the agreement then concluded were concerned. The best Malcolm MacDonald, one of the most vigorous proponents of conciliation, could find to say of it was to admit to his cabinet colleagues "that it was not a good agreement on paper" and to hope that "it would open up a new chapter in Anglo-Irish relations" when British "generosity

would have its effects in Ireland."[99] De Valera was no less unenthusiastic when he introduced the financial agreement in the Dáil. "Some may say", he admitted,

> . . . that this is not a good Agreement. I have repeatedly stated my belief that if we were making agreements on the basis of justice — if sheer equity was to decide these matters — instead of paying money to Britain, whether a big or small sum, the payments should be made the other way. That is still my conviction, that, on the basis of sheer justice, if there was to be a payment on either side, it should be made in the opposite direction. We have agreed to this payment, which represents two years' purchase of the sums which the British were collecting by means of these special duties . . . You may, if you like, regard it as ransom money . . . We have agreed to pay it because we think it is in the national interest that the payment should be made and the dispute set aside.[100]

The arguments were political, not financial. Just as it was de Valera and not the Minister for Finance who conducted the financial negotiations of 1932, so too it was de Valera who defended the financial agreement of 1938. The process of the politicisation of Anglo-Irish financial relations, which we have already remarked in 1932, thus continued unchecked until 1938, and the contrast with the financial relations of the twenties, if sharp in 1932, was still more stark in 1938. The politicians at least had a choice, whatever the evils between which they felt they must choose; their officials, regardless of whether they were in Finance or the Treasury, had no such choice: the framework within which they had to conduct financial relations and to formulate financial policies was dictated by political exigencies. This was not, of course, intrinsically different from the twenties — there was no change in the relationship between politicians and their civil service officials. What *had* changed was the political environment. Where, in the twenties, the political momentum was towards consensus and compromise within which financial relations could be harmoniously conducted, in the thirties (until 1938 at least) the momentum was towards political disagreement against which financial relations could hardly be conducted at all.

In certain fundamental respects, however, what is most remarkable is not how much but how little effect these developments had upon the Department's attitudes. However much Anglo-Irish relations may have deteriorated, for example, Finance's relations with the Treasury remained consistently better than one might have expected. This was due in part to the fact that Finance had never experienced any sense of

being under any undue pressure from the Treasury before the beginning of the economic war, and the smooth-running relationship built up in the twenties no doubt enabled officials on both sides to realise that what happened in 1932 and afterwards was due to political exigencies outside their control. It did not alter their mutual respect and understanding for one another except in so far as it made it less relevant. But once the political decision to reopen negotiations had been taken, the officials were immediately able — as the McElligott-Waley discussions show — to resume the same kind of relationship they had sustained in less troubled times.[101]

CHAPTER EIGHT

The Department of Finance and the Emergency

I: The Coming of War

However much historians might argue about the origins of World War II, few would dispute that by 1938–39 a major war in Europe seemed almost unavoidable. Long before the German invasion of Poland and the consequent British declaration of war on 3 September 1939, the archives of the Department of Finance reveal that the minds of Irish ministers and their senior officials, like those of their counterparts all over Europe, were preoccupied by the problems that would inevitably present themselves in the event of a European war — in the Irish case, more particularly, in the event of a war in which Britain would be a participant. Indeed we have already seen how large the spectre of war had loomed in the Anglo-Irish negotiations leading to the 1938 agreement.

The first preoccupation of the government was the emergency powers with which it felt compelled to invest itself in the event of war, regardless of whether Ireland was a combatant or a neutral. These powers, embodied in the Emergency Powers Act of 1939, were crucial for Finance as the premier government department in as much as they created a wholly new climate in which the business of government and of administration would be conducted throughout the Emergency. The developments which led to the Emergency Powers Act had first been set in train a year before the war began, when, on 14 September 1938, against the background of the Czecho-Slovak crisis and a fortnight before the Munich agreement, the draft heads of an Emergency Power Bill was submitted to the government.[1] The explanatory memorandum accompanying the bill made clear that it was explicitly based upon the draft British Bill on the same subject, "the only material difference" being certain proposals "in regard to the trial and punishment of offences. . . . They [the British] don't even

contemplate the possibility that juries will be perverse". The memorandum, written by the government's legal advisers (P. P. O'Donoghue and T. J. Coyne), argued that Irish circumstances — in particular, the possibility of "subversive activities against the State" — were different. It was for this reason that the draft heads of the Bill proposed that, under certain circumstances, powers of courtmartial be taken to try such offences.

The major problem, however, was whether the government was empowered under Article 28 of the 1937 Constitution ("which expressly purports to make unassailable any law which is stated on its face to be for the purpose of securing the public safety and the preservation of the State in time of war") extended to "a war in which this country is not a participant". The government's legal advisers argued that

> . . . the range of the effect and influence of hostilities carried out on a present day scale by a powerful nation which would include a part of our own island can hardly be exaggerated. It is inevitable that a war in which Great Britain is engaged must constitute a menace to our safety and integrity to a greater or lesser degree and make it necessary for us to take extraordinary legislative steps for the safety of our people.[2]

The preparation of such a bill proceeded rapidly; on 20 September the government ordered a bill to be drafted and on 23 January 1939 this draft bill was duly circulated. It was decided that, while the bill should be immediately given government approval, it should not be introduced but should instead "be held in readiness for introduction immediately on the occurrence of a war emergency". The government approved the terms of the bill on 24 April and, subsequently, its introduction in the Dáil on 1 September 1939. It became law on 3 September, thus endowing the government with emergency powers from the very first day that a state of war existed between Britain and Germany. The crucial section of the Emergency Powers Act, No. 2(1), laid down that

> The Government may, whenever and so often as they think fit, make by order (in this Act referred to as an emergency order) such provisions as are, in the opinion of the Government, necessary or expedient for securing the public safety or the preservation of the State, or for the maintenance of public order, or for the provision and control of supplies and services essential to the life of the community.

This last — "the provision and control of supplies and services essential to the life of the community" — touched Finance most

closely. For the most part, however, the Department was less concerned with initiating emergency orders than with dealing with a flood of such orders emanating from other departments, notably Industry and Commerce, Agriculture, Defence and, above all, from the new Department of Supplies.

But Finance was particularly concerned with one of the sixteen designated areas where the government was specifically empowered to act by way of emergency order (although, in the words of the Act, "without prejudice to the generality" of the sweeping powers conferred on them). This was Section 2(2d) which authorised and provided for

> . . . the acquisition (either by agreement or compulsorily) by or on behalf of the State of any currency (other than Irish currency), bills, credits and balances, payable otherwise than in Irish currency, gold coin and bullion, and securities, and for the ascertainment of the price to be paid therefor in the case of compulsory acquisition, and for the control and restriction of dealings in any currency, bills, credits and balances payable otherwise than in Irish currency, gold coin and bullion, and securities, and for the control and restriction of issues of capital.

Exchange Control

The powers here conferred upon the Department of Finance were to have more far-reaching consequences than might readily have been appreciated at the time, for here lay the immediate origins of the exchange control responsibilities which eventually grew to the point where they required the attention of a separate section in the Department. Both of the Emergency Powers Orders dealing specifically with financial matters which were enacted when the war began, dealt with exchange control. These were the Emergency Powers (No. 4) Order 1939, and the Emergency Powers (Finance) (No. 1) Order 1939, made on 8 and 18 September respectively. The orders restricted dealings in gold and foreign currency and the transfer of securities generally. Their purpose was to ensure that supplies of foreign exchange

> . . . already in the country and such supplies as may be received here in the future will be conserved and will not be utilised for purposes which might be inimical to the national interest in the present emergency. For example, it is necessary to guard against a position where an Irish national might transfer moneys which he holds in this country to the USA for investment in American securities or in real estate which could

be of no possible value to this country in the immediate future. It is likely that all gold and foreign exchange which can be secured will be required for purposes like payment for imports of essential commodities during the present emergency. . . The restriction on the transfer of securities imposed by the Orders is complementary to the restrictions mentioned above. It may be necessary at a later stage, if it should prove difficult to obtain foreign exchange, for the State to acquire such securities, but a fair price would, of course, be paid for any securities so acquired.

The restrictions which have been imposed may seem very drastic but that is largely because we have become accustomed here to complete freedom in matters of currency, etc. Other countries, even in time of peace, have had restrictions quite as drastic as we are now imposing in a time of grave emergency.[3]

But the freedom then curtailed was never restored, although Finance's exercise of the exchange control function seems to have been accepted as a matter of course and as a very necessary part of the overall pattern of Emergency legislation throughout the war years — only in the post-war period, as we shall see later, did it become the subject of increasing controversy.

The Department of Supplies

The supply of essential commodities in the event of a major war had long been recognised as the central problem of economic policy which would confront government departments. The Department of Finance had been associated with governmental contingency planning on this matter since 1935 when an interdepartmental committee had been set up to investigate the supply of warlike and other essential materials in time of war. There were two representatives of Defence and two of Industry and Commerce on this committee (reflecting the future growth in power and influence of both these departments which took place in the Emergency) and one each from Finance, External Affairs, and Agriculture. The committee produced three reports between 1935-37 before the government authorised the Minister for Defence to wind up its proceedings on 7 February 1939,[4] since such contingency planning had by then, of course, become a much more central task of government. At the end of April 1939 a letter from the newly established emergency supplies branch of the Department of Industry and Commerce drew Finance's attention to "the position in regard to supplies of essential commodities particularly

those which are wholly or mainly imported in raw or finished form". The memorandum declared that it was

> . . . of the utmost importance that Government Departments should, without delay, proceed to accumulate, and to maintain, adequate reserves of those commodities which are essential in the performance of their various functions. In the absence of adequate reserves it might not be possible in an emergency to secure supplies in sufficient quantities, or at all, and, moreover, abnormal Government demands on the stocks held by traders in this country would curtail or perhaps entirely absorb supplies required for purposes other than State services. In such an event serious criticism of the Government would appear to be inevitable . . . the reserves should be equivalent to at least one year's requirements . . . [and] regard should be had not merely to normal requirements but also to the abnormal requirements and circumstances which would arise in an emergency.[5]

Once the war began, the paramount importance of the supplies problem led to the first major reshuffle of ministerial portfolios since 1932. The key change was the departure of Seán Lemass from Industry and Commerce, accompanied by John Leydon as his secretary, to take over the newly established Department of Supplies. This led to the appointment of a new Minister for Finance when, on 16 September 1939, Seán MacEntee relinquished the office he had held without interruption since 1932 to become Minister for Industry and Commerce; he was succeeded by the Tánaiste, Seán T. O'Kelly.[6]

But the shift in the balance of power transcended any mere change in the person of the Minister. The supply of essential commodities was, and remained, the first national economic priority throughout the Emergency. The Department of Supplies played the key role of directing the supply and distribution of agricultural and of manufactured products. As such, it was responsible for co-ordinating and, in practice, directing many of the activities of two other major government departments — Agriculture and Industry and Commerce — and, therefore, fulfilled the functions of the "central planning department for our economic life" prescribed for it by de Valera in his policy statement in the Dáil on 27 September 1939.[7] Such a role inevitably usurped certain Finance prerogatives, hitherto undisputed, and the two departments came into constant contact (and occasional conflict). The doctrine of financial control, for example, while never abandoned, was inevitably interpreted less rigidly under Emergency pressures than in peace time.

Establishment Problems

On 4 July 1939 the government decided that "an enquiry should be made from all Departments as to the services which, apart from any consideration of economy or the release of staff, it would not be practicable to carry on in time of war".[8] This, of course, directly affected Finance because of its responsibility for the civil service. A Finance memorandum of 24 July raised the possibility of even more sweeping changes in the future responsibilities of government departments under emergency conditions; it mentioned, for example, "such conditions as the probability that necessary raw materials may be unobtainable or obtainable only at prohibitive cost, and, in the case of the Department of Lands, that land division while in progress might tend to diminish the output of food". The government responded to this memorandum by rescinding its earlier decision and instead deciding that all government departments should be "requested a) to consider what change, if any, in their policy would be rendered necessary or desirable by the occurrence of a major European war and the staff requirements which such changes would involve, and b) to report to the Department of Finance the numbers and gradings of officers" they might release in consequence. On 16 August 1939 Finance sent to the heads of all government departments a special memorandum, marked "secret and urgent", seeking information on this point.[9]

The problem of staffing government departments and the new emergency services became acute once the war began. On 5 September the government decided that each minister should instruct the secretary of his department to examine the departmental establishment with a view to economy and retrenchment. This demand followed naturally from the simultaneous and crucial government decision that "so far as possible, staff for emergency purposes should be found from the existing personnel in the civil service, and that, where conflict arises between Departments as to the release of particular officers for transfer to emergency services, the Assistant Secretary, Department of Finance, in charge of establishments, is to have the final decision".[10] But the demand for economy and retrenchment was not simply a product of the Emergency.[11] Finance had been pressing for a cut-back in civil service staffs and costs since 1935 and this particular meeting of the government had before it a Finance memorandum which pointed out that the pattern of increases to which it had first drawn attention in 1935 was continuing unchecked. Finance viewed these increases

"with grave concern, having regard particularly to present economic and financial conditions" and suggested that the gravity of the situation was insufficiently appreciated.[12]

Establishment problems again loomed large in Finance minds at the end of September when the Taoiseach urgently inquired of the Department (for the purposes of a general statement he was to make in the Dáil) what special measures they had taken or were about to take as a result of the Emergency.[13] "The need to provide staff for emergency services" had already placed acute pressure on resources, reported Seán Moynihan, the assistant secretary in charge of establishments, to McElligott. Already, excluding the newly created Department of Supplies set up under the formidable team of Lemass and Leydon which was to be staffed "largely but not entirely" by transfers from Industry and Commerce, 800 extra staff were sought for emergency services. So far only 250 had been transferred to such services and, noted Moynihan,

> . . . until firm decisions are made providing for curtailment of peacetime services we will find it impossible to go appreciably beyond this figure from our existing resources . . . the only means we have at present of bridging the gap between 250 and 800 is that provided by the recent Civil Service examinations.

This was why Finance had decided to recruit 150 (rather than the thirty-six originally contemplated) of the candidates from a recent clerical officers' examination. "We are faced with a very serious position", continued Moynihan, "and only rapid action by the Economy Committee and the Government can arrest the necessity for wholesale recruitment of staff from outside the Civil Service if the demands of the emergency services are to be supplied."[14]

Moynihan's anxiety was reflected in McElligott's reply to the Taoiseach's Department which referred to his minister's "considerable concern" occasioned

> . . . by the demands for additional staff for new services and by the difficulty of securing the release of staff from the existing services. The difficulties of the financial position will be considerably aggravated unless the necessary releases of staff can be secured immediately and this can be done only by the curtailment of the peacetime activities of a number of Departments. In this matter the Minister trusts that he will be able to count upon the assistance and support of the Taoiseach.[15]

The "Emergency Budget" and the 1939 Loan

One of Seán T. O'Kelly's first tasks as Minister for Finance was to introduce a supplementary budget on 8 November 1939. This was essentially an Emergency budget, which had been pressed on the government in a special Finance memorandum of 13 October 1939 on the critical position of the Exchequer.[16] The memorandum reviewed the dramatic fall in estimated tax revenue under all heads for the remainder of the financial year; it drew particular attention to an estimated 10 per cent deficiency of some £1m under the head of Customs, and a similar decline in non-tax revenue, and concluded that there was "in prospect, a fall in tax revenue of £1,650,000 and in non-tax revenue of £240,000, making a total of £1,890,000, while the additional expenditure to be defrayed from recurrent revenue amounts to £1,250,000. The total additional demand coming upon the Exchequer for recurrent expenditure is thus £3,140,000." In these circumstances, the Minister for Finance felt he had "no alternative but to propose for the approval of the Government substantial increases in taxation."

The most obvious area of increase was income tax. As early as September 1938, during the Czecho-Slovak crisis, McElligott had held special discussions with the Revenue Commissioners "as to the best method of raising money by taxation if we were suddenly confronted with an emergency demanding large scale additional expenditure by the Government . . . it is obviously desirable", noted McElligott, "that only those taxes should be increased which would give rise to little or no additional administrative work . . . the obvious favourite in this connection is income tax".[17] Finance accordingly proposed an increase of 1/6d in the standard rate (which had already been raised by one shilling in the ordinary budget of the year). This extra increase brought the standard rate to seven shillings, then also the British standard rate. A similar increase in surtax was proposed, as were increases in the Custom and Excise rates on tobacco, beer, spirits, tea and sugar.

The budget proposals necessitated

> . . . an increase in taxation on the inland revenue side of £1,128,000 and on the Customs and Excise of £1,008,000, a total of £2,136,000 which compares with the figure of £3,140,000 mentioned above as being the total requirements by way of additional revenue. The Minister for Finance is thus, even with the crushing impositions referred to . . . £1,004,000 short of his needs and, as taxation can go no further, he calls

> for the co-operation of his colleagues in the Government in securing economies of this amount in the current year. This is all the more necessary because an appreciable percentage of the customs revenue in the current year is being obtained at the expense of 1940–41 and, at the same time, the full impact of the cost of new services has not yet been felt. Thus, expansion in expenditure accompanied by contraction in revenue will be much more noticeable in 1940–41, if hostilities continue.[18]

These abnormal pressures on the Exchequer and the prospect of a continuing deficit, notwithstanding the supplementary budget, were what prompted the Minister for Finance to set in motion preparations "to float a loan of about £6m" in the hope "that any funds available for investment here should be put into this loan rather than into British war issues". But the banks were at first dubious about this proposition and expressed the hope that

> . . . none of the borrowing was being used to defray the current expenditure e.g., ordinary Government outgoings, social services etc. If the expenditure was clearly of an abnormal character e.g., Defence, it could be properly defrayed from borrowing so far as it related to items of capital equipment, etc. and not to ordinary maintenance expenses of troops, volunteers, barracks and other ordinary expenditure associated with the Army or mobilisation . . . The banks felt that the present time was inappropriate for a public issue but realised that the needs of the Exchequer must as far as possible be met . . . The banks were also very much interested in the possible results of the Economy Committee as they felt that an appeal to the investing public would be attended with much greater prospects of success if the Government showed determination to retrench on expenditure that was not essential for the national effort. They realised that this question was bound up with the problems of unemployment, but they felt that if in default of economy additional taxation had to be imposed the reaction on employment might be still more serious.[19]

Although the £7m loan in four per cent Exchequer Bonds 1950/60, which opened on 8 December, was not a success since the public only subscribed some £4m (about fifty-eight per cent) of the total available, there was much in Finance's argument that "the result was not disheartening having regard to the general feeling of hesitancy which must affect the general public in the present critical times."[20] One factor which particularly damaged the Loan's prospects was McElligott's failure to persuade the Treasury to allow British sub-

scriptions. "I don't want to be deaf to your moving appeal [by telephone] not to sever any bonds between your country and mine", replied S. D. Waley, "but I am afraid it would not be in any way possible for us to give consent to subscriptions being made from the U.K. to your loan".[21]

The relative lack of support for the 1939 Loan contrasted notably with the success of the National Security Loan of 1941, although their origins were very similar. The 1941 Loan, announced Seán T.O'Kelly in the Dáil on 30 October 1941, was necessary because

> . . . of abnormal expenditure on defence, on schemes to relieve unemployment, on projects for the development of food production, peat fuel and other resources and on provision for the capital cost of shipping. All these have entailed considerable outlay and, despite the heavy increase in taxation, expenditure has been rising more rapidly than revenue. In reality, although neutral, we have been forced to adopt what could almost be described as a War Budget.[22]

The $3\frac{1}{4}$ per cent loan of £8m, redeemable in 1956/61, was heavily oversubscribed and the Minister for Finance consequently accepted less than the £3m for which he had originally applied. By the end of 1941, however, some of the uncertainty of late 1939 had been dispelled. The country had weathered the early years of the war without violation of her neutrality, despite threats posed to it by such events as the fall of France, the Battle of Britain, and the Battle of the Atlantic. Whatever the depressions and the deprivations of the Emergency, the state of the nation was healthier than that of the great majority of her less fortunate European neighbours and the reason for the 1941 Loan's success may have been that suggested by that Dáil deputy who interrupted the debate in which it was announced to point out that there were "very few places as safe as this country at present".[23]

The Economy Committee of 1939–40

The outbreak of World War II and its implications for increased public expenditure on vital supplies, defence and similar areas, inevitably prompted the Department of Finance to call with renewed vigour for drastic economies in other areas less immediately associated with the protection of the national interest. The Department outlined its thinking on this subject in a special memorandum to the government on 9

September 1939. The Emergency, the memorandum pointed out, had made it

> . . . necessary to set up special services on a large scale for which it will be quite impossible to provide suitable trained personnel unless our peace-time establishments are drastically reduced. Consequently, and apart altogether from the necessity for husbanding our financial resources, it will be quite outside the bounds of practicability to maintain a policy of 'business as usual'. . . It is now essential therefore to decide what services are to be dispensed with or cut down. The decision will obviously involve important questions of policy which can only be decided by the Government, unless the Government is prepared to give plenary powers in the matter to the Minister for Finance, to a Cabinet Committee, or to the Committee of Heads of Departments. In the view of the Minister for Finance, having regard to the considerations of policy which will necessarily arise, the delegation of plenary powers to a Cabinet Committee offers the most suitable method of dealing expeditiously and satisfactorily with the problems upon which decisions will have to be taken. . . . To enable such a Committee to function quickly and effectively it seems very desirable that the Government should give some indication of the line of approach which should be taken, in so far at any rate as services bearing on unemployment are concerned. In this connection, while the Minister feels sure that the Government will agree that having regard to the loss of revenue . . . and to the cost of the new services which must be established, the interests of the Exchequer must in general be regarded as paramount, it would be difficult for the Committee to submit recommendations in regard, for example, to the inter-related and costly Employment Schemes and Unemployment Assistance services unless a lead is given as to the extent, if any, to which the conservation of employment is to be aimed at . . . *so far as rural areas may be affected the interests of the Exchequer must be of primary concern, in view of the special measures which will be taken to stimulate agricultural production, but that in urban areas those State services which provide in one way or another for the unemployed should not be unduly restricted.* . . . In present circumstances there does not appear to be any opportunity of developing in this country any industries catering for the war or emergency so as to absorb the labour displaced by the probable suspension of activities such as the Sweep, tourist traffic, industries dependent on imported raw materials etc., apart altogether from displacement due to the suspension of housing, arterial drainage, Land Commission Improvements, works financed out of the Road Fund etc. . . . The Minister for Finance recommends, accordingly, that an Inter-Departmental Committee should be set up forthwith under the Chairmanship of Mr Hugo Flinn, TD, Parliamentary Secretary [to the Minister for Finance], to re-

view all existing services and to report on the economies which could reasonably be effected by their suspension or curtailment in the present emergency, and to make such other suggestions with a view to retrenchment as appear feasible and desirable. The Minister contemplates that the Committee would be empowered to summon the Heads of Departments and such other officials as they should consider necessary and also that officers of the Department of Finance should attend its meetings with a view to urging the adoption of economies in such directions as appear to them to be feasible.[24]

The government unreservedly accepted Finance's recommendations at a meeting of 13 September, subject only to including in their terms of reference the passage italicised above.[25] The committee's members, moreover, including the chairman, Hugo Flinn, were all personally nominated by Finance. Finance's own representative was Arthur Codling, (the assistant secretary in charge of the finance division) and the other representatives were: Diarmuid O'Hegarty (Office of Public Works), J. Keane (Industry and Commerce), W. F. Nally (Land Commission), P. J. Murray (Agriculture) and J. Garvin (Local Government and Public Health). Finance's concern with, and influence upon, the committee's proceedings were heavily underlined, moreover, when, at its first meeting, the committee accepted Codling's suggestion that it should preface its investigations by taking evidence from McElligott (on the general financial position) and from Seán Moynihan (on those staffing and establishment problems which have already been reviewed above).[26]

McElligott's evidence was pessimistic in the extreme. Having stressed the rapidly growing gap between revenue and expenditure which was his department's first concern, he argued that the deficiency could be met neither by borrowing nor by extra taxation. His observations on the former are of interest in as much as they accurately forecast the failure of the 1939 Loan. "Further borrowing", he said, "would be quite wrong", first, because it would "undermine the Government's credit" and "weaken the stability of the currency" and, second, because he thought it impossible because of the demoralised position of the Dublin and London stock exchanges; nor, he pointed out, would increased taxes on their own meet the situation. So, McElligott declared, there was "nothing left but economy" which he saw as particularly necessary if a supplementary budget were to be introduced. If there were no provision in such a budget "for substantial genuine retrenchments the result on the public morale

would be something approaching disastrous". McElligott therefore urged "that services that were automatically proving more and more costly should be suspended. He instanced the operation of the Military Service Pensions Board, the continuing agitation for better conditions in the civil service and the Gárda Siochána, such as the setting up of arbitration and conciliation machinery". Other of McElligott's arguments were no less austere: he argued, for example, that

> . . . unless Unemployment Assistance was stopped completely in rural areas adequate supplies of labour for a tillage campaign would not be forthcoming. The general result of national policy in recent years was a decline in the numbers of persons engaged in agricultural production and an increase in those in industrial production to the extent of about 50,000. The protected industries showed that increase. A number of these industries will now find it hard to continue owing to the absence of raw materials and there would be much displacement of labour as a result. The question was could these people be got to go back to the land. He admitted to the Chairman that the suspension of Unemployment Assistance in rural areas was a cruel weapon but it would confer national benefit in the end.

That McElligott's demand for immediate and drastic economies was in part based upon his view of the national psychology is evident from his conclusion that

> . . . what the people wanted was a good fright. The apostles of expansionism would see where the country stood when they realised that existing and practically essential services were being cut to the bone. He thought that if the Committee made some recommendations about reductions in Civil Service pay it would do no good. He also thought that recourse to Article 10 [of the Treaty] should be prevented for the duration of the war, by agreement with the British. If we were driven to extremes he would not hesitate to recommend that the Civil Service Bonus be stopped on all salaries of more than £3 or £4 a week. The people required to be jolted out of their complacency. Many of them thought that neutrality gave them a ringside seat from which they could in comfort watch the progress of the war.[27]

Given such jeremiads it was scarcely surprising that, when McElligott and Moynihan had withdrawn, the committee should conclude "that drastic economies were required", more especially since their chairman advised them, in reply to a question on this very point, that they were "not required to take political consequences

into account — that was a matter for the Government".[28]

But it was just this gap between what Finance and the Economy Committee deemed economically necessary and what the government deemed politically unacceptable which militated against economies as sweeping as McElligott favoured and which ultimately sealed the fate of many of the committee's recommendations. The committee, working at a hectic pace, had completed its deliberations by the end of November by which time, after twenty-nine meetings, it had produced three reports. The first report dealt exclusively with Land Commission expenditure "on acquisition, division and improvement of land".[29] The second report took as its starting point

> . . . the fact that so large a proportion of the State's outlay is spent on social services makes it clear that no large scale economies can be secured without reducing the standard of these services to some extent . . . [and inquired into]
>
> (1) Unemployment Assistance
> (2) Employment Schemes
> (3) Housing Expenditure (including Local Loans)
> (4) Local Loans (other than for housing).[30]

The final report dealt with all other government services.[31]

The first interim report was considered by the government in conjunction with a memorandum submitted by the Department of Lands and it was decided that certain commitments already entered into by that department should be honoured. This further watered down the Economy Committee's recommendations which had already taken account of the fact that "the acquisition and resumption of lands required in whole or part for turbary and afforestation and for urgent re-arrangement or housing schemes in congested districts" must proceed.[32]

The committee's recommendations in its second interim report on reducing unemployment assistance — its proposals would have meant that about 20,000 persons would have been entitled to receive benefits for four rather than seven months of the year — were also cut back when the government made them subject to "the understanding that the position in the 'Black Areas' will be given further special consideration".[33] Since the "Black Areas" were those rural areas in the congested districts, particularly along the western seaboard, where the great majority of unemployment assistance recipients were to be found, this effectively nullified the proposal. Another recommen-

dation, that expenditure on the employment scheme vote for the financial year 1939–40 should be reduced by £200,000, was rejected outright and the proposal for restriction in 1940–41 was deferred. Recommendations that housing grants payable for the building or reconstruction of dwelling houses be discontinued, that definite limitations be imposed over the cash drawn on the Local Loans Fund for housing loans to local authorities, and that the small dwellings loan service be suspended, were similarly either rejected outright or substantially reduced. Indeed, the only recommendation in this report which received the government's unqualified approval was the positive proposal "that Gaeltacht housing be continued".[34]

The committee's final report fared no better. Recommendations that "no capital expenditure on the purchase of sites or buildings or on new buildings should be incurred," that the agricultural grant be reduced and that telephone development be suspended were all rejected out of hand. Many of the other proposed economies were either deferred or else referred for consideration to the minister whose department they affected. Economies proposed by the committee and accepted by the government thus tended to be implemented only in part and the committee's calculation that the grand total of the savings it proposed in its three reports would amount to £551,000 for 1939–40 and £1,609,000 for 1940–41 proved excessively optimistic.[35]

Two specific recommendations in the committee's final report merit fuller examination. The first concerned the special commissions and committees of inquiry which, the report claimed, "made excessive demands on the official time of the Civil Servants", as well as sometimes leading to heavy incidental expenditure. It was therefore proposed to suspend or wind up the proceedings of such bodies immediately. The government rejected this proposal but it was obviously strongly supported by the Department of Finance for, in the summer of 1940, it emerged again in the form of a strong minute from McElligott to his minister asking him to bring before the government meeting then in progress the question of temporary commissions and committees. "It is urgently necessary", wrote McElligott,

> that an immediate decision should be taken to suspend the operations of these bodies. The main Commissions at present operating relate to vocational education and agriculture. Both are causing demands for staff which cannot be met, and are examining sets of conditions which may

have no relevance at all to circumstances that will obtain in the near future, e.g., in regard to agriculture, the size and shape of our external market may be profoundly altered by the course of events.[36]

The Minister for Finance, in a letter to the Taoiseach that day, raised the matter as one "of the utmost importance from the point of view of this Department" and asked to "be allowed to terminate for the present the deliberations of these bodies".[37] But the matter was then complicated by the intervention of Michael Browne, Bishop of Galway, a prominent member of the Committee on Vocational Education, who wrote to O'Kelly suggesting that his department wanted to suppress this particular commission because of its recent examination of the banks and of Joseph Brennan. McElligott, he wrote, "would regard the Commission as a most inconvenient body and there would be a certain grim satisfaction in getting rid of the Bishop of Galway on the grounds of war economy".[38] Although O'Kelly denied that the proposal was so motivated, and reiterated McElligott's original arguments, [39] he thought the Bishop's intervention sufficiently important to warrant forwarding the correspondence to the Taoiseach. Finance's demand for the suspension of the Commission's special inquiries was considered by the government on 23 July. While it was accepted that the Commission on Agriculture be suspended on completion of its interim report then pending, the proposal to suspend other bodies — the Town Tenants (Occupation of Tenancies) Tribunal, the Commission on Vocational Organisation, the Committee on Summer-Time, the Irish Manuscripts Commission — was rejected.[40]

The other government decision on a recommendation of the Economy Committee which particularly concerned Finance, and which was closely related to the whole question of commissions of inquiry and other such bodies, was that the Minister for Finance should "consider the question of arranging for a special investigation of the organisation and staffing of the office of the Revenue Commissioners with a view to economy", under a small committee chaired by Hugo Flinn.[41] Shortly afterwards, on 9 January 1940, the government greatly expanded those terms of reference when it decided that "the Minister for Finance should consider extending the scope of the committee's investigations to include all Departments".[42] Finance reacted sharply against this decision. Only five years before, they pointed out in a lengthy memorandum for the government,[43] the Brennan

Commission had presented its final report, of which no less than "sixty-two paragraphs covering twenty-eight pages" dealt with this very subject. This report in no way suggested

> . . . that the Civil Service is in need of any general or far-reaching reform. On the contrary, it is clearly implied that the organisation as a whole is satisfactory . . . The Minister for Finance is not aware of any change in circumstances . . . which would seem to call for a fresh enquiry into the organisation of the Civil Service, nor has he any reason to think that a Committee of persons qualified to make such an investigation would arrive at conclusions substantially different from those reached by the large and representative Commission, whose report, presented in 1935, was the fruit of almost three and a half years of investigation and consideration. The proposed enquiry would make serious demands on the time of the higher officers in all Departments, most of whom, as the Government is no doubt aware, are already overpressed in consequence either of the depletion of staffs to meet the requirements of emergency services, or of the fact that they are directly concerned with such services themselves. Moreover, an enquiry of the kind proposed would be expensive.

If such a committee were set up, moreover, Finance declared that they would have to recall all their officers who were on loan to other departments — even including an acting assistant secretary in the Department of Supplies — and that even then they would find it difficult to provide the necessary secretarial assistance; other government departments, they suggested, might well be similarly affected.

The Finance memorandum then dwelt eloquently on the undesirable "effect on the public mind" of any such commission or committee of inquiry:

> . . . the number of such bodies appointed in the last eight years has been exceptionally great and the practical results of their labours have been remarkably small. In the Minister's opinion, another barren Commission, or one whose recommendations shared the fate of the findings of most of the Commissions of recent years, would have a very damaging effect on the prestige of the Government. Even the immediate reaction of the public to the appointment, so soon after the Brennan Commission, of another Committee of Inquiry into the Civil Service would, the Minister believes, be entirely unfavourable. Dispassionate observers would think, not unreasonably, that, with the reports and minutes of evidence of the Brennan Commission in its hands and with its own knowledge derived from intimate daily contact with the Civil Service, the

Government should already be in a position to decide what reforms, if any, are necessary.

Finance argued, moreover, that since the Emergency had begun,

> . . . the Civil Service machine, has, on the whole, responded surprisingly well to the new demands made upon it. Many new services are being established and are being successfully administered and the Civil Service has adapted itself with speed and thoroughness to a virtual revolution in the relations between the State and business. These facts hardly support the view that the Civil Service is in pressing need of major reform or that any changes in organisation that may be desirable cannot be accomplished without the assistance of a Committee of Investigation.

Furthermore, the memorandum dryly observed, the Minister for Finance, as the Minister responsible for the civil service, had not been approached by "any member of the Government who thinks that his own Department is overstaffed, or inefficiently administered".

If the government had doubts about the general efficiency and organisation of the civil service, the memorandum concluded, the best way to deal with the situation was for each minister to "obtain from the Secretary of his Department a written report on the Department's organisation, staffing and methods of work", which could then be forwarded to Finance. Finance was especially perturbed by the composition of the government's proposed four-man committee consisting of a politician (Flinn), a member of the Electricity Supply Board (Frederick Weckler), a Land Commissioner (D. Browne), and H. P. Boland, who alone would have represented the Finance viewpoint even though he had retired from the Department. Finance's counter-proposal would suffer from no such defect since it involved no departure from existing structures and no devolution of Finance's control over the civil service into other hands.

But at first, however, Finance did not get its way. On 27 February 1940, the government decided to proceed with its committee, although it did accept that it "should work on the basis of undertaking investigations in individual departments, at the invitation of the Ministers in charge thereof". Worse still, from Finance's viewpoint was a change in the committee's composition; Flinn, (who had the merit of holding the office of Parliamentary Secretary to the Minister for Finance) was replaced as chairman by the Minister for Co-ordination of Defensive Measures, Frank Aiken, and Christopher S.

Andrews (at that time managing director of the Turf Board) replaced the Land Commission's representative. The Minister for Finance did retain the right to submit terms of reference to the government, although only after he had first consulted with Aiken.[44] But Aiken had already drawn up draft terms of reference: that the committee should "examine and report on the organisation of, and administrative methods in operation in each department . . . and make such recommendations in relation thereto as are considered conductive to greater efficiency and economy."[45]

A few weeks later, on 21 March, the government decided that "the question of the desirability or otherwise of the establishment of a Department of State in which would be . . . concentrated the administration of social services" — formerly treated as needing investigation by a separate interdepartmental committee — should be included in the committee's terms of reference.[46] The Minister for Finance, McElligott minuted gloomily, "says there is now no possibility of preventing this committee from starting operations", despite McElligott's having "pointed out to him the somewhat contradictory nature of its tasks — one being to secure economy and the other to spend more money on government services — but this inconsistency is not considered a hindrance in the present instance".[47] But the institution of the committee was postponed, however, pending the submission of a memorandum by Frederick Weckler at the Taoiseach's request.[48] Finance took no action on the matter before the end of April, when Maurice Moynihan, the secretary to the government, telephoned Finance to say "that the Government which was then in session . . . desired to see forthwith any draft of the terms of reference now in existence". But Finance had not considered what amendments, if any, they wished to make in Aiken's draft terms of reference, which were accordingly placed again before the government in their original form.[49] The government reiterated its decision that the final terms of reference should be decided between Aiken and the Minister for Finance and informed Finance that it did not, therefore, require any further submission on the matter.[50]

But, if Finance could not voice its objections officially at government level, those objections were no less determined. McElligott and Seán Moynihan discussed the question of the committee with the Minister "on a number of occasions in recent months", observed McElligott on 17 July in a minute which revealed its ultimate fate. O'Kelly had consequently urged "various objections to an inquiry of

this kind in existing circumstances" upon his government colleagues and, recorded McElligott with relief, "I understand from a further conversation which I had today with Mr O'Kelly that this matter may be regarded now as definitely shelved and the file put away".[51] Thus, although Finance had taken no official action in respect of the committee since its original memorandum on 19 February, the Department's tactics paid dividends in the end.

II: The Fear of Invasion

"There were five major stages in the war so far as it involved Ireland", writes Desmond Williams in an essay on Ireland and the war:

> The first ended in June 1940, the second ran from June to November 1940, the third from November 1940 to June 1941 with the outbreak of the Russo/German hostilities. Later in that year, on 11 December, another turning point was reached when America declared war on Japan. There then followed another stage during which Germany seemed to be losing . . . and the Allied invasion of German-occupied Europe took place on 6 June 1944.[52]

In the first stage, sometimes described as the "phoney war", there was no real threat to Ireland's neutrality and, as we have seen, her major preoccupation was coping with the problem of isolation in a warring world. But the second stage, inaugurated by the success of the German *blitzkrieg* on the Western Front and culminating in the French Armistice of 22 June 1940, was very different. Now there was real fear of invasion, either by Britain (fighting the Battle of Britain and the Battle of the Atlantic almost alone in 1940–41 and casting covetous eyes on the strategically important Irish bases) or, from November 1940, by a German force seeking a backdoor to the United Kingdom.

On 28 May 1940, the day after the Dunkirk evacuation began, McElligott forwarded a memorandum to the Taoiseach's Department showing, first, the effects of the war upon those aspects of the economy which fell within Finance's jurisdiction; second, the emergency measures taken by his Department; and, third, the probable effects of a prolongation of the war. The memorandum noted, under the first heading, that, despite the Emergency budget of the previous November, a deficit of almost £900,000 had been incurred "due to the rush to lay in stocks and the increased value per unit of imports"

and because of the failure to effect the intended economies in expenditure. But no real anxiety was expressed on this score since it was anticipated that the gap between estimated revenue (£33·8 millions) and expenditure (£35·6 millions) could be "bridged by general savings and by borrowings for expenditure treated as being of a capital etc., nature."

The Emergency measures for which Finance was responsible, other than those which have already been noted, included the Minister for Finance's announcement of the government's decision to stabilise the civil service cost of living bonus at 85 which meant that "for every five points the the cost of living figure may rise above 85, there will . . . be a saving of a sum at the rate of £100,000 per annum"; special measures to enforce economy in all government departments in maintenance work, office supplies, stationery and printing, fuel and light, cleaning and laundry, and so on; instructions for duplication and safeguarding documents where "their destruction would be a national loss and would seriously impede Government administration"; instructions in air-raid precautions for civil service staffs; special steps taken to obtain supplies for the Stationery Office; and, finally, special arrangements which had to be made by Finance to staff the Department of Supplies and the Censorship Service under the Minister for Co-ordination of Defensive Measures — this involved the loan of 110 officers from other departments in the first case and of 197 officers in the second — in addition to increasing the staff of the Department of Defence by 191 officers, of whom ninety-five were on loan. It fell to the Minister for Finance, for example, as the minister responsible for the civil service, to take charge of the Ministers and Secretaries (Amendment) Bill 1939, which set the Department of Supplies on a proper legal footing.

Finance's memorandum then reviewed the situation in respect of control of currency and securities and noted that, while the Department was empowered under Emergency Orders to conserve the state's purchasing power abroad,

> . . . the necessity for very rigid control had not arisen up to the present, however, as the British Treasury, under an agreement entered into with it, is supplying all the foreign exchange we require for necessary purposes; in fact they provide foreign exchange to finance imports into this country of a type for which they would not give foreign exchange to their own nationals.

Finance's forecast of what might come to pass if the war were indefinitely prolonged was speculative and need not long detain us. Its main theme was that Irish "fortunes economically will as a whole follow those of Britain" and it stressed that there would be "a catastrophic fall" in the value of Ireland's external assets if Britain were defeated or successfully blockaded, since they were mostly held in British government securities and would then become impossible to dispose of "except at great loss". It stressed, too, Ireland's almost total dependence "on the ability of the British Treasury to maintain the present rates of exchange between sterling and the other main currencies" and pointed out that "a weakening of the Allied position would increase the difficulties and real cost of obtaining essential imports and so would result in further lowering of the standard of living."[53]

The Interdepartmental Committee on Emergency Measures

On 4 July 1940, during the lull between the fall of France and the start of the Battle of Britain, the government's specially instituted interdepartmental committee on Emergency measures met for the first time. So large were the problems confronting the members that they had been given no specific terms of reference, but they saw their main task as the formulation of measures "to alleviate distress in the event of (a) the complete temporary isolation of the country and (b) the invasion of the country by hostile forces."[54] The attendance at the committee's first meeting is noteworthy in as much as it reveals how, in conditions of such extreme emergency, Finance's role was relatively minor in comparison with that of certain other government departments. John Leydon as Secretary of the Department of Supplies was in the chair, and two other officers from Supplies were present. Industry and Commerce also were represented by a team of three headed by their Secretary, R. C. Ferguson, and two representatives of Local Government and Public Health were present. Finance, however, like Agriculture, Defence and Justice, were represented by only one official — J. E. Hanna, the assistant secretary in charge of the supply division.

The committee's first task was to make recommendations to meet what it described as the worst eventuality — a successful invasion of Dublin and the breakdown of central government and administration. The details of their proposals, which involved the division of the country into eight separate regions plus the Dublin area, and which were broadcast by Seán Lemass on 19 July 1940, fall outside the

compass of this work. It might be noted in passing, however, that two officials from the Department of Finance (Leon Ó Broin, then a principal officer, for Mayo-Galway, and, later, McElligott himself for a Dublin presumed to be under an invader's control) were appointed by the government as regional commissioners — the title given to the officials who would assume almost supreme administrative power in the event of an invasion.[55]

The committee's report to the government stated that one particular responsibility which would fall to the Department of Finance in such circumstances was "to make arrangements in advance with the banks so that the requisite amount of currency may be available in each locality to provide for the payment of unemployment assistance, salaries and wages, etc."[56] On 13 August 1940, the Department asked the Bank of Ireland to open special accounts in the names of the regional commissioners in their local branches in all twenty-six counties. On 16 August the Bank of Ireland confirmed this arrangement and suggested that they should double the local reserves of currency in these banks — they proposed that sealed boxes of notes be kept in certain branches to be opened only on orders from the regional commissioners. McElligott consulted Brennan, as chairman of the Currency Commission, about the details of this plan, and following a special meeting of the Commission, it was "agreed that legal tender notes to the value of £250,000 should be taken out of the Department of Finance and paid for out of the Deposit which the Minister has with the Currency Commission" for distribution by the Bank of Ireland among the regional commissioners' accounts.[57] On 17 September, Finance sanctioned the assignment of qualified officers from the offices of the Comptroller and Auditor General to provide "expert assistance for the Regional Commissioners on the question of financial procedure and kindred matters."[58]

Finance's broad outline of the action which they felt the government must take in the event of hostilities was put before the government in a special memorandum of 17 October 1940.[59] "If we become involved in the war", the memorandum began,

> the problems which will arise will depend on the form of the attack and its direction. An invasion in force at or near Dublin might result in the immediate isolation of the capital and make it necessary to bring the Regional Commissioner system into operation or to endeavour to maintain a Central Government from elsewhere. If, on the other hand, the attack were entirely from the air, the Government might be able to carry

on from Dublin. In either event the difficulties in the way of administration if not insuperable would at least be so great that it would be necessary to jettison everything but the vitally essential services.

Subject to these qualifications, the Department proposed that the government should enforce that section of the Emergency Powers Order on Regional Administration which would invest the regional commissioners with their powers. Finance further proposed that

> . . . a broadcast should be made at once (and its essentials repeated during the first two or three days) stating what had been done . . . and . . . telling the people to 'stay-put' unless ordered otherwise by the military and announcing any other step of importance taken or contemplated by the Government. The broadcast might embody statements of steps taken which would have a calming or reassuring effect about such matters as payment of Old Age Pensions, salaries, pensions, withdrawals from the Post Office Savings Bank, etc.

Finance finally argued that their minister would need to be empowered to proclaim one or more bank holidays in the event of an outbreak of hostilities.

Finance was also concerned with the major problems which would arise in the event of the government being evacuated from Dublin to a provincial centre. They felt it was advisable to appoint a county commissioner for Dublin under the Regional Administration scheme to meet such a contingency — the Interdepartmental Committee on Emergency Measures had earlier postponed consideration of such an appointment (for which no provision had been made in the Emergency Powers Order) on the grounds that "with the seat of central Government in Dublin the circumstances in which it would be necessary to appoint a County Commissioner for Dublin would be different from those which might be expected to arise in other county areas."[60]

One major task for Finance in this period was preparing measures in respect of its responsibility for the civil service. The following were the problems as Finance saw them and as they attempted to solve them:

> . . . the question will also arise of transferring a number of Civil Servants to any temporary centre of Government and providing living accommodation and office accommodation for the members of the Government and the transferred Civil Servants. Transport would be required to convey personnel, documents and office equipment to the temporary centre of Government.

Arrangements would also be necessary for the payment of staffs left in Dublin.

The destruction of office buildings and equipment by bombardment would give rise to the problem of obtaining alternative accommodation.

Dislocation of transport services would cause difficulty in maintaining regular attendance of Civil Servants at their work and possibly necessitate the provision either of transport or of living accommodation near their offices for key members of staffs. (It would be quite impracticable to provide either accommodation or transport for more than a small number).

The disruption of electric cables, sanitation systems, etc. would necessitate providing alternative facilities in Government offices.

Staff would require to be transferred from one Department to another according to the volume of Emergency activities in different Departments.

It would be necessary to maintain as far as possible Postal, Telegraph, Telephone and Broadcasting services.

To prepare for such contingencies, the following suggestions are offered:—

(a) The Department of Finance might ask other Departments to consider and report the numbers and categories of the staffs required to carry on such activities as can be maintained

  (i) on the assumption that the Government would continue to function from Dublin and

  (ii) on the assumption that the Government would transfer to a provincial centre.

(b) The Minister for Finance might be authorised to commandeer buildings and office equipment should such action be necessary.

(c) The Minister for Finance should be authorised to transfer and allocate Civil Service staffs at his discretion.

(d) The Minister for Industry and Commerce might be authorised, on a request by the Minister for Finance, to commandeer such vehicles as may be necessary for the transport of personnel, office equipment and records.[61]

The cabinet committee on Emergency problems considered Finance's proposals on 21 October 1940, against a background of growing anxiety about the possibility of a British invasion; indeed, British records show that it was on this very day that the Defence

Committee of the British War Cabinet authorised the Admiralty to undertake a full-scale study of the measures necessary if the Irish bases (in particular Foynes) were to be taken by force.[62] Finance's proposals were approved, subject only to the condition in regard to (d) that there should be no conflict with the requirements of the defence forces.[63] It was also decided at this same meeting that the Minister for Finance be empowered to proclaim bank holidays as he had requested, and furthermore, that "the Government might, by Emergency Order, confer on the Minister for Finance power to prescribe times for the opening and closing of Stock Exchanges and the manner and extent of meeting withdrawals" — powers also sought in the memorandum of 17 October.[64]

This last provision was the subject of some controversy and, following consultations between Finance officials and the Irish Banks Standing Committee, Finance thought it unwise so to proceed. The secretary of that committee felt that a run on the banks was highly unlikely and he pointed out that "even in 1914 when notes could be exchanged for gold there were no indications of a run on the banks in this country, save a tendency (lasting only for a few hours) . . . in Fermoy and Mitchelstown." The banks thought it

> . . . essential that the Government should take no step which would tend to any material degree to impair public confidence. Any impression in the public mind that the Government were even contemplating the desirability of controlling withdrawals in a time of emergency would be likely to have a disquieting effect which would be intensified if any Controlling Order were actually made.
>
> Up to the present the banks have not observed the slightest indication of anxiety on the part of the public and they consider it extremely unlikely that there would be any rush to withdraw deposits if hostilities broke out. The tendency might, indeed, be for people to hold their money in the form of bank balances, as in the event contemplated, lawless elements might have more frequent opportunities for interference with currency held in the household.
>
> The banks suggest that the treatment of withdrawals during an emergency might safely be left to their discretion. Local bank managers, who know their clients may, it is said, be trusted to exercise their discretion in ways which would, on the one hand, tend to allay nervousness on the part of their clientele and, on the other hand, not interfere with legitimate withdrawals. It would be possible, for example, to insist on the full notice being given of withdrawal of deposits of any magnitude instead of (as at present) the term of notice — e.g., a month — being merely nominal.[65]

Finance found these considerations compelling and agreed that it was unnecessary for the Minister for Finance to be empowered to restrict withdrawals, and the relevant Emergency Powers Order (No. 63) of 3 January 1941, enabling him to appoint bank holidays and to close the stock exchange, was deemed sufficient.

On 5 November 1940, the day of Churchill's famous speech in which he said that British interests and those of the free world were being seriously hampered by their inability to use the Irish ports against German submarines,[66] Seán Moynihan sent an urgent and confidential letter to all departments saying that the government was making contingency plans in the event of an outbreak of hostilities and that it had "decided that Departments should be asked to consider and report on the activities which it would be essential to carry on in such an event and the minimum staff which would be required for such activities." Moynihan asked for full details of the minimum number of staff which each department would require should it become necessary to attempt to carry on central government from a provincial centre.[67]

On 11 November, the Minister for Finance sought special powers over the civil service in addition to his statutory powers under the Ministers and Secretaries and Civil Service Regulation Acts of 1924, and, on 26 November, the government "authorised the Minister for Finance to determine at will during an emergency all questions regarding the transfer and allocation of civil service staffs."[68] It was February 1941, however, before Finance, having obtained the replies of the individual departments, was able to summarise its findings for the government.[69] The Department concluded that

> . . . the Departments appear to have had great difficulty in visualising the sort of conditions which would cause the Government to transfer from Dublin to a provincial centre. Some Departments also seem to have very little conception of the limitations which would be likely to be set to their activities by lack of accommodation, the probable interruption of transport and postal services and the possible need to change the seat of government more than once during the period of hostilities. Thus the Department of Supplies proposes the transfer of its entire staff of 140, presumably on the assumption that all its present activities could be continued in full; while the Department of Education contemplates transferring 95 members of its staff. . . . In all, the staffs proposed for transfer with the Government would number at least 400. In addition, a few Departments propose to move one or more branches to provincial

centres, not necessarily the seat of government. These proposals would involve the transfer of about 250 officers. The removal of staffs on the scale indicated by the foregoing figure is obviously neither necessary nor practicable.

The Minister for Finance assumes that the Government would not leave Dublin unless the territory of the State had actually been invaded and the capital were on the point of falling into the hands of the invader. In such circumstances it would not, in his opinion, be practicable to maintain a centralised administration, and he suggests, for the consideration of the Committee on Emergency Problems, that the wisest course would be to delegate all administrative work to the Regional Commissioners even in areas with which the Government could maintain communication. This would have the advantage of setting Ministers free to concentrate their attention on vital national issues raised by the Emergency, as well as of minimising the accommodation difficulties which the presence of large official staffs would create in a small town and the still graver difficulties of transport which would arise if the Government, accompanied by such a staff, were obliged, as it probably would be, to move from place to place at short notice. It will also be appreciated that very probably the greater part of the accommodation in the neighbourhood of the new seat of Government would be required for Army Headquarters. Moreover the advance arrangements which would be necessary if accommodation were likely to be needed for a civil service staff of some hundreds could not be made without risking the public comment and alarm which the Committee on Emergency Problems is anxious to avoid.

Finance emphasised that the regional administration system had been framed to meet such a contingency; they argued that it was advisable "to devolve the full responsibility for administration upon the Regional Commisssioners from the moment that the Government was obliged to leave the capital." The demands for large numbers of civil servants to accompany the government if it evacuated Dublin could then be drastically reduced to between sixty and eighty, which would still cause "serious problems of accommodation and transport", and which led the Minister for Finance to argue that no officer should be transferred "whose services would not be absolutely indispensable".

Another particular preoccupation of the Department of Finance in 1940–41 was the likely fate of the other civil servants — over 90 per cent of the total — who would remain in Dublin "if the city fell into the hands of an invader". The Department advised the government that it was important

> . . . to decide in advance what attitude these Civil Servants should adopt towards the authorities of the enemy forces, and to convey directions accordingly to the Regional Commissioner designated to take charge of the Dublin area. The possible courses seem to be (a) complete non co-operation, amounting to passive resistance, (b) limited co-operation, and (c) full co-operation.

The Minister for Finance took the view

> . . . that Civil Servants and employees of local authorities in occupied territory should, in such circumstances, continue, as far as possible, to discharge their normal work and should assist in the organisation and administration of services (such as rationing, communal feeding, the transfer of inhabitants of ruined houses to temporary dwellings) designed to minimise the hardships caused to the community by the state of war, even if, in so doing, they have to act under the direction of the authorities of the enemy forces.

But the Minister also argued that there should be "an express prohibition of any co-operation which would be of military value to the enemy", for example, assistance in commandeering or otherwise acquiring accommodation or supplies for his troops, and he felt that External Affairs should be "asked for a statement of the international law and practice bearing on this question generally."

The government, at a meeting of 27 March 1941, decided that Finance's proposals were to be "generally accepted". April and May saw External Affairs and Finance exchanging views on the position of civil servants in territory occupied by a foreign power and, following the submission of a memorandum from External Affairs, the Cabinet Committee on Emergency Problems "decided that the Department of Finance should be asked to prepare and submit to the Government draft instructions for issue to the Civil Service in advance of an emergency." The Minister for Finance circulated these draft instructions to the government on 6 June, but on 17 June the government "decided that the text . . . should be revised by the Taoiseach and the Minister for Finance and should then be held in readiness for issue in the event of a major emergency."[70]

The differences between the two drafts are instructive. The revised draft, forwarded by the Taoiseach's Department to Finance on 29 August, and the consequent correspondence, clearly indicate that de Valera himself was essentially responsible for the changes. Both drafts cited, as the relevant international law on the subject,

> . . . Article 43 of the Annex to the Hague Convention concerning the

Laws and Customs of War on Land, 18th October, 1907, viz: —

'The authority of the power of the State having passed *de facto* into the hands of the occupant, the latter shall do all in his power to restore and ensure, as far as possible, public order and safety, respecting at the same time, unless absolutely prevented, the laws in force in the country.'

Nor was there disagreement either about the theory that officials who remained at their posts in an invaded territory "became subject to the orders of the occupying power, but . . . are not absolved from their national loyalty and allegiance" or about that power's right to "exact an 'oath of obedience' (but *not* an oath of allegiance)" from such officials.

But what was expunged from Finance's draft was the statement that "officers who agree to remain in office become servants of the occupying authority and are entitled to be paid their salaries." Any references in Finance's draft to civil servants "accepting office" or "remaining in office" were replaced, by the phrase "to continue their functions". More significant was the difference of opinion provoked by Finance's declaration that

> . . . in general it is anticipated that it will be possible and desirable for Civil Servants under the jurisdiction of the occupying authority to carry on the work of civil administration and thereby to mitigate the hardship and inconvenience resulting from foreign occupation. If it is borne in mind that the purpose of co-operation with the occupying authority is for the benefit of the occupied territory and its citizens, and that refusal to co-operate may only result in the occupying authority carrying out its desired measures with greater hardship to the civil population, it will be seen that very rarely will circumstances arise in which national allegiance will require Civil Servants to refuse co-operation. In considering any such circumstances the claims of national loyalty and allegiance must be weighed with the possibility of making resistance effective, the question whether the resistance is likely to be ineffective *and* in addition may only increase the hardships of occupation and the possibility that co-operation may succeed in modifying or at least lessening the inconvenience of the occupying authority's demands.

But the draft from the Taoiseach's Department merely acknowledged that "the theory underlying co-operation by officials with the occupying authority is for the benefit of the occupied territory and its citizens, since refusal to co-operate may result in the occupying authority carrying out its desired measures with greater hardship to the civilian population." Moreover, the Taoiseach's draft concluded, that

> . . . the question of whether civil servants should in any circumstances continue to perform their functions under an occupying power would require a very serious decision by the Government, which could only be taken in the actual event. The Government will endeavour to communicate any such decision to the Regional Commissioners with all possible speed and civil servants should in all cases look to the Regional Commissioners for direction.

Finance baulked at this conclusion and, in their letter concurring with the other revisions of their own draft, asked that instructions be issued "without delay to the Regional Commissioners and to Heads of Departments, if not to all civil servants who, in the event of foreign military occupation, would be required to serve away from the headquarters of their Departments."[71] De Valera rejected this request and made it clear that he did not want any such decision communicated to the regional commissioners. He repeated that "the very serious decision involved can only be taken in the actual event" and declared that no instructions in writing were to be issued. Instead he proposed to address personally separate and specially convened meetings of heads of departments and of the regional commissioners "for the purpose of discussing generally preparations for a possible worsening of emergency conditions."[72] The former meeting — although not, apparently, the latter — was duly held on 27 October 1941.

But by then the fears of invasion had begun to recede and contingency planning for any such eventuality was less urgent. The sustained German bombing raids on British cities had ended in May 1941 and the German invasion of Russia in June had further relieved the intensity of the attacks on Britain. For Ireland, however, as for the belligerent nations, December 1941 was the real turning point. The American declaration of war, when Pearl Harbour was bombed on 6 December, created a situation quite different from that in which Finance had been asked to draw up contingency plans for the transfer of the nucleus of government administration outside Dublin. It was hardly surprising, therefore, that when the government finally considered Finance's proposals on the lists of civil service staffs to be transferred, the number of officials involved (excluding typing and messenger staff) was reduced from fifty-seven to a mere eight, three of whom were from the Taoiseach's Department (the secretary, registrar and the Taoiseach's personal secretary) and only one of whom (an assistant secretary) was from Finance.[73] Yet such decisions, taken on 19

January 1942, seemed almost academic and there is no evidence that they received any further serious consideration in the Department of Finance.[74]

War Risk Insurance

One interesting example of the special demands the Emergency made on Finance was the problem of insuring property and commodities against war risk — in particular against the risk of bombing raids. Finance first considered this issue at the end of 1938 and continued to do so until the most acute phase of the Emergency had passed. In tracing its history, one can thereby detect in microcosm something of the impact of the successive stages of the war upon Finance's thinking.

The issue was first taken up by John Leydon in a letter to McElligott in October 1938 where he observed that Britain had shrunk from introducing any comprehensive scheme of war risk insurance in respect of air raids because the problem was so vast, but that, in Ireland's case, the problem would be smaller.[75] McElligott did not reply until March 1939 (in the meantime Leydon had sent him extracts from a House of Commons debate on the subject and External Affairs had obtained a copy of the report of the relevant British Interdepartmental Committee[76]) when he observed that "while conditions here can hardly be the same as in the UK, nevertheless it is impossible to foresee to what extent damage will be caused here during a war." He accordingly took the view "that any insurance scheme would impose too heavy a burden on property owners and would be regarded as additional taxation"; the most he thought possible was a scheme of national compensation at the end of the war.[77]

The problem emerged in another guise in July 1939, when Leydon wrote to McElligott about the pressing need to arrange war risk insurance for ships registered in Ireland of the kind then being arranged for ships registered in the United Kingdom, and saying that the British government was prepared to offer Irish ships reinsurance facilities through their Board of Trade.[78] The proposal, which had Lemass's approval, was highly unorthodox for it involved participation in a scheme enacted under British rather than Irish legislation. It well illustrates the kind of urgent and unusual decision Finance was called upon to make — by Industry and Commerce or later, and most notably, by Supplies — under Emergency conditions. In this

case, Finance was attracted by Leydon's arguments that the scheme "was in the nature of an administrative arrangement with the British Government, which may not involve an actual loss [or] administrative expense" and that the introduction of enabling legislation in the Dáil "would involve considerable delay and might well provoke discussion as to why a separate scheme should not be established by the Irish Government". Intensive pressure from Industry and Commerce for an immediate decision led MacEntee to agree that, "the need for separate legislation might be waived, [and] if necessary, covering legislation . . . passed later." On the same afternoon the matter was brought to the Taoiseach's notice and, "after some hesitation [he] agreed to allow the Department of Industry and Commerce to conclude the proposed agreements."[79]

Renewed pressure for the introduction of legislation on war risk insurance quickly followed the outbreak of war and it was raised in the Dáil on 27 September 1939 when MacEntee followed the line earlier laid down by McElligott. Particular emphasis was placed at this stage upon the insurance of essential goods and commodities but, while McElligott accepted this as a problem of a different order, he continued to argue "that it should be possible without recourse to legislation to frame with various insurance offices a suitable scheme."[80]

In July 1940, however, with the heightening of tension after the fall of France, Industry and Commerce insisted that McElligott's proposals had "proved impossible of realisation". The department felt that there was now "a widespread demand in commercial circles for protection under Government auspices against war risks", and they reported that Lemass believed "the necessary accumulation of stocks . . . is being impeded by the lack of some form of protection."[81] Industry and Commerce were strongly supported by Leydon, by then in Supplies, who referred to his own unsuccessful attempts in private conversation to persuade McElligott to change his mind. Leydon thought McElligott's "argument that an insurance premium would be regarded as additional taxation" unconvincing, since the government, if it had to bear the cost of the premiums, would have to draw on additional taxation anyway. Leydon also believed that "the scheme should extend to buildings as well as to commodity stocks", and he stressed what he saw as the major difference between British and Irish circumstances. "At the moment we are still neutral", he wrote, "and one may hope that the risk will not materialise", but even if Ireland

were caught up in hostilities, he felt the most important consideration was that "we have not the same proportion of very big, densely populated towns as Great Britain . . . and, therefore, there is not quite the same measure of catastrophic risk."[82]

McElligott reluctantly conceded that the Department was being "driven to adopt the principle of insurance" in respect of commodities but he remained firmly opposed to any extension of that principle to property generally.[83] The growing pressure on Finance came to a head at the end of September when the Senate debated an opposition motion urging the government to introduce a war risk insurance scheme for property. Although MacEntee (by then Minister for Industry and Commerce) repeated his and the government's previous attitudes when he was Minister for Finance — namely, that this problem would only "arise for consideration at the end of the war . . . [when] it would be dealt with according to the resources which are available to the community"[84] — the government decided to ask the Department of Finance "to give early consideration to a scheme for the compulsory insurance of property generally against war risks."[85]

But Finance saw the matter as falling within the jurisdiction of Industry and Commerce and it was not until 5 February 1941 that that department forwarded the heads of a bill for government consideration. The scheme was confined to commodities and assumed that the broader problems of damage to buildings and other property was Finance's responsibility.[86] By then, however, the government had arrived at a separate, although closely related, decision "that the damage by bombs to dwelling houses, household furniture and effects would be made good in full by the State in advance of the acceptance of the responsibility and payment of compensation by the external Government responsible for the damage",[87] a decision which led to the enactment of the Neutrality (War Damage to Property) Bill of 23 September 1941. Despite a cautionary memorandum from Finance arguing "that this might impose a heavy burden on the Exchequer", and despite the Department's fears that, "should the State become actively involved in hostilities, the measure of compensation now adopted for strictly limited types of losses will be looked to as a headline for compensation for war damage however widespread that damage may be", the Minister for Finance approved the scheme as "fair and reasonable"[88] and piloted the Bill through its various stages without undue difficulty.

On the broader issue, however, while Finance accepted the Industry

and Commerce proposals for an insurance scheme in respect of commodities, they rejected the notion that the insurance on buildings was in any way their responsibility, saying that "as distinct from schemes of compensation, State schemes of insurance (other than in respect of health) and State intervention in the field of insurance generally were the responsibility of Industry and Commerce." The Department opposed the extension of the scheme beyond commodities and urged that, at most, a bill which could later be applied to other property, but which in the first instance be confined to commodities, be introduced.[89]

Industry and Commerce admitted the distinction between insurance and compensation schemes and, while suggesting that it was ultimately compensation rather than insurance which was at issue, accepted that the broader property question was so vast as to merit separate and later treatment.[90]

But the satisfactory resolution of this difference notwithstanding, Finance still hastened slowly. A series of urgent and regular inquiries from the Taoiseach's Department from April 1941 onwards met with no response until Finance was finally informed, on 5 July, that the Taoiseach himself wished "to be informed without delay of the present position".[91]

Finance's consequent memorandum took the line that the problem was particularly intractable because of the fact that there was

> . . . no possible basis for an actuarial calculation of the probable extent of war damage to property in relation to which premiums of insurance could be fixed; and, because the risk is not, therefore, an insurable proposition, insurance companies have declined to accept it. If this country became involved in hostilities it must be anticipated that the consequent destruction of property would be extremely heavy. One intensive air-raid on a large scale on Dublin alone might cause damage amounting to millions of pounds. . . . The premiums required to build up a sufficient fund to compensate for such damage would have to be fixed at a figure so high as to be unacceptable to property owners and unsuitable for compulsory and universal collection . . . Moreover, it might be expected that serious difficulty would be encountered in exacting such premiums not alone from the owners of destroyed and damaged property but also from those whose property had not suffered during the war period. The effect on the price level and consequently on the cost of living of the compulsory collection of premiums in respect of property generally will be appreciated.[92]

The Finance memorandum also stressed that the main consideration which had prompted the proposal that there should be special insurance provision to encourage traders to lay in essential supplies was no longer valid, since such supplies were no longer freely obtainable. The Minister for Finance (supported by the Minister for Industry and Commerce), the memorandum concluded, rejected the idea "that the problem of compensation for war damage to property . . . lends itself to solution by means of insurance . . . The Minister is not prepared to commit the community to the indeterminable magnitude of the contractual liability to pay immediate compensation."

The fate of the Finance memorandum again illustrates the easing of war tensions in Ireland in late 1941; submitted to the Cabinet Committee on Emergency Problems on 6 August 1941, it only came before the government on 19 January 1942 when what was decided was, essentially, that Finance were right and that "the problem was one which could not be dealt with by means of a scheme of compulsory insurance."[93] A rider requiring Finance further to examine the question of compensating traders in essential commodities for war damage only had the effect of delaying, until mid-1943, the conclusion sought by the Department from the start — that the issue did not require legislation to be introduced by Finance or by any other department.

Finance's stance in the war-risk insurance controversy is not untypical of a role frequently played by the Department at the height of the Emergency in response to what it saw as the exaggerated demands of other departments. Anxieties about what the future held in store if the war were prolonged or, worse still, if the country were invaded, led to demands — most notably from departments such as Supplies and Industry and Commerce who had a day-to-day responsibility for the life of the community — which, Finance believed, went beyond the requirements of legitimate and necessary contingency planning and into the realm of unnecessary and expensive innovation to meet a situation which might never occur.

The Unemployment Debate

On 4 June 1940, against the grim background of the fall of France, de Valera discussed the problem of "securing the finances necessary for. coping with unemployment" with the Minister for Finance (Seán T. O'Kelly), McElligott and Joseph Brennan. None of the trio were optimistic about the government's prospects and O'Kelly "emphasised

the generous extent of the contribution already being made by the Government towards the solution both of our unemployment and our defence problems", and cautioned against any increase in government commitments.[94] At a further meeting on the same day with representatives of the Irish Banks' Standing Committee, when the question of "increased expenditure far beyond anything arranged for in the Budget" was again discussed, de Valera dwelt on the question of unemployment as "a problem which constituted 'a danger in our midst'".[95]

These general and inconclusive discussions set the scene for a debate which continued throughout the Emergency and which, in February 1941, developed into a clear conflict of opinion between the Departments of Finance and of Industry and Commerce. The Minister for Industry and Commerce, Seán MacEntee, had opened this stage of the debate when he sent a memorandum to the government

> . . . on the possibility of (a) substituting native for imported raw materials for industry, and (b) putting to alternative use in the production of other essential commodities of plant at present employed on imported materials, and on (c) the extent of the increased unemployment following on the total or partial stoppage of the import of industrial materials and requirements, and (d) the steps which should be taken to deal with the resulting situation.[96]

Detailed investigations had now revealed, the Minister for Industry and Commerce emphasised "very strongly", that it was "not possible to substitute native raw materials for the raw materials hitherto imported and used in our industrial processes (outside the food group), except to a very limited extent." A review of alternative uses for plant and machinery had also produced "very depressing results". The memorandum thus took "the gloomiest view as to the extent to which unemployment, particularly in industrial production, will develop in this country during the present year, if overseas supplies are cut off"; and the minister revised upwards, to "almost 400,000", his estimate of total unemployment figures made the previous July. For these reasons and because he could

> . . . see no prospect that it will be possible, even by the most extravagant expenditure of public money upon such undertakings, to provide work for more than a small part of that fraction of the newly unemployed who would be physically suited for it . . . the Minister for Industry and Commerce recommends that a Committee consisting of representatives of

the Government Departments more intimately concerned with the various aspects of this matter, viz, Department of Supplies, Department of Local Government and Public Health (Engineering Branch), Office of Public Works (Engineering Branch and Special Works Division), Department of Finance, Department of Posts and Telegraphs (Engineering Branch) and Department of Industry and Commerce, together with representatives of the Electricity Supply Board and the Irish Tourist Board, should be set up under the Chairmanship of the Parliamentary Secretary to the Minister for Finance (a) to investigate and report as to the extent to which it would be possible to provide employment for male workers upon such works of public utility as would make a minimum demand upon plant and materials normally required for productive industry, (b) to draw up a programme of such works, and (c) to devise machinery for putting it into operation.

Although Finance supported this particular recommendation, which was duly approved by the government on 25 February 1941,[97] they did not support the other major proposal of Industry and Commerce which was based upon an extremely pessimistic forecast of the general economic climate likely to prevail in the immediate future. Industry and Commerce had argued that the drastic drop in industrial production (some 70 per cent), coupled with an equally drastic increase in unemployment, would produce

> . . . a tendency towards panic with, no doubt, a disastrous fall in prices for farm produce which would probably . . . drive agriculturalists in the direction of mere subsistence farming. The point would, undoubtedly, come when farmers might not even produce enough of a surplus above their own requirements to feed the remainder of the population.

They also argued that "the transition period during which the money economy might remain almost normal would . . . be comparatively short", and felt that there might develop a

> . . . want of confidence, particularly in the minds of the agricultural community, in the stability of the currency. In matters of currency, psychological causes are frequently more disastrous than actual economic causes. A lack of confidence in the stability of sterling would, almost certainly, engender a measure of doubt in Irish currency even though the link with sterling were formally broken. A panic situation might result in agriculturalists refusing to produce for payment in cash and, if this situation arose, the whole money economy and currency system of the country might be endangered.

There might arise a demand from farmers for some form of State guar-

antee that the value of his produce would be set against the annuities which he owed to the State. Panic might even result in recourse to a primitive barter system unless measures were taken to counter the movement and save the community as a whole from such a serious calamity. The problem to be faced, therefore, if the emergency continued for any lengthy period, would be to plan how best agriculturalists could be persuaded to continue in production to the point, at least, of meeting the needs of the community. This might, in effect, involve an alteration during the emergency period in the whole currency system, as what has to be achieved is, on the one hand, to maintain an adequate supply of food and, on the other, to put all members of the community on an equal footing and in a position to purchase, or be supplied with, the essentials of life. Clearly, this eventuality has to be faced, especially if, as is the view of the Minister for Industry and Commerce, this eventuality must be regarded as practically certain to occur if the state of isolation or of a cessation of imports continues for even as long as a year. It is recommended that, in order to consider all the issues involved, a special committee should be set up composed of representatives of the Departments of Finance, Supplies, Local Government and Public Health, Industry and Commerce and, possibly, Justice, to deal with emergency production, distribution, price control, and currency.

Seán Moynihan, then assistant secretary on the establishment side of Finance, felt these prognostications were "unduly nightmarish". While he admitted that, if the country were invaded, the situation would be "far worse than we can imagine now", Industry and Commerce's memorandum was based upon the assumption that an invasion would not take place and, in that event, he thought,

> . . . we are not likely to be completely isolated. No plans for rationing, price control or currency regulations made now would have the least value in an invasion: we shall simply have to rely on our ingenuity to meet difficulties in these matters as they arise . . . a certain amount of planning to mitigate the evils of a stoppage of imports is practicable, but it should be related in some measure to probabilities and complete isolation is not a probability.[98]

McElligott's semi-official reply to Industry and Commerce was no less sceptical. He was particularly concerned to

> . . . deprecate any reference to currency. It is desirable that as little as possible of an alarmist character should be said about this in any public document, even with restricted circulation. It only tends to encourage loose talking and thinking on the subject and, in any case, there is little, if any-

thing, we can do to alter the position in which we now find ourselves. That position is, I think, better than that of practically any European country. We have behind our notes approximately $\frac{1}{3}$ of the amount in gold, $\frac{1}{3}$ in early maturing bills, and the remaining $\frac{1}{3}$ in short-dated British Government securities. We do not want to talk outside about these things because there are only too many people anxious to start a controversy on the subject.

McElligott followed up this classic expression of the view that the uninitiated should be denied access to the higher mysteries of currency control with the comment that, if Industry and Commerce's pessimism proved justified, then "public revenue which in any case was bound to contract severely, will almost disappear and it will be difficult to finance any extensive schemes for providing employment. We will be lucky if we can provide some monetary dole to enable people to purchase the necessities of life".[99]

Finance got its way and currency control was excluded from the terms of reference of the committee on emergency production set up by the government and consisting of only the Ministers for Supplies, for Industry and Commerce and for Agriculture; nor did the government accept Industry and Commerce's most draconian proposal — the preparation of a general rationing scheme.[100]

III: New Directions

An inspection of the spate of Emergency Powers Orders made when the Emergency was at its height reveals how few of them were initiated by Finance.[101] Yet, while the great majority of such orders emanated from other departments and while they related to such disparate areas of responsibility as film censorship, the viewing of bodies at inquests, the suspension of duty on horseshoes and the restriction on the possession and use of pigeons (to mention but a few random examples), all had to be inspected and approved by Finance before being issued. In general, therefore, Finance's responsibility in respect of such orders and in respect of other emergency legislation was similar to its responsibility in respect of ordinary legislation in more normal times, and the Department had few, if any, observations to offer upon most draft orders submitted to it by other departments. Indeed, if emergency measures were deemed to be necessary Finance much preferred that the government should proceed by way of emergency powers order rather than by enacting special legislation which might prove less easy to undo once the emergency was at an end —

the question of compensating landowners whose land had been taken possession of by the state was one area in which this preference was explicitly enunciated.[102] At the same time Finance was also concerned to guard against what they sometimes saw as the excessive haste of other departments to frame emergency orders, as well as against the excessively wide additional powers sought under such orders. One instance of this kind arose in connection with the emergency powers sought by Industry and Commerce in the field of mining development — an issue which also exemplifies how the Emergency led to the rapid growth of a policy of state intervention in major areas of the economy — which in turn gave rise to some of the most important new directions which emerged during the war years.

The Minerals Development Bill

The controversy over mining development began in July 1940 when the Minister for Industry and Commerce sought, by way of an emergency powers order, "all the powers in relation to the acquisition and development of mineral deposits" which he would acquire under the terms of a Bill approved by the government twelve months earlier — viz. "(a) . . . with the consent of the Minister for Finance, to acquire compulsorily minerals in private ownership; [and](b) . . . to work mineral deposits as a State enterprise". Although Industry and Commerce's memorandum to the government did admit that their Minister was hesitant "to make the compulsory acquisition of minerals and their development as State enterprises" the subject of an emergency powers order since it would normally be desirable that the houses of the Oireachtas "should have an opportunity of expressing an opinion on such legislation", it argued that it was essential that he immediately be armed with such powers "to enable him to deal expeditiously with proposals relating e.g., to the provision of fuel by acquiring and developing coal deposits or of raw industrial materials by taking over of phosphate rock deposits."[103]

Finance did not agree. "While not disputing the principle of obtaining adequate powers in a time of emergency", the Department replied, "the Minister for Finance strongly protests against the manner of seeking powers in the present instance." Finance took particular exception to the fact that Industry and Commerce's draft order followed the wording of the earlier draft Bills "verbatim *save for the omission in two places of provision for the obtaining of the consent of*

the Minister for Finance." They were further incensed by the absence of any financial provisions whatever in the draft order. "In a time when national resources are strained to meet the great and urgent demands made in connection with measures to defend the very existence of the State", they protested, "far-reaching proposals are put up to the Government without any indication whatever that large expenditure may be involved and without normal and proper provision for financial control."[104]

The response of Industry and Commerce was placatory: they said their minister's initiative had been prompted by his anxiety to develop certain coal deposits at Slieveardagh with maximum speed and reassured Finance that their sanction would be sought in regard to expenditure. But while Finance accepted this assurance, they continued to oppose the terms of the draft order, reiterating their original objections and pointing out in addition, first, that Supplies had told them "we are getting all the coal we want and can handle" and, second, that the parliamentary draftsman had advised them that one article at least of the draft order could be implemented only after the enactment of the Minerals Development Bill.[105]

Finance won their point when, on 13 August, the government decided to drop the emergency powers order and to await the Minerals Development Bill. Although they also decided that Slieveardagh coal should be developed, this was to be carried out only on the "basis of providing the minimum capital requirements necessary" by way of a company formed for the purpose "in accordance with specific legislation." The Bill setting up the Mineral Exploration and Development Company, enacted on 4 June 1941, duly limited the advances (which were repayable) made to the Company to £50,000[106] — although this figure was increased to £250,000 two years later.[107]

Irish Shipping

Shipping was another important area of the economy where the Emergency precipitated state intervention initiated, typically, by Leydon as Secretary of Supplies. His preliminary and "very urgent" memorandum to the government on the formation of a shipping company was coupled with a request that 2 million dollars held by the Minister for Finance should be made available to buy ships.[108] McElligott's response, on 10 February 1941, was favourable, although he did point out that "two millions represents all the dollars we have or are likely to have for a long time to come and so must cover not

only the purchase of ships but of stores, cargo, crew, commissions, insurance etc." McElligott also suggested that Finance's share of the cost should be limited to its dollar contribution and its "portion of the issued share capital" and he felt that the Minister for Finance should nominate the government appointees to the company. He also felt that whether arrangements for the company could be completed under the Emergency Powers Act was "not at all clear", although he admitted that legislation would "entail delay which in the circumstances, we cannot afford."[109]

McElligott's suggestions were incorporated in the Department of Supplies' memorandum of 1 February on the setting up of the new company, which was so urgent that it was approved by the government on the same day, although it was agreed that the company should not be incorporated until it became clear that ships could in fact be bought. By 10 March, however, Leydon was hot in pursuit of the company's first ship and the formation of Irish Shipping Ltd. was announced in the newspapers on 24 March, by which time negotiations for the purchase of a second ship had already begun.[110] Finance's records on the subject reveal the great haste with which the company was formed and the pressures under which it conducted its business in these early days: a letter from J. R. Mullion (the company's London shipbroker) mentions the neutral market as very much a seller's market in which Irish Shipping was in cut-throat competition with other would-be buyers from Thailand, Switzerland and the Americas, as well as with private buyers, and refers to deals clinched at 2 am and 6 am, in order to ensure Irish Shipping's success in buying three ships in sterling when dollars were much more in demand. Finance too played their part in cutting corners, in order, for example, to ensure that moneys were transferred through the Bank of Ireland to New York with a minimum of delay and before the formal documentation had been completed, so that the opportunity of acquiring a second ship was not lost. A third ship was bought in July and at the end of that month the Minister for Finance authorised Irish Shipping to increase its borrowings from the banks from £1 million to £2 millions.[111]

Irish Shipping, under Leydon's chairmanship, was a great success and on 30 September 1942, a mere fifteen months after its foundation, Finance could record that the company had wiped out its indebtedness and was in credit with the bank to the tune of £340,000 — a fact which enabled the Minister for Finance to withdraw his

guarantee from the company on 3 December.[112] Eighteen months later Seán Lemass could inform the Dáil

> . . . of the exceptional success, from the commercial point of view, of Irish Shipping Limited. The importance of the services provided by the ships of that company to the country is well known but not so well known is the fact that the company has been run in a most efficient manner . . . which has resulted in the realisation of profits on the enterprise and which has so strengthened the financial basis of the organisation that its successful operation after the war is made more practicable than it might otherwise have been.[113]

It was hardly surprising, then, that the government "decided that Irish Shipping Ltd., should be continued in the post-war period"[114], a decision implemented by the Irish Shipping Ltd. Act 1947,[115] which gave more permanent effect to the temporary provisions hastily drawn up by Leydon and McElligott in the darker days of 1941.

But Irish Shipping was but one (albeit the largest and most successful) example of Finance's growing involvement in state and state-sponsored enterprise. In December 1941, Finance found it necessary for the first time to examine the general problem "of the propriety of giving guarantees, informally or otherwise, for the incurring of bank overdrafts by commercial bodies operating under State direction or control" which had become urgent with the first appearance in that year's Finance Accounts of an item for £364,447. This was in respect of such guaranteed overdrafts — a third of this was the Irish Shipping overdraft and more than another third a similar "emergency" overdraft for Fuel Importers (Éire) Ltd; other smaller overdrafts were in the names of the Butter Marketing Committee, the Condensed Milk Company of Ireland (1928) Ltd, the Newmarket Dairy Co. (1932) Ltd, and the Pigs and Bacon Commission. This total, moreover, only represented the amount of the actual overdrafts at the end of the last financial year and did not show "the full amount of the contingent liability which the Exchequer had to shoulder when the guarantees were given by the Minister for Finance"[116] — which was why Finance recommended to the government that an Emergency Order be made "to deal with the cases in which guarantees have been given for purposes connected with the Emergency — Irish Shipping Ltd., Tea Importers (Éire) Ltd., Fuel Importers (Éire) Ltd., and the Pigs and Bacon Commission" — the first (already covered by a separate order) was included "for the purposes of uniformity of treatment" and the last ("a permanent statutory body") because the guarantee in

question related to emergency conditions.[117] The order (No. 157) of 1942 was made on 18 March and remained in force until the end of 1947 when it was renewed and amended under the terms of the Supplies and Services (Temporary Provisions) Act of the previous year.

An examination of the annual statements which the Minister for Finance was required to present to the Oireachtas under the order reveals the gradual growth of state enterprise. The total of the maximum amounts that might be guaranteed (£5¾ million in 1942) had climbed to £12 millions by 1948 and two more companies — Oils and Fats (Éire) Ltd and Irish Steel Holdings — had been added to the list; by 1952 a further increase (to over £18½ millions) had been recorded.[118]

The End of the "Emergency"

If the fear of invasion had begun to recede by the end of 1941, mid-1942 saw ministers' minds turning to a consideration of the economic policy which they might pursue when the war finally ended. On 30 June 1942 the government discussed "the need for systematic planning not merely to meet the pressing problems of the moment but also to provide for the situation . . . when the Emergency comes to an end" and decided that

> . . . the several Departments should catalogue and examine forthwith the major projects of national development to which they had been giving consideration when the European War broke out and those they have had under consideration since, take stock of the progress made and push consideration forward to the point where definite proposals could be submitted for Government approval, final plans detailed and all possible preparation made for their immediate execution by the respective Departments the moment the Emergency had ended.[119]

That such broad and seemingly far-reaching decisions should have been formally recorded in the government minutes was unique. Nowhere else in the minutes kept since 1937, nor indeed in the minutes for 1922–37, is any similar declaration of intent as to the economic policy of the government of the day recorded, nor does one find policy statements of a comparable kind in the cabinet minutes.

The response of the Department of Finance was unenthusiastic. The Minister, Seán T. O'Kelly, replied that he could not forward "a very imposing list of large-scale projects, as the initiation of proposals for works of major development on a national scale is primarily a matter

for Departments other than the Department of Finance." But he took the opportunity of placing on record his general opinion

> . . . that departments should plan with a view to increasing the prosperity of the several sections of the community more fully by means of their own exertions and by co-operation and less by taking the easy line of having recourse to State aid. Furthermore, it may be found that, when the emergency is over, financial considerations will have to over-ride the desirability of some departmental projects, so that selection may be necessary.[120]

Although a "Cabinet Committee on economic planning . . . consisting of the Taoiseach, the Tánaiste, the Minister for Industry and Commerce and Supplies" (de Valera, O'Kelly and Lemass) was established in November 1942,[121] no other references to this Committee or to its work occur in the government or cabinet records now available (up to June 1944). A similar concern for post-war reconstruction is evidenced, however, by a draft statement of de Valera's entitled "Planning of Building Activities", which the cabinet approved on 9 December 1943 and responsibility for which was assigned to the Department of Industry and Commerce.[122]

But, if the activities of the cabinet committee on economic planning were spasmodic and if they apparently failed to generate anything in the nature of a debate about economic planning in which the Department of Finance became involved, one can here detect the outline of divisions which emerged more clearly in future years. If it is hazardous to chart the precise point when the Emergency had passed, it seems safe to assume that, once the minds of ministers and officials turned to a post-emergency world, however hesitantly, the real emergency was at an end.

Relief Supplies to Post-War Europe

The end of the war, as opposed to the Emergency, posed new problems for the Department of Finance among the most pressing of which was possible Irish participation in the relief of the stricken peoples of a war-torn Europe. John Leydon first proposed this, not only for humanitarian reasons, but also to try to clear "the very bad name" Ireland had acquired among the Allies during the war because of her neutrality; "the effect of this on post-war trading had always worried him" and he discussed it with Lemass who then spoke to F. H. Boland of External Affairs.[123]

McElligott was the next to be told of the scheme and the upshot

was a meeting over which he presided in the Department of Finance on 27 March 1945, attended by leading officials from Finance, Supplies, External Affairs, Industry and Commerce and Agriculture. Leydon and Walshe (the Secretary of External Affairs) opened proceedings by referring

> . . . to the actual and prospective food shortage in Europe and the danger that unless the country showed and publicised its readiness to provide assistance there would be a considerable loss of good will and colour would be given to the propagandist charges levelled against us in sections of the British and American press that we were concerned only about ourselves and were enjoying higher standards of living than in any other part of Europe.[124]*

McElligott then raised the issue of whether Canada might divert supplies of wheat originally earmarked for Ireland to the liberated countries of Europe, although Leydon reported that the Canadian high commissioner in Dublin had assured him that these supplies would be maintained. The feeling of the meeting was that,

> . . . while it was generally agreed that it would be desirable that something should be done to provide assistance for distressed countries, the practical difficulties in the way of doing anything effective were mentioned, e.g. our own shortages, lack of shipping, sale of our surpluses to Britain, and the reception by Britain of any attempt, without their full agreement, to divert our surpluses to European countries. . .
>
> It was agreed that, until all the material facts and considerations had been assembled and considered at a further conference, it would be impolitic to arrange for any public statement in regard to the general question of action by this country towards relieving distress in Europe.[125]

McElligott took the initiative at the next conference on 20 April 1945 when he took the line that supply difficulties in Europe were likely to increase even if, as now seemed probable, the war ended soon; he argued that it was likely "that the position would be very serious from next autumn up to the following spring". The meeting then decided, notwithstanding the counter-arguments brought forward at the meeting in March, that it was desirable that a public pronouncement be made on the matter as soon as possible, provided that shipping arrangements could be made, and proceeded to draw up a detailed list of supplies available for relief.[126]

*Papers I have since seen in the National Archives in Washington D.C. prove beyond question that Leydon's apprehensions on this score were fully justified.

These recommendations formed the subject of a Finance memorandum for the government on 26 April 1945, the underlying principle of which was "that any relief measures adopted would not be such as would involve serious diminution of our essential stocks". Thus it was argued "that it would not be possible, without undue risk to home requirements, to export cereals or to release any piece goods for clothing or any made-up garments in view of the great shortage at home and the fact that the position is not likely to improve for a very long period." In other instances, however, it was proposed that Irish rationing restrictions be tightened in order that the quantity of foodstuffs which might be available for relief could be increased; the butter ration was to be held at six ounces a week throughout the year (rather than increasing it to eight ounces for three months in the winter as in 1944) in order to make available 20,000 cwt., and the sugar ration reduced from threequarters of a pound to half a pound per week (with corresponding cuts in allocations to hotels and restaurants) to provide 300,000 cwt. Reductions in the home supplies of specially hardcured bacon and of cheese were also provided for. Other proposals included the provision of 1,500 draught horses, of 20,000 head of live cattle for immediate slaughter and of ten million pounds of canned meat, as well as smaller quantities of dried and condensed milk and of baby foods in the form of cereals. It was also proposed to send certain of the supplies held in reserve by the air raid protection branch of the Department of Defence, namely 100,000 of their stock of 300,000 woollen blankets and 400 of their 485 stoves, cookers and field kitchens.[127]

The approximate estimated cost of these supplies was some three million pounds, although the Finance memorandum did point out that "it was possible that in some cases the governments concerned might prefer to pay for some or all of any supplies made available". The memorandum also recommended that, because of transport and distribution problems, "as well as for reasons of policy", the supplies should not be handled through existing international relief organisations, such as UNRA or the International Red Cross, but that they should be offered to the "governments of the countries for which it was decided they should be made available", although the Irish Red Cross were to be asked to co-ordinate the activities of various private groups which had already begun collecting used clothing for despatch to the distressed areas.[128]

These proposals were approved *in toto* when the government met

next day and when it was also agreed that the Minister for Finance, in consultation with the Taoiseach, should mention the relief plan in his budget speech.[129] But it was not until two weeks after the budget, on 18 May 1945, that de Valera revealed the details of the scheme to the Dáil.[130] Supplies duly began to flow from Ireland to the continent within forty-eight hours of the end of hostilities. The outcome, in the opinion of John Leydon, was a notable example of an initiative which, although first taken outside Finance, "could not have happened without the active support and encouragement of his counterparts in that Department" and, above all, of McElligott without whose "wholehearted support" the scheme would never have got off the ground.[131]

CHAPTER NINE

Towards the Post-War World: The Department of Finance in the Forties

The war years, T. K. Whitaker has observed,[1] were arid years in the Department of Finance. Given the prolongation of the war and its impact upon an Ireland increasingly isolated from Europe yet sharing significantly in the economic dislocation which war brought in its train, they could hardly have been otherwise. But, if the historical picture of Finance in these years reveals no major landmarks and if the pressure for change of the kind that was to characterise the post-war world had yet to begin, it would be wrong to represent the Department's history in these years exclusively in terms of its response to the Emergency. Indeed, between 1942 — when, as we have seen, the sense of acute emergency began to diminish — and 1945 one can trace the beginnings of debate on issues of a kind which were more and more to demand the energies of Finance in the post-war period. This in turn can be related to the gradual impact of the economic ideas of John Maynard Keynes upon the Department of Finance; however confining the war years may have been in other respects, they at least provided an opportunity for Finance officials to absorb and come to terms with Keynesian economics in an Irish context.[2] Some of the results of that process, in 1945 and afterwards, will be discussed later in this chapter, but we must first look at the debate within Finance on two separate but related issues of the kind we have just mentioned: the setting-up of a central bank in place of the Currency Commission and the maintenance of the link with the pound sterling at parity.

I: The Central Bank Act 1942

Both the debate about setting up a central bank and the debate about the link with sterling had their immediate origins in the proceedings

of the Banking Commission of 1934–38. The Commission's terms of reference had been

> . . . to examine and report on the system in Saorstát Eireann of currency, banking, credit, public borrowing and lending and the pledging of State credit on behalf of agriculture, industry and the social services, and to consider and report what changes, if any, are necessary or desirable to promote the social and economic welfare of the community and the interests of agriculture and industry. . .

and although it produced its majority report in March 1938, the final decisions on its principal recommendations were deferred until the war years. Although the Commission's proceedings, as its terms of reference and its two volumes of published evidence[3] clearly indicate, offered much the most important opportunity for examination and criticism of what was essentially Finance's "system" (in respect "of currency, banking, credit, public borrowing and lending"), they did not result in any fundamental change in the *status quo* or in any significant diminution of Finance's influence. The majority report, James Meenan has written, "may be summarised as a recommendation to leave things as they were".[4] Given the composition of the Commission, in much the same way and for much the same reasons as we have already seen was true of the earlier Commission of Inquiry into the Civil Service,[5] such an outcome was only to be expected. Once again Joseph Brennan, ex-Secretary of Finance and chairman of the Currency Commission, was appointed the Commission's chairman. Both Finance's then Secretary and the assistant secretary in charge of establishments (McElligott and Seán Moynihan) were among his fellow-commissioners. "It is notable", observes Professor Meenan of the evidence given to the Commission, "that no evidence was given on behalf of the Department of Finance."[6] However, a reading of the vigorous cross-examination conducted by these three men, and in particular by Brennan (as chairman), of those witnesses who did give evidence reveals how Finance's voice did not go unheard in the Commission's public deliberations; and a Finance memorandum summarising the Commission's reports shows how closely the majority report coincided with Finance thinking. Its principal conclusions not only included the recommendations that "the link between the Irish pound and sterling at the existing parity should be maintained" and that "the Currency Commission should be reconstituted as a central banking organis-

ation with all the essential powers and functions thereof" but recommendations for restrictions upon the borrowing powers of the Agricultural Credit Corporation, the Industrial Credit Company, the Electricity Supply Board, the Irish Sugar Company and other state and state-sponsored bodies, as well as the recommendation that the volume of state borrowing and lending "should be reduced from year to year at such rate as general financial circumstances permit". In general, moreover, it advised that "care should be taken to examine various Government proposals with more regard to their possible monetary and financial reactions".[7]

But the Finance viewpoint did not go unchallenged in the Banking Commission, and opposing points of view found expression in no fewer than three minority reports. The first, signed by William O'Brien, Professor Alfred O'Rahilly and Seán P. Campbell of the Irish Trade Union Congress, emphasised such issues as "the Irish Labour programme; social conditions; . . . planned development" and had as its "fundamental conclusion" the need for "an organ for the issue and control of developmental credit". The second, signed by Professor Busteed, dealt largely with the implications of the link with sterling and recommended the setting-up of a national monetary authority. The third minority report, signed by Peadar J. O'Loghlen, enunciated certain social and economic principles which, he believed, ought to have informed the Commission's approach to its terms of reference, criticised certain aspects of the majority report and put forward its own counter-proposals which derived from the recommendation that an economic development commission be set up.

O'Loghlen's report demands closer attention: first, because its underlying principles were exceptionally hostile to, and anathematised by, the Department of Finance; second, because, some ten years later, these principles were to be propounded from within the government by Seán MacBride who was then still taking advice from some of the members of the small group consisting of Bulmer Hobson, Mrs Berthon Waters and Father Edward Cahill, SJ, who were in fact responsible for drafting what became O'Loghlen's minority report. "Hypnotised by British prestige and precedent and dominated by a British-trained civil service", wrote Hobson, "our politicians were unable or unwilling to think of any other system save the one they had inherited, and they largely continued to pursue courses which would have been pursued if the Act of Union had never been disrupted. The Secretary of the Department of Finance was allowed to

become the real ruler of Ireland and the urgent national need for reconstruction and expansion was cut down to fit his narrow vision."[8]

This anti-Finance animus pervades the pages of the O'Loghlen report which, after a first chapter which reiterated the socio-economic arguments of the Papal Encyclicals of the nineteen-thirties — a procedure deemed "right and necessary . . . in a country in which over 92% of the people profess the Catholic faith" — went on to attack the principles upon which, it alleged, the majority report had been drawn up. "The general tenor of the majority report", it argued,

> . . . leads to the conclusion that it is neither the business, nor is it within the power of the Government, to make effective provision to secure and maintain a condition of full employment. We are warned against attempts being made to allow social conditions to interfere with what is assumed to be the unalterable working of economic laws. The idea that it is necessary to conform to unnamed economic laws which operate with predetermined precision, whatever the social consequences may be, is one from which I dissent completely. I think that economic policy should be made to meet human needs and not *vice versa*. . . . I believe that the financial system exists to serve the community, and not that the needs of the community must be cut down to fit the Procrustean bed of the banking system as it exists today.[9]

Similarly, O'Loghlen argued, the majority report appeared to take it for granted "that the future economic history of Ireland is to be a continuance of past and present trends" in respect of, for example, continuing emigration and a declining population; he believed "that the objective of economic and monetary policy should be not to take for granted undesirable trends, but to change them, and to guide and turn them to the national advantage."[10] O'Loghlen opposed both the continuation of the link with sterling (because "a system of *international money* is the appropriate instrument of the international financial system, while a separate and national monetary system, designed to facilitate the fullest development of the national resources in the interests of the community as a whole, is the appropriate instrument of social-economic policy"[11]) and the setting-up of a central bank, of the kind proposed by the majority report, which he described as "a superfluous institution, as London would still act as the depository of the funds of the commercial banks, as well as those of the proposed central bank itself . . . a mere unconsidered satellite

revolving round the Bank of England, but at the same time armed with a special prerogative to advise the Irish government."[12]

But the most interesting aspect of O'Loghlen's report was its proposal to set up an "Economic Development Commission which would be able to organise and to direct the unused productive resources of the nation, with the object of maintaining full employment and so raising the standards of economic life." Such a commission would take the form of "a public authority appointed by the Government"; it would "have under constant review the economic situation of the country, particularly in its monetary aspects" and would work in close liaison with "a Foreign Exchange Committee" which it was also proposed to inaugurate and upon which it, the Currency Commission and the commercial banks would be represented.[13] The plan for this economic development commission was laid out in detail in the first appendix to the report and provided for "a *statutory corporation, not part of the Civil Service,* and responsible directly to the Executive Council [*sic*]" of six divisions, each of which would be presided over by a commissioner. The first division, under the chairman, would include the secretariat, a statistical and library service, an intelligence branch, a labour branch and a legal branch, as well as the monetary control office; the other divisions would be responsible for such matters as afforestation and river drainage; reclamation of bogs and wasteland and the utilisation of peat; housing and town and country planning; harbour development and coastal erosion and, finally, economic surveys and industrial research — this last division "would employ people with high technical or scientific qualifications, who, after being trained in our universities, now have to seek employment abroad, to the great loss of the country", and "would create a corps of highly trained technicians who would assist in the development of natural resources of every kind."

Finance reacted to O'Loghlen's ideas, not with a reasoned rebuttal, but by seeking to discredit their intellectual origins. There were at least seventy-three passages in the report, noted a Finance internal minute,[14] whose ideas were similar to the ideas expressed either in *National Economic Recovery* (a booklet published anonymously by the Talbot Press in 1935) or in *The Achill Island Tragedy* (a pamphlet published by the League for Social Justice — an organisation which had also submitted a memorandum in evidence to the Banking Commission). Finance, aware of the growing public pressure upon the government to reject the majority report, prepared an elaborate

tabular comparison showing these similarities which, it noted, sometimes amounted "to absolute identity of expression", although they seem to have been unaware of Bulmer Hobson's personal role.[15] The government's marked lack of enthusiasm for the majority report's recommendations may also have been reflected by the delay in publication; the Minister for Finance's memorandum, encapsulating the recommendations of the various reports, first came before the cabinet on 22 April 1938, but it was 26 July before the cabinet decided to release them for publication (on 8 August 1938).[16]

By November 1938, McElligott was sufficiently concerned to put on record for his minister the fact that O'Loghlen's report

> . . . was not submitted by him to the Banking Commission until the day of the last meeting of that body after being three and a half years in existence, and that even then he would not allow any discussion to take place on it. In the letter covering . . . his report he states: "My proposals have been submitted to and discussed with economists of recognised standing." There were a number of such on the Commission and it is not clear why he should select those outside for the purpose of discussion, seeing that the Commission had been appointed for that very object . . . [He also] states: "I have had the guidance and advice of churchmen of recognised standing and authority." We had on the Banking Commission a duly consecrated Roman Catholic Bishop and yet Mr O'Loghlen did not discuss his proposals with him.[17]

Finance's concern stemmed in part from the private printing of an additional 2,000 copies of O'Loghlen's report by the Three Candles Press, the propriety of which they had unsuccessfully tried to question through the Chief State Solicitor's Office and the Stationery Office. It arose also from a resolution put down for the Fianna Fáil Ard Fheis on 22 November 1938 on the subject of a national monetary authority and from the request of a Fianna Fáil deputy, Seán O'Grady, communicated to the Minister for Finance by the party chief whip on 23 November, that a motion be placed on the agenda of the next party meeting urging the convening of a special party meeting "to consider the Reports (Majority and Minority) of the Banking Commission".[18] McElligott, in a note prepared at his minister's request, suggested "that public opinion in regard to the Reports has been founded not on careful reading and study of the Reports themselves and of the data upon which they are based but on the inadequate Press summaries which appeared immediately following release"; and that, since then, much of the publicity sur-

rounding the reports was "the work of partisans with a strong bias in favour of the Minority Reports".[19]

Nor could Finance take much comfort from the attitude of their own minister who showed no enthusiasm for pressing for an early government decision endorsing the more important recommendations of the majority report. "The Minister agrees generally with these suggestions", minuted McElligott of their discussion of 14 November, "but before putting them up to the Government he would like to see a draft of a memorandum giving briefly the pros and cons in respect of each proposal."[20] When, nearly a month later, Brennan called on the minister in his capacity as chairman of the Currency Commission, the outcome was no more reassuring. Although it was now nearly nine months since the reports had been presented, the minister

> . . . stated that he had been unable so far to give more than a cursory reading to the Reports and that he had had no opportunity of discussing them with his colleagues. He was re-reading them now more carefully. The Reports had been circulated to the Government but no Cabinet discussions about them had yet taken place. While he personally felt sympathetic towards the point of view of the Majority on many of the matters dealt with in their Report, he had, as stated, not yet studied the Reports with sufficient thoroughness to be able to form final opinions. He thought the first step would be to deal with the Minority Reports.[21]

The policy, then, was one of hastening slowly and a memorandum on the subject for the government, prepared in the Department in December 1938 (one of the first jobs, incidentally, given to T. K. Whitaker when he joined the Department), was not amended by McElligott and submitted to the minister until July 1939. The result — "no action for [the] present"[22] — was no different.

In the meantime Finance's preoccupation with emphasising the unholy parentage of their opponents' ideas was underlined by a second comparative tabular statement which showed the similarity of the first (as well as the third) minority report not only to the works mentioned above but also to the Labour Party programme of 1938 and, most damaging of all, to the proposals of the old IRA.[23] Finance was specifically concerned to refute the proposal, contained in a memorandum submitted to the Banking Commission by the Irish Trade Union Congress, "that the existing commercial banks should be amalgamated into a single State Banking Corporation publicly owned and controlled". After recapitulating the objections of the

majority report to aspects of the proposal, a Finance memorandum "unhesitatingly" concluded that it be rejected on the grounds

> . . . that the sponsors of such a revolutionary proposal must be able to prove that the existing system is defective in one or more essential respects and that such deficiencies would be cured by the proposed abolition of private ownership of the banks. The capacity of the banks to earn profits consistently is a testimony to their technical efficiency. The competition between them may perhaps be objectionable on other grounds, but it tunes up managerial and administrative standards. From the standpoint of technical efficiency there is nothing in favour of making the banking system part of the civil service. As some of the banks operating in Éire are incorporated outside this country, and some incorporated in Éire conduct business outside, the creation of a State Bank, with Government ownership, would involve a forcible dissociation of the banking structure, delicate inter-governmental problems would arise, a net loss of efficiency and profitability would be likely, and it would be by no means certain that this State would continue to command its present proportion of total banking resources. The equitable rights of existing shareholders would have to be acquired by the State at a substantial cost, while the net receipts accruing to the State might well be less than the compensation payable. The vital objection to the proposal is, however, that it would create a monopoly of credit, placing the potential borrower completely at the mercy of a financial autocracy. It involves the demand that profitability, the ordinary test of efficiency, should be discarded and that the public credit monopoly should consciously lead economic activity into directions approved by the political party in power at any given moment.[24]

At the end of August 1939, with the shadow of war looming over Europe, Finance finally submitted a memorandum to the government on the establishment of a central bank. "In view of the growth of international tension", it began, it had become "desirable to establish machinery which will enable some measure of effective control to be exercised, if necessary," over such important matters as remittances to and from abroad, payment for vital imports, the regulation of capital issues and of dealing in foreign securities, and so on, "for all of which no statutory machinery at present exists". The memorandum endorsed the majority report's "definite conclusion" that a central bank "was a necessary part of our financial machinery even in peace time and that the best method to secure this end was by extending the powers of the Currency Commission so as to embrace the main functions that are recognised as attached to central banks";

and, citing scripture for its purpose, noted that both the authors of the second and third minority reports (Busteed and O'Loghlen) proposed, at the least, "an extension of the powers of the Currency Commission".[25] Although the cabinet at a meeting on 10 October, duly "decided in principle that a Central Bank should be set up", the matter was still far from resolution since the Minister for Finance was asked to "submit further material for discussion by the Government in regard to the powers, functions and constitution of the Central Bank".[26] After further consideration of the matter at meetings on 23 and 24 January 1940, the government decided upon some of those powers: the sole power of control and regulation of notes and coinage issue, powers to buy and sell gilt-edged securities on account of the General Fund, and to receive non-interest bearing deposits from public authorities and credit institutions.[27]

But more than two years were to elapse before the publication of the Central Bank Bill which "in its original form . . . impressed one Senator as 'one of the most amazingly conservative pieces of proposed legislation that one could possibly imagine'."[28] Maurice Moynihan's history of the Central Bank precludes the necessity of a detailed description of the Bill or of its passage through the Oireachtas. What alone concerns us is Finance's role in promoting one of the most important, exceptional pieces of financial legislation for more than a decade and one which, in several important respects, departed from the policies which the Department considered best.

That Finance would not find it easy to persuade the government of the merit of the policies enunciated in the Banking Commission's majority report was implicit in the government's request for further information in October 1939. The difficulty became explicit in mid-February 1940 when the government asked Finance to examine two specific questions:

> (1) Whether banks operating both in Ireland (26 Counties) and outside should be required to keep separate accounts in respect of business within and outside this country and to keep separate registers of assets held in respect of liabilities to depositors here.
>
> (2) Whether the Central Bank should have compulsory powers to purchase from, and sell to, the commercial banks foreign securities in exchange for legal tender.[29]

The first question presented little difficulty — Finance believed that such a procedure was already being effectively carried out by

the Currency Commission who published a summary of the returns in their *Quarterly Bulletin* — but the Minister for Finance declared himself "entirely opposed" to the compulsory powers envisaged in the second question. "Compulsory powers to purchase foreign securities from the commercial banks in exchange for legal tender notes", the Finance memorandum to the government argued, "would negative the obligation on the Central Bank to redeem its legal tender notes" which would violate "one of the fundamental principles of central banking" and result in "a complete lack of confidence in the Central Bank . . . with disastrous consequences on the stability of the national currency."[30] But the government was not satisfied and, having acknowledged that its original intention had been obscured by the wording of its own decision, sent back the second question to Finance for further examination — this time with reference to whether such compulsory powers would enable the Central Bank to influence "the credit policy of the commercial banks so as to maintain a reasonable degree of control over that policy and effectively to prevent undesirable measures of inflation or deflation."[31]

The reasoning behind this was made plain by Seán Lemass when, having again rejected Finance's further submission to the government[32] on the grounds that it was "based upon an incorrect assumption concerning the intentions of those responsible for the proposals",[33] he argued that

> . . . the effect of the operation was intended to be exactly the opposite of that assumed by the Minister for Finance. It is believed that the compulsory sale of interest-bearing sterling assets, and their transformation of cash lying idle in the bank tills, would force the commercial bank [*sic*] to seek opportunities of re-lending the money internally to restore their revenue. It is true that the banks could repurchase foreign assets but in such an event the Central Bank could repeat the operation indefinitely until it had succeeded in procuring the desired result.
>
> The reverse operation, the compulsory sale of foreign assets by the Central Bank to commercial banks, is intended to force the commercial banks to restrict their internal lending. It is not sufficient for the Minister for Finance to state that this is "objectionable from many points of view". If it is objectionable from any point of view, a clear statement of the grounds on which it is so held to be is desired.[34]

But the Minister for Finance, Seán T. O'Kelly, in his reply, continued to insist upon the relevance of his Department's initial response to the question of compulsory powers and, after emphasising

the unanimity of all the reports to the Banking Commission "on the need of maintaining public confidence at the time of the setting up of the new institution", he suggested that the best way of disposing of the matter would be for Lemass to circulate "a reasoned memorandum" outlining his objections to the arguments adduced by Finance.[35] Lemass, having again suggested that Finance had "misunderstood the position somewhat", rejected this proposal in the course of a letter which revealed what was really at issue. A central bank of the kind proposed by Finance, he wrote, would

> . . . have no real power to influence the credit policy of the commercial banks. In any case, the Government apparently arrived at this conclusion, and furthermore, it became clear from our discussions that the Government decided the Central Bank should have such power. It was recognised that the powers conferred upon and exercised by central banks elsewhere would not be equally effective here because of special features in our position which I am sure it is not necessary for me to enumerate. It was, however, suggested that the power desired might be given to the Central Bank by the means indicated in the Cabinet Committee's query. All that it is desired to know from the Department of Finance is whether there are any practical difficulties about the operation of these means. When that information has been secured I presume we will decide for ourselves whether the Central Bank should be given the powers proposed.[36]

Finance, not unnaturally, declined to accept this interpretation of its role in such a crucial matter, and in yet another memorandum for the government offered the "general objection" that "no central bank has compulsory powers of the nature suggested and no report of the Banking Commission recommended such powers". Then, having reiterated the relevance of their earlier arguments, they questioned the value of "purely monetary means" in remedying "deflationary conditions which are due to causes outside the control of the banks" and suggested, with particular reference to American experience in the thirties, that "the teaching of experience in every country is that monetary measures alone are not successful in grappling with the evils of poverty and unemployment."[37]

Neither Lemass nor O'Kelly gave way in a further exchange of semi-official correspondence. Lemass reacted to the latest Finance memorandum "with surprise and some misgiving" and was "at a loss to understand" why Finance should have placed such emphasis upon showing that monetary policy alone would not end unemployment

and poverty — "a contention which, so far as I know, nobody has made." He summed up the position as he saw it in the following terms:

> The Government has decided that a Central Bank is to be established. It is desired that the Central Bank should possess power to influence the credit position within the country . . . [and] have power which can be used, in circumstances in which the Board of the Bank deem it desirable so to do, to make it more profitable for the commercial banks to increase their loans to internal borrowers, or in other circumstances to decrease such loans. The Central Bank may rarely, if ever, have occasion to use such power but its possession will place it in a position to influence the credit policy of the commercial banks. . .
>
> It is no argument against it that no other central bank has compulsory powers of the same nature. No other country has precisely the same circumstances, and in any case, there is no standard pattern of central bank.[38]

O'Kelly's reply argued that Finance had not sought to alter the terms of the debate but merely to "demonstrate from actual events that too much cannot be expected from a central bank no matter how wide and extensive its powers may be." He also argued that the powers which the Banking Commission's majority report recommended would in any event enable the Central Bank "to influence credit conditions in the country" and again stressed "that the responsibility for inflation or deflation lies only to a small extent with the banks". Other objections were the "complete legal and fiscal segregation of the assets and liabilities of banks operating in this country from their assets and liabilities outside" with the consequent "shock to public confidence" that the scheme would bring about and the fact "the proposals are tantamount to a power of compulsory seizure of assets of banks".[39]

Finance's renewed objections only had the effect of widening the area of dispute, since the cabinet committee on emergency problems recorded that the Minister for Finance had undertaken to provide it with information "as to whether in any countries, and, if so, in what countries" a similar banking system existed which enabled banks incorporated outside the country to carry on business in the way in which they did here or, on the other hand, which enabled banks incorporated within the country to have comparable interests outside the country.[40] At a subsequent meeting of the same committee, moreover, McElligott was informed by his minister that

> . . . a proposal was put forward that (a) no banks should be allowed to operate in this country unless they had previously obtained a licence from the Central Bank, and (b) such licence should be issued subject to any conditions that the Central Bank and the Minister for Finance might think fit.

McElligott reacted vigorously against the proposal. Having stood by the majority report's recommendations on the issue of licences, he argued that the second part of the proposal "would put the other banks entirely under the heel of the Central Bank" and he knew of no other country "in which a central bank was vested with such drastic powers". He felt, too, "that after a century to a century and a half of independent existence such as most of our banks had had, it would be unreasonable to deprive them of an independence they had never abused. They had to conform with the law relating to limited liability companies and it would be unfair if another set of impositions were forced upon them."[41] These arguments were reiterated in a Finance memorandum to the cabinet committee on emergency problems.[42]

None of these matters had been resolved when, on 21 November 1940, the Minister for Finance submitted the text of the draft bill to the government. The draft was based upon the government decisions of 23 and 24 January 1940 and upon its subsequent directive of 19 March "that a draft bill based on these decisions, together with any other provisions considered desirable by the Minister for Finance, should be prepared and submitted." No mention was made of the controversies which had since developed and many of the sections of the draft, the memorandum acknowledged, were "not already covered by formal government sanction".[43] The government's preoccupation with powers beyond those incorporated in the draft bill was soon highlighted when, on 9 December, they referred to the Minister for Finance, in consultation with the chairman of the Currency Commission, a proposal empowering the Central Bank's directors "to fix the maximum proportion of the total assets of any bank which may be held in foreign securities".[44]

Matters came to a head on 13 December when the cabinet decided that the particular powers conferred upon the Central Bank in the bill were

> . . . insufficient to enable the Bank to discharge the function and duty of ensuring that, in what pertains to the control of credit, the constant and

> predominant aim shall be the welfare of the people as a whole. [The cabinet] requested the Minister for Finance to submit further proposals concerning additional powers for the Central Bank which would assist it to discharge such function and duty.[45]

This the Minister for Finance declined to do. He found it "extremely difficult", his official reply began, to propose any additional powers beyond those already considered by the government, which he classified as follows:

> (1) competitive commercial banking operations by Central Bank;
>
> (2) compulsory purchase and sale of foreign securities by Central Bank from and to commercial banks;
>
> (3) proportion of assets of commercial banks to be held in cash either with the Central Bank or otherwise, the proportion to be determined by the Central Bank;
>
> (4) Central Bank to fix maximum proportion of total assets of any bank which may be held in foreign securities.

He opposed the adoption of all these proposals for the reasons he had already given in his earlier memoranda and in his correspondence with Lemass (a summary of these reasons was circulated to the members of the government)[46] and because he believed "that, if adopted, they would not be effective for the purposes which the government has in mind." His alternative suggestion — and he stressed that his proposals followed "further prolonged discussions with the Chairman of the Currency Commission and with his Departmental advisors" — was that, during the bill's Second Reading,

> . . . he should make a general statement to the effect that, if requested to do so by the board of the Bank after it had some experience of working the arrangements set forth in the bill, he would be willing to consider the grant of such additional powers as may be considered necessary for the efficient discharge of its [the Bank's] duties.[47]

Finance finally won its point, although it was nearly two months before the government approved this anodyne formula. Approval was tempered, moreover, by the simultaneous recommendation of another half-a-dozen suggestions "for consideration by the Minister for Finance" on the appointment and composition of the board of the

Bank and on the inclusion of provisions "that the power of the Central Bank should not be limited by the amount of the General Fund" and "that the shareholding banks should cease to be associated with the Central Bank."[48] Nor was that all: at another meeting held the next day (4 February 1941) the government revived the proposal empowering the Central Bank to demand "the segregation of assets held by the commercial banks in respect of their liabilities to depositors in this country" and to regulate what proportion of these assets should be held in internal and external securities.[49]

Finance, supported by Brennan as chairman of the Currency Commission, strongly resisted almost all of these proposals. The provision for segregation of assets was impugned as "a double-edged weapon" which might prompt the British government to "require a similar segregation in respect of creditors and depositors" and which might "mean the immediate freezing of part of the bank assets in Great Britain". The provision as to internal and external securities was thought to be administratively difficult, expensive and perhaps impractical; and it was also suggested that, for the past eight years or so, "the general trend in Irish banking has been in the direction of replacing external by domestic assets so that it is questionable whether there is a need of any new device to urge the banks further in this path."[50] Brennan was even more strongly opposed to the proposals which he thought would constitute "a very radical change that would alter the entire structure and character of Irish banking".[51] He was equally sceptical of the need to dissociate the shareholding banks from the Central Bank, a proposal he thought "crude and incomplete" and calculated to militate against what he saw as an urgent priority for any new central bank of the development of "a close and harmonious relationship with the government on the one hand and the commercial banks on the other."[52]

Finance made the same point in the deliberations on the government's proposals to alter the composition of the board of the Central Bank — their draft bill had proposed "a board consisting of a Governor and seven directors — four to be appointed directly by the Minister for Finance and three to be appointed by the Minister from a panel of six names prepared by the shareholding banks. The Governor is to be appointed by the seven ordinary directors." The government's counter-proposal, however, provided for the appointment of the Governor "by the President on the advice of the Government" and for a board of three banking directors (to be appointed

"by the Government or the Minister for Finance from a panel of six names . . . suggested by the Irish Banks' Standing Committee") and of five other directors "of whom not more than two might be persons in the permanent service of the State." Finance defended their own proposal by arguing that

> . . . it is not lightly to be assumed that the banking directors will necessarily oppose a policy which is clearly in the national interest even if it conflicts with the interests of the commercial banks. . . In any event it is surely an exaggeration to suggest that the qualitative influence of the banking directors is such that they could easily sway the non-banking directors in the event of a conflict of bankers' interest with the national interest. . . If the government nominees detect any spirit of obstruction on the part of the banks' representatives and if their voting majority is not sufficient to counteract this, the position can be set right at any time by legislation. . .
>
> Appointment of the Governor by the board of directors will be more conducive to harmonious working of the board as a whole than if he were appointed, as suggested, by the President.

Finance backed up their arguments by citing the examples of central banks in Canada, New Zealand and India, of American Federal Reserve Banks and of the Irish Currency Commission. The latter, they pointed out, consisted of a chairman and six members (three nominated by the Minister for Finance and three elected by the shareholding banks) — the chairman was elected by the six members. They also pointed out, as evidence of their confidence in Irish banking representatives generally, that there had been a vacancy for one of Finance's nominees for some years past which "left the banking representatives with a majority but at no time have they abused the powers which they have as a result of that majority." If, however, it was decided that the government should be in some way associated with the Governor's appointment, this could simply be done by leaving the election to the directors "subject to the approval of the Minister for Finance".[53]

But Finance's rearguard action found little favour at the decisive government meeting of 7 March 1941 when it was decided that the Bank's board should be given discretionary powers in respect of the segregation and regulation of assets; that the earlier government proposals on the composition of the board and the appointment of the Governor by the President on the government's advice should stand and that the text of the Bill be circulated "subject to final

examination by the Taoiseach and the Tánaiste." Finance, however, did obtain the right to determine, after consultation with banking representatives, whether the shareholding banks should be dissociated from the Central Bank.[54]

This consultation effectively postponed the circulation of the bill for yet another year. The alarmed reaction of both the Currency Commission and of the Irish Banks' Standing Committee to the text of the bill (which had been referred to them confidentially with the government's approval) in respect, particularly, of there being "six non-banking as against three banking directors" and of the proposed restrictions on the banks' foreign assets, was well-portrayed in a Finance memorandum to the government on 4 October 1941 which recommended that the Department's objections on these points be met.[55] The government stood firm on the first point, but conceded on the second that the relevant section (44) of the bill should be watered down by replacing the most contentious paragraphs by a paragraph "requiring that a licensed banker should maintain with the Central Bank interest-free deposits whenever the proportion of such banker's internal assets to his internal liabilities should fall below a certain figure."[56] The Currency Commission and the Standing Committee remained highly critical of this new formula but, after further discussions, the government refused to give way and decided that the relevant section was not to be altered in principle, although the Minister for Finance was empowered to make such amendments as would not affect the principle; at the same time the government finally decided to authorise the bill's introduction in the Dáil.[57] Within a fortnight, on 5 March 1942, the bill was finally published.

The Central Bank, which first opened its doors on 1 February 1943, was, essentially, the kind of central bank envisioned since the early thirties by the senior officials of the Department of Finance, and by McElligott in particular, notwithstanding the government's suspicions of the Banking Commission's majority report which, as de Valera had observed in the Dáil, was not animated by any spirit of sympathy toward government policies.[58] It is doubtful whether de Valera ever hoped for the kind of orthodox consensus to which Finance officials aspired; indeed, Per Jacobsson, one of the Commission's two foreign experts, felt that de Valera had "aimed at having all opinions represented".[59] The composition of the Commission supports this view and it is noteworthy that when the cabinet first discussed the issue, on 11 April 1934, Keynes was one of the five

"outside experts", named — from whom it was intended to appoint three — the others were Professor Gustav Cassel of Stockholm, M. Charles Rist of Paris, Professor Edwin Kemmerer of Princeton University and Professor Theodore Gregory of the University of London. But Keynes was named only as an alternative to Gregory and, at a subsequent cabinet meeting on 2 May, de Valera reported that he had communicated the cabinet's decision to the Irish Banks' Standing Committee and to the Currency Commission who had recommended modifications in the Banking Commission's composition. The cabinet consequently decided to increase the banks' nominees from two to three and to reduce the number of outside experts from three to two — they also decided that Cassel and Gregory should be the first invited.[60] Although Cassel declined and Jacobsson — a fellow-Scandanavian — replaced him, Gregory accepted. We can but speculate how different things might have been if Keynes had been a member of the Banking Commission.

II. The Link with Sterling

The maintenance of the link with sterling, like the establishment of a central bank, formed an integral part of the Banking Commission's majority report. Unlike the central bank issue, however, it demanded no action, legislative or otherwise, on Finance's part and the Department's preoccupation with the question as an issue in its own right began only after the outbreak of World War II when, in October 1939, McElligott was sent a memorandum written by John Busteed, Professor of Economics and Commerce at University College Cork and the author of the Banking Commission's second minority report. Busteed pointed out that the Irish currency's "present identity with sterling remains unimpaired", notwithstanding a substantial fall in sterling's purchasing power and in its exchange value with other major currencies during the previous year. "Is official policy willing to visualise the possibility of a future necessity to break our link with sterling?", he asked; "instead of borrowing, can and will the government use the Irish savings already in its custody (Post Office etc.)? Will it allow our citizens to support a British loan?" Such questions, Busteed argued, merited "full and frank public discussion," and, while he admitted that this would "give scope for the cranks", he thought it "no answer to say that in the public interest discussion on such a subject must be confined to anonymous bureaucrats."[61]

It was precisely because Busteed could not easily be numbered among the "cranks", a category into which Finance tended to place all opponents of the link with sterling established by the 1927 Currency Act, that his intervention was significant. McElligott wrote to Brennan and to others of his former colleagues on the Banking Commission, seeking confirmation (which he duly received) of his recollection that at no time when the Commission was sitting did Busteed express the views "which he now tells us he has entertained for years" — nor did he do so in his minority report.[62] The matter quickly became one of public interest when, on 18 October, L. J. Duffy, the Secretary of the Labour Party and a member of the Brennan Commission on which he proved Finance's severest critic,[63] publicly condemned the link with sterling.[64] A week later two senators, Frank McDermott and Michael Tierney, put down a motion saying that "Seanad Éireann would welcome a statement of policy by the government regarding the Irish currency and its connection with sterling." Although the motion did not come up for discussion until the following March, Finance regarded it as sufficiently important to prepare a ten-page memorandum, with several appendices, giving a detailed statement of the case for maintaining parity with sterling which was approved by the government as the basis for the Minister for Finance's Senate speech.[65]

The decision to maintain the Irish pound at par with sterling, the memorandum began, "was arrived at freely without any suspicion or hint of pressure from any external government or banking institution" and was "actuated solely by the interests of this country". This course had been advised by the 1926 Banking Commission under the chairmanship of "an American, who presumably had no preference for recommending a tie with sterling rather than a tie with any other currency, such as the dollar, if such a course had been more feasible, more advantageous or more profitable"; and the 1938 majority report of the Banking Commission had recommended the maintenance of the link with sterling on the grounds that

(a) The "maintenance of this link ensures to the Free State the advantage of exchange stability with the British market, which is of the greatest importance for its foreign trade and in which the bulk of its foreign investments is held";

(b) The "link with sterling enables the Free State to participate in a monetary and credit policy which is in general conformity with the interests of this country";

(c) The "link has the advantage of possessing the confidence of the Free State public and, conversely, any suggestion for relaxation of it would meet with distrust".[66]

The report was equally convinced that parity should be maintained because "a change 'would introduce an element of uncertainty for the future'" which would act as "a grave deterrent to enterprise" and because "the general objectives of British policy 'are of a nature consistent with Free State interests'". Finance pointed out that the minority reports, on the other hand, would lead to the depreciation of the Irish currency which, Finance argued, would lead to evils which "no euphemisms . . . could long disguise and no exchange control could appreciably mitigate". Depreciation "would seriously shake public confidence in the Irish currency, in the solvency of the State and in the banking system"; it would raise interest rates "on government borrowings and on advances for industrial and commercial enterprises, thus placing new difficulties in the way of the government's housing and public works policy and adversely affecting business activity and employment"; it would cause rising prices, labour unrest and a fall in the living standards of those on fixed incomes; and it would benefit the speculator and hurt those in trade and commerce, because with a rate of exchange which "is known to be liable to fluctuate . . . every trading transaction becomes a speculation with the dice loaded heavily against the trader."

Finance then went on to consider the effects of the war upon the international monetary situation and on sterling's prospects:

> If the war goes on . . . and if we maintain our neutrality and pursue a reasonably sound general policy, our position vis-à-vis Great Britain is likely to improve to such an extent that the question will not be whether the present parity with sterling is an over-valuation but whether it is an under-valuation of our currency. It may be suggested that in such circumstances it would be in our interest to break with sterling. The Minister for Finance does not rule out the possibility that he may yet have to advise such a course. Unless, however, the British are forced to an extreme of inflation which the British Government seems determined to do everything in its power to prevent, the Minister believes that the balance of advantage for this country will continue to lie in the maintenance of the present parity. An increase in the sterling value of the Irish pound, though its consequences would be less harmful than those of depreciation, would have many serious results. It would mean, in terms of our own currency, lower yields on our investments in Great Britain and

lower prices for our exports to that country. The British securities held by the Currency Commission and the Irish banks would presumably have to be revalued in a downward direction . . . As the price of imported commodities rises, we become more dependent on our exports to maintain our imports and so maintain our standard of living and avoid serious economic and social dislocation at home.

Nor did Finance believe there was a case for following the example of those countries which, since the war began, had broken with sterling and linked themselves instead with the dollar. Such countries commonly "had important trade relations with countries other than the United Kingdom and did not want to be paid on a sterling basis for their exports to those countries" and were also hampered by "the operations of the British wartime currency control". But, for Ireland,

> . . . however attractive monetary association with the United States . . . may appear we must realise that (a) we have no considerable amount of trade with them, (b) even this limited amount is likely to diminish as the war continues, and (c) the state of public finances in that country is not too good . . . It is desirable that we should remain linked to the currency with which we have the overwhelming bulk of our trade.
>
> If we tried to link the Irish pound to the dollar instead of to sterling, we would be faced with the problem of substituting gold or dollar securities for the £9 m. odd of British Government securities held as assets in the Legal Tender Note Fund . . . To acquire the necessary amount of gold or dollar securities would, under the existing British currency control regulations, be extremely difficult, if not impossible, and even if we did succeed . . . our doing so might immediately prejudice our arrangements with the British Government regarding the supply of foreign exchange which is necessary to finance our imports from non-British sources.

The Finance memorandum went on to speak of the highly favourable terms which the Department had succeeded in obtaining from the Treasury before the war began, "whereby our nationals are at the present time getting exactly the same treatment as, and in some respects more favourable treatment than, residents of Great Britain and Northern Ireland as regards supplies of foreign exchange." Ireland thus got more favourable treatment than the Dominions and the countries other than the Dominions who were in the sterling area, to say nothing of countries outside the sterling area, which came at the very bottom of the list. While these arrangements had not been contingent upon Ireland's continuing to be tied to sterling, there was

> . . . little doubt that any variation in the present relationship might afford the British Government an excuse, if it wanted one, to cancel or modify them. Such a course would deal a severe blow to our trade and practically cut us off from all sources of imported supplies other than Great Britain. It will thus be seen that the step advocated by some people as releasing us from alleged thraldom to the British Government or the Bank of England would have the paradoxical result of putting us entirely under their heel.

For these and other reasons, then, Finance strongly advised their Minister's public endorsement of the preservation of the existing parity in the forthcoming Senate debate. When, on 6 March 1940, that endorsement was duly made, McElligott took the precaution of writing to the Treasury to inform them of his government's policy.[67]

The Treasury's records reveal that the precaution was prudent. A British war cabinet meeting on 24 October 1939, which set up an inter-departmental committee "to prepare a memorandum on the financial, economic and political considerations involved in the termination of Eire's membership of the British Commonwealth", led the Treasury to examine the implications of a prospective Irish break with sterling. After observing that the Irish banks had some £70 m. net of sterling assets in addition to the "substantial volume of sterling investments" held by Irish residents, the Treasury suggested that "so long as Eire is content to keep her resources in sterling (which on economic grounds is the natural course for her to follow) these balances and investments present no particular difficulty to the United Kingdom". But what if she sought "a greater degree of independence in her financial system" which might involve her removing balances from London to New York "with which to import goods which cannot be obtained from sterling sources, or whose import is at present rationed" or if she opted for a dollar, as opposed to the sterling, link — "a course which though economically unwarrantable might be embarked upon on political grounds". If that happened, "the only effective remedy would be to block Eire balances and investments entirely", a course which the Treasury thought "drastic" and, possibly, unjustifiable. There was "little doubt", they concluded,

> that for Eire to separate her financial system from that of the United Kingdom would involve her no less than ourselves in difficulties, and might in the long run prove disastrous for her. In the short view, however, the over-riding consideration is that Eire being a creditor of this country for a substantial sum has the power to cause us considerable embarrassment by calling on us to repay at a most inconvenient moment.[68]

Such an eventuality was as distasteful to Finance as to the Treasury and their mutual concern for the preservation of harmonious relations in such matters was aptly symbolised by the existence of a direct telephone link between Finance and the Treasury, not only throughout the 1922–39 period but for much of the war, the Irish government's policy of neutrality notwithstanding. Sensitive matters of exchange control could thus be dealt with quickly and confidentially — an object facilitated by the happy coincidence that the responsible Treasury official, Rowe Dutton, an Irishman by birth, was not unsympathetic to Finance's difficulties.[69]

"The objections to the sterling link", James Meenan has written, "have usually been made on political rather than technical grounds",[70] but the circumstances of war enabled those who were suspicious of Finance's policies on this matter to adduce more technical arguments for their objections. In February 1941, for example, the secretary to the government, Maurice Moynihan, wrote to McElligott, saying that "a correspondent of the Taoiseach" claimed to have information suggesting "that the Currency Commission or some department of the government are [sic] still investing in British securities" and asking whether this was so; some £2 million was alleged to have been invested within the previous year.[71] "I do not like answering these vague anonymous charges", replied McElligott,

> but I may say that since Hitler went into Austria in March, 1938, we, the Department of Finance, have not bought any British Government securities, with the exception of portion of a loan that matured last year and was paid off at the due date. At the time we purchased it it was only really a short-dated bill.
>
> The Currency Commission retains its liquid assets in the form of cash and British Treasury Bills which run for three months. When these Bills mature, the proceeds are often similarly re-invested. The Currency Commission must pay something on its assets in order to pay its whack to the Exchequer, and although the interest is low, this is the safest form in which they can be held from the point of view of liquidity. The legal note tender issue . . . has expanded since the outbreak of war and the banks have to pay in sterling for the notes they receive. To do this they must part with some of their sterling assets and, consequently, any increase shown in Currency Commission assets involves a *pro tanto* reduction in the banks' holdings and leaves the position of the country as a whole unchanged. The Currency Commission would not put these additional assets into Treasury Bills if it could purchase gold or foreign exchange. It

has, since the outbreak of war, tried to make additional purchases of both but without success.[72]

But concern within government circles as to the appropriate policy in respect of the country's external assets was sufficiently pronounced to precipitate a difference of opinion in the Dáil between the Minister for Finance, Seán T. O'Kelly and his Parliamentary Secretary, Hugo Flinn. Flinn had proposed "that all or any British owned ground rents; land property; fishing rights etc. in Ireland; British held securities in Irish industry or any other form of ownership in Ireland should be called in and be repatriated . . . to be held against values of sterling balances and securities now sterilised or liable to devaluation" by the British government. Such a move, Flinn conceded, would not have been possible before the war because of "Irish money interests being wedded to sterling and to Britain" and because of the British power of reprisal against larger Irish holdings in Britain, but, he argued, such considerations were now less relevant. "Money in Ireland, while still British in sentiment, is no longer satisfied with the ultimate or immediate security of sterling. In practice by sterilising sterling balances and security values, with their liability to depreciation, almost the largest possible reprisal has already been exercised against these holdings."[73]

Finance's observations, requested by the Taoiseach, were highly critical of their own Parliamentary Secretary's proposals. They thought it unlikely that the British were contemplating writing down sterling loans and that it was incorrect to say that sterling balances and investment incomes had been sterilised since they were "still available to pay for goods and are, in fact, being still used for that purpose extensively" — the 1940 deficit of some £14 millions of imports over exports was largely covered "by the income on our external assets". While Finance admitted that "some depreciation" in the pound sterling seemed inevitable, they denied that it would collapse completely, even if Britain were defeated in the war, since she would presumably then be given American assistance towards recovery. They felt, too, that such extreme measures as Flinn proposed, his disclaimers notwithstanding, would lead to further British reprisals, and argued that the threat of such expropriatory measures should be held in reserve against the contingency of any drastic action the British might contemplate if they were to be defeated in war. Finance also thought it important to remember "that owing to

our having almost all our external investments in British securities we were virtually the only country in the world that did not lose any savings from the 1914–18 war" and suggested that, until then, sterling had held up well and that there was "no reason to fear a runaway depreciation as in the case of the German mark, except the country is successfully invaded". Lastly, they argued that, given the fact that all the major currencies were suffering from war-time inflation, there was in any event,

> . . . no other currency to which we would be reasonably safe in linking ourselves if we severed the tie with sterling, and the absence of some form of convertibility would, no doubt, shock many people here. An inconvertible paper currency has been the nightmare of economists for years and while the phenomenon has in recent years not been unknown, it has not yet become sufficiently familiar to be robbed of its terrors. Owing to the huge monetary gold reserves of the USA, the dollar has, of course, the largest gold backing of any currency in the world but we cannot now link up with it as there is no way to ensure convertibility . . . Incidentally, it may be noted that those who are loudest in their condemnation of what they describe as 'the worship of the golden calf' have also been loudest in their demand for some link with the dollar, and the only reason the dollar is preferable is because there is so much gold behind it.[74]

There the matter seems to have rested until, in August 1943, an article in *The Economist* referred to the question of British repayment, after the war, of sterling assets accumulated by Ireland and other countries; this caused the Taoiseach to seek Finance's views "on this matter generally with particular reference to the desirability or practicability of taking steps now with a view to ensuring the liquidity after the war of sterling assets accumulated by this country in Great Britain."[75] The task was not one to which Finance responded with any enthusiasm: "I cannot see any practicable method within our control of ensuring that in all circumstances these sterling assets will remain liquid for our purposes . . . [or] that any likely results would flow from raising such a question of post-war priorities with the British Government at the present time", observed Sarsfield Hogan to McElligott.[76] McElligott himself took an even more jaundiced view and thought, indeed, that it was "undesirable, generally speaking, to have these matters on paper but as we are being pressed from the Taoiseach's Office for a reply we have no option in the present instance."[77]

That "reply", which took the form of a "strictly confidential" memorandum on the liquidity of Ireland's sterling assets,[78] is of considerable historical interest: first, because, as McElligott's words show, it was so rare an exercise for Finance; and, second, because it was largely the work of T. K. Whitaker and is one of the earliest examples of the important role he was increasingly to play in shaping Finance policies in the post-war years. The magnitude of the British sterling debt, the differing degrees "of permanency" of that debt according to which country held it and for which purpose, and the probable British incapacity to achieve "the export surpluses necessary to enable the debt to be paid off in a *real* manner within a reasonable time after the war" were picked out as the key points in the *Economist* article. However, the calculation and classification of Ireland's sterling assets was a major difficulty for Irish officials: "it is an incredible state of affairs that there appears to be nobody who can with confidence state the aggregate value of our external holdings within a margin of error of £50 millions!". "Guesses by experts range from £150 millions to £400 millions,"[79] the director of the statistics branch of the Department of Industry and Commerce had written to McElligott some years earlier. Whitaker's calculations, the details of which need not here detain us,[80] concluded that the figures "to be kept in mind are a wartime increase up to the end of 1942 of the order of £40 millions and a gross total in the region, perhaps, of £300 millions" against which had to be offset some £115 millions of British holdings in Ireland consisting mainly of "businesses, industrial shares, landed property and ground rents."

There were, the Finance memorandum stated, "only two ways" by which Irish sterling assets could be "safeguarded": either "by repatriating them in the form of goods and services" or "by using them to buy up British property in this country". After a detailed analysis of both alternatives, the Finance summary of the situation was that

> . . . realisation of external assets now could only be secured by a vast increase in real imports and is, therefore, a practical impossibility. The alternative method of 'hedging' — the buying out with these assets of British investors in this country — would still leave about £180 millions invested in Britain and would involve practical difficulties and dangers sufficient to rule it out of consideration.

Finance, moreover, considered any such course of action to be

undesirable because impracticable, in as much as the position of the assets was largely dependent "on how Britain fares in the war" and by the end of 1943 it was improbable that she would be defeated. The most likely eventuality was "a continued, but controlled, depreciation of the internal value of sterling and some restrictions on the realisation of sterling claims after the war by creditor countries." Finance's primary concern, therefore, was "with the *liquidity* rather than the *security* of our sterling assets."

Although Finance thought it very unlikely that there would be any loss of confidence in sterling in Ireland such as might encourage the demand for the repatriation of sterling assets, the Department did anticipate "that in the immediate post-war years the agricultural and business community here will want to draw upon deposits and seek advances from the banks in order to replenish their stocks and build up capital and equipment", and, for this purpose, it was essential "that our sterling resources should be capable of being drawn upon to finance real imports". But, while this would necessitate the realisation of assets, "the amount over which it would be desirable to possess complete freedom of realisation for this reason would be small" — £30 millions to £50 millions over a few years — since "the whole range of necessary imports will not be available for some time after the war in the quantities we need and at the prices we are prepared to pay." The best solution to this problem, Finance argued, was to

> . . . try to arrange with the British that we will be placed high on the priority list for British exports . . . the British attitude will probably be influenced by the degree of their prospective need for our agricultural exports. Since the abnormal balances can be repatriated by us only in the form of imports, the policy of self-sufficiency, with its instruments of protective duties and quotas, would seem to need modification.

Having demonstrated that "nothing can be done now to make absolutely certain the possibility of realising our external assets", Finance went on to explore the prospect of inhibiting their "further growth". One expedient, curtailing exports, was limited "by the need for some outlet for surplus agricultural production" as well as by the risk of "provoking retaliation by the British in regard to our imports of essential commodities". Another expedient was "the absorption of private savings in home investment" but Finance thought this "out of the question at the present time because of the impracticability of new capital work" and because "the national savings should be invested in

the most remunerative way, due allowance being made for security." Large-scale government capital investment, moreover, would be necessary to attract private savings otherwise destined for investment abroad:

> Individual investors have not been over-zealous in investing in the new industrial enterprises started here since 1932 and it would fall to the Government to absorb their surplus savings at rates of interest attractive to the investors having regard to the yields on external investments . . . The financing of the Electricity Supply Board is the only notable example of diversion of private savings by the Government to productive employment at home. In wartime, however, when a sufficiency of the imports for constructional works cannot be obtained, the scope for the employment of private savings at home without setting up the inflationary consequences of an increase of purchasing power out of correspondence with the growth of real output is strictly limited . . .
>
> Whatever the degree of home investment it is obvious that large scale imports will be a permanent necessity. An important consideration, therefore, in connexion with the question of the maintenance of our external assets is that unless agricultural costs can be brought to and held at a competitive level our export position is likely to be very difficult in future, in which case we shall have greater need for an income from external assets to pay for necessary imports.

Finance thus availed itself of the request to examine the problem of the liquidity of sterling assets, first, to argue strongly against the necessity for any immediate action; and, second, to paint a picture of some of Ireland's likely post-war economic problems which was critical of the government's pre-war economic policies and which pointed to the need for changes in those policies.[81] But while the memorandum pointed prophetically towards the kind of issues which absorbed much of the energies of Finance officials after the war, nothing could be done to come to grips with such issues in practice until the war had ended.

III: The Aftermath of War

On 27 April 1945, the day before the Allied armies joined forces with the Russians on the Elbe, a debate on the problem of full employment took place at the Statistical and Social Inquiry Society of Ireland. The Society was the only intellectual forum outside the service at that time where civil servants could make a contribution and they regarded it as an important body.[82] Two Finance officials,

Patrick Lynch and T. K. Whitaker, took a leading part in the debate and their contributions reveal the impact of new, Keynesian policies by now finding favour outside Ireland. The Beveridge Report and the British White Paper on Employment Policy, for example, acted as "an incentive to a Department of Finance in a slough of weariness"[83] and both Lynch and Whitaker sought to explore "how far the principles illustrated in them are applicable to Irish conditions". It was clear, argued Lynch in what must be accounted a notable departure from the *laissez-faire* philosophy which had traditionally informed the thinking of the higher officials in Finance,

> . . . that a proper direction of the Irish economy will imply increased State intervention. We have had State intervention in this country, as in other countries, for a great many years. What will be needed to develop a policy of full employment is controlled and planned State intervention. Unless intervention is co-ordinated in a unified pattern no lasting result can be achieved . . . Beveridge has made a case which cannot be answered and . . . the counteraction of failure in demand is a duty which only the government can fulfil.[84]

Whitaker, too, emphasised the new recognition "that demand is an inherently unstable quantity and that positive action by governments is necessary to maintain and stabilise it", and his ensuing remarks on budgetary policy show still more plainly how attitudes had changed in Finance. The budget, he said, would now be "the principal means of influencing the level of demand. The Gladstonian ideal of a budget which was both balanced and as small as possible has long since gone by the board, in practice at any rate, and, to a greater extent, nowadays in theory" — the distinction contained an implied criticism of the gap between modern theory and the practice still current in Finance. Such theory, Whitaker pointed out, was "prepared to accept unbalanced budgets as a periodical necessity, expecting them to be written off when the bad times which occasioned them have gone by." There was now general agreement that

> . . . unemployment is a greater evil than inflation, one of the reasons for that agreement is that it is now widely accepted that unemployment is a more intractable problem. The experience of wartime has shown that incipient 'wage' or 'deficit' inflation can be checked by direct controls and people have become accustomed to the idea of large-scale government borrowing and are less ready to take fright at price rises and other indications that inflationary forces are at work . . .
>
> One of our great advantages in regard to unemployment is the small-

> ness of the proportion of the working population who are employees. In Britain the proportion is nine-tenths, but here it is less than half. Besides . . . half of our working population is engaged in agriculture . . . it is really vicissitudes in the export prices for our agricultural produce and changes in what is called the 'foreign balance' that are chiefly responsible for fluctuations or disturbances in our economy . . .
>
> As we are less exposed to cyclical disturbance than more highly industrialised countries, we have not to contemplate the same degree of State control as they will necessarily have to face in the interests of full employment. Other countries, we know, have attained full employment before the war, and it is quite possible to achieve full employment if we are not too squeamish about interfering with personal rights or too anxious about achieving the highest social welfare. But I believe that most people would rather see it achieved by some means which will pay due attention to both these factors.[85]

Another landmark in the transition to the more international problems of the post-war world was the Bretton Woods agreement of July 1944 which led to the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development. The extreme caution and hesitancy which characterised Irish attitudes to international affairs during these years may be clearly seen in Finance's reaction to Bretton Woods. No immediate Irish action was called for, noted the first formal Finance response,[86] which also observed that the agreement could not come into force before 1 May 1945 and that no states, other than the forty-four participating states, could adhere to the agreement before 1 December 1945. The key question which might then be posed for Ireland was "whether or how far the British Government . . . will accord facilities in the post-war period for the conversion into dollars of Irish owned sterling" and how British attitudes would be affected if Ireland applied for membership of the IMF. In the meantime the government promptly endorsed Finance's view that "no action is called for in present circumstances".[87]

The inaugural meetings of the IMF and of the International Bank for Reconstruction and Development (IBRD) took place in Savannah, Georgia, between 8–18 March 1946. Rowe Dutton (who had been one of the Treasury's representatives at these meetings) raised the question of Irish membership in talks with Finance officials in Dublin the following June. McElligott then took the line of doubting whether membership would confer any advantages on Ireland since

her export trade was mainly with one country only, Britain; he doubted too whether "we'd put our currency in a strait-jacket as required by membership of the Bank and Fund". But Rowe Dutton made it clear that Britain wanted Ireland to join in order to help dilute American influence. The Americans, he felt, were too theoretical and "bookish" in their approach and lacked "the tradition and experience of international finance which was so necessary for wise administration". Irish membership, on the other hand, would be "very useful to the Bank and Fund as we were in the Western European tradition in these matters."[88]

Finance's attitude to membership was closely linked to its response to another and similar American initiative for the expansion of world trade and employment, which arose out of a joint Anglo-American declaration of 6 December 1945. This proposed to hold an international conference for the purpose of establishing an International Trade Organisation (ITO) which would remove restrictions on world trade; the question for Ireland was whether she should attend such a conference notwithstanding the fact that, unlike most of the prospective participants, she was not a member of the United Nations. The American proposals, noted Whitaker, were "probably best regarded as a sort of ideal code — a trade charter . . . it may not be too cynical to look upon the proposals as a broadside directed against British protectionism and economic imperialism on behalf of American exporting interests." The Irish response would be partly dependent upon her attitude to the IMF and, while Ireland "would be in complete agreement . . . with the aims of the Fund" and had "little to lose by joining", she had (Whitaker argued) "equally little to gain. We have, however, to recognise our dependence on the convertibility of sterling, so that if, as seems likely, Britain would wish us to join the Fund, we cannot well stay out."[89]

Finance's marked lack of enthusiasm for participation in the ITO emerged at an interdepartmental committee meeting on foreign trade held the day after Rowe Dutton's visit; the Department took the line that it had "no objection to a general reply" to the invitation but successfully urged that a firm acceptance should await the reaction of other governments, which External Affairs undertook to try to ascertain.[90] A few months later, in September 1946, in a memorandum for the government, Finance summarised the reasons for their doubts about the value of Irish membership of the proposed ITO: the draft charter of the ITO, like the Bretton Woods agreement,

imposed obligations to relax exchange control restrictions and, although (from an Irish viewpoint) it was desirable that the trade restrictions and administrative expenses caused by exchange control should be removed, it was not in Ireland's interest

> . . . to refuse to take parallel action with that which the United Kingdom may deem necessary to protect sterling from depreciation as a medium of exchange. So long as the substantial share of our foreign exchange requirements continue to be available to us only through London, it is inevitable that we should relate our exchange control policy and practice to that of the United Kingdom. Any premature loosening of exchange control here would be likely to cause unfavourable reactions on the prospective negotiations relative to the convertibility of the accumulated sterling held by this country.[91]

Matters did not come to a head for another twelve months when, on 24 September 1947, the Irish government received a formal invitation to the United Nations Conference on Trade and Employment due to begin in Havana on 21 November. The Irish invitation, however, and the invitations to such other states as Austria, Finland and Portugal who were not members of the United Nations, were subject to the qualification that they would confer no voting rights at the conference. In the inter-departmental conference which followed, Finance argued that Ireland would have no influence if she had no vote and that the Havana conference was likely to be prolonged and expensive of money and of staff time. But the Department subsequently relented in the face of strong pressure from Industry and Commerce (as the Department whose officers would go) and from External Affairs (who changed their minds because of British and American representations that Ireland should attend — the Americans pointed out that Ireland was "the only country outside the Iron Curtain which had been invited and had not accepted"). Finally, and decisively, the Minister for Finance, Frank Aiken, told McElligott that he was "keen" on Irish representation at Havana.[92]

In the meantime the issue of Irish membership of the IMF, which had begun business on 1 March 1947, had come up again. Finance were still unenthusiastic and, in a memorandum to the government at the end of October, prepared in consultation with the Central Bank, would not go beyond saying that although they were "not opposed to the objectives of the Fund there appears, on present information, to be no strong reason for declining to seek membership." Finance were

cooler still about membership of the IBRD, pointing out that Ireland might anyhow be ineligible for membership as a creditor state (because of the sterling balances accumulated during the war), and recommended that informal inquiries be made through the Central Bank as to what terms might be obtained if they applied.[93] The next week, during the Anglo-Irish trade talks in London, the British formally pressed Ireland to join, but Lemass would only promise that his government would give "very careful consideration" to Sir Stafford Cripps's proposal that Ireland should agree to join the IMF and IBRD in an effort to "tap all possible sources for dollars".[94] This British tendency to see the IMF as a method whereby they might be relieved from Irish dollar demands on the sterling area pool can have done nothing to make Finance warm to that institution. Joseph Brennan, following his informal inquiries as approved by the government, was equally sceptical about the benefits of membership and argued that, since Bretton Woods, "the international situation has not developed generally in a manner conducive to safer international investment"; he felt that the only case that could be made for Irish membership of the Bank was "that membership of the Fund implies membership of the Bank and on the broad interest of promoting international economic co-operation for the purpose of expanding world trade". For this reason and subject to the quota and share allocation which the Bank might decide upon for Ireland not being "unreasonable", Brennan saw no objection to seeking membership.[95]

Given Brennan's and McElligott's mutual reluctance to tread other than warily or to step from behind the traditional shelter of the sterling area into a wider world, and given the fact that the 1948 general election was pending, it was hardly surprising that the government should decide to do nothing for the moment — one of the electoral planks of the new and successful opposition party, Clann na Poblachta, was the repatriation of sterling assets and such an exercise in international banking might thus have become a party political issue. Nor did the new, inter-party government show any enthusiasm for grasping this particular nettle when they came into office and, after Finance had brought them up-to-date on the situation, the matter slid from sight.

One reason for this was that, from April 1948, "Ireland's dollar deficit began to be covered by Marshall Aid".[96] Since the board of the IMF had decided upon a policy of insisting that any of its members who were receiving Marshall Aid should only draw from the Fund's

resources when "absolutely necessary",[97] Finance saw little point in pressing for membership. They urged instead that Ireland should join the Bank for International Settlements — a body first organised as far back as 1929 by the Young Committee on Reparations and one which the government, acting on Finance's advice, sought to join in 1930. This earlier application was rejected on the grounds that the Currency Commission could not properly be described as a central bank since it was entrusted only with the regulation of currency and not with the regulation of credit.[98] McElligott revived the question twenty years later: by 1950 the Currency Commission had been elevated into the Central Bank and McElligott saw the Bank for International Settlements as a desirable alternative to the IMF and its associated bank. In fact it had become customary to invite Brennan, and the other governors of the central banks of European countries who were not members, to the annual meeting of the Bank for International Settlements. After an interview with the Minister for Finance, Patrick McGilligan, Brennan took informal soundings at the 1950 meeting as to whether Ireland should again seek membership; he reported that the Bank was now anxious to recruit what new European members it could and strongly urged that Ireland join, a recommendation which was approved by the government in August and by the board of the Bank on 29 October 1950.

The question of Irish membership of the IMF, however, remained in abeyance for almost a decade after 1948 and was not again brought before the government until February 1957 when the proposal of the then Minister for Finance, Gerard Sweetman, that an informal approach to the IMF to ascertain what the reaction to an Irish application for membership might be, and what obligations membership would involve, was quickly approved.[99] When Whitaker, by then Secretary of the Department, went to Washington before the end of the month to interview the IMF officials, he found that "goodwill prevailed at all stages" of his visit: "the customary opening inquiry was why had we delayed until now".[100] The considerations which had earlier militated against an Irish application to join the IMF had by now evaporated without trace and, on 18 April 1957, the Fianna Fáil government, which had returned to office the previous month, duly decided to proceed with the application and to draw up the necessary enabling legislation.

This long, thirteen-year saga of Finance attitudes to membership of the IMF well illustrates the slow and painful transition from the

claustrophobic world of the war years to the wider modern world, which is a dominant theme in the history of Finance in this period. Why, indeed, as the IMF officials asked Whitaker in Washington in 1957, did Ireland delay so long? One answer lies in the Finance officials' lack of opportunity to gain experience in international finance. For the first ten years of independence, when Ireland was a dominion of the British Commonwealth and when sterling was more secure than it ever was subsequently, there was neither opportunity nor incentive to look at the outside world other than through what we might describe as sterling-coloured spectacles. Neither the narrowing experience of the economic war nor the isolation consequent upon neutrality in World War II did anything to inculcate a broader, more internationalist outlook. Nor must we divorce the world of international banking and finance from other aspects of national life: there is an obvious analogy to be drawn between Ireland's delayed admission to the IMF and her deferred admission to the United Nations, even if in the latter instance admission was a declared government policy from the outset. It is important also to distinguish between the experience gained in external affairs in the thirties and forties and the lack of any comparable experience in the financial sphere: in these decades the constant assertion of *political* independence lay at the very centre of the Irish experience; no such assertion of *financial* independence had been deemed necessary by the country's political leaders. Given these circumstances and the fact that McElligott and Brennan, the most important of the officials responsible for the formulation of policy in this area, shared attitudes which had been held over a quarter of a century of continuous power, it was perhaps inevitable that the reaction to the post-war changes in international finance should have been so cautious.

Lastly, and most important: neither the character of the Irish balance of payments nor the Irish dependence upon sterling admitted of any alternative policy. The fact was, as T. K. Whitaker publicly observed some years later, that "over 97%" of Ireland's external assets were in sterling because

> . . . Ireland's earnings abroad are virtually all sterling earnings. About 90% of Irish exports are consigned to the United Kingdom and most of Ireland's invisible income . . . comes from the United Kingdom. British goods form roughly 50% of Irish imports and normally all Ireland's payments abroad are made through the medium of sterling. . . . Such is

> the preponderance of sterling assets that it does no violence to the facts to treat the expressions "external assets" and "sterling assets" as virtually synonomous.

This preponderance, moreover, had increased dramatically as a result of the war and the enforced contraction in imports: hence Ireland's external assets (which had neither increased nor diminished by as much as £5 millions in a single year between 1933 and 1939, and which had fallen by £5·5 millions over this period as a whole) grew by £14·3 millions in 1941, £26 millions in 1942 and by £32–35 millions in each of the last three years of the war.[101] Significantly, too, so far as Britain and sterling were concerned, the end of the war did not herald the end but rather the beginning of financial crisis in Europe. Ireland's accumulated sterling assets ensured that that crisis demanded the close and continuous attention of the officials of the Department of Finance.

But, before moving on to a consideration of the 1947 dollar crisis, it is necessary to look briefly at certain other developments in 1945–46. These were the years of Frank Aiken's tenure of office as Minister for Finance. Just as the beginning of the war had seen a ministerial reshuffle requiring Lemass to go to the new Department of Supplies, his replacement by MacEntee as Minister for Industry and Commerce and the latter's replacement by Seán T. O'Kelly, the Tánaiste and hitherto Minister for Local Government and Public Health, so the end of the war saw another reshuffle occasioned by O'Kelly's victory in the 1945 Presidential election: Aiken, Minister for Defence in the thirties and the Minister for Coordination of Defensive Measures during the Emergency, succeeded him on 14 June 1945.

Aiken, "who had asked de Valera for the ministry",[102] proved a "dogged and inquisitive" minister who was much more strongly drawn to certain economic ideas of his own than had been any of his predecessors in Finance.[103] He believed, in particular, that "the State ought to be pumping money into the economy on a 'social credit basis' " — a view most commonly associated with the economic ideas of Major C. H. Douglas which enjoyed a certain vogue among the heterodox in the nineteen twenties and thirties[104] — and he was "intrigued by the ability of countries to finance the cost of the war by bank credit and by the efforts of Hugh Dalton, then Britain's Chancellor, to force down bank interest rates and thus the cost of post-war reconstruction."[105] McElligott reacted to the possible

propagation of such unwonted economic heresy from within the Department by giving T. K. Whitaker the special assignment of acting as personal advisor to Aiken on monetary theory — an assignment which led to a "relationship of mutual respect"[106] between the two men and also to Whitaker's publication, in 1947, of a monograph on 'Financing by Credit Creation'. While it was not, and is not, unusual for principal officers in the Department of Finance to brief the Minister upon matters about which they possess specialised knowledge,[107] it was unprecedented for a twenty-eight-year old assistant principal to enjoy the right of continuous access to his Minister in so broad and important an area. Whitaker's assignment was recognised by his colleagues as marking the beginning of the period when his influence within the Department became increasingly pronounced[108] and which was to culminate in his appointment as Secretary in 1956.

Aiken's tenure of office was also marked by a growing concern within the Department with the need to reduce state expenditure. "Ministers for Finance all over the world", Seán T. O'Kelly had declared in what was to be his last budget speech,[109] "have in the last five years been creating new records in the matter of state expenditure, supporting this by taxation and borrowing at unprecedented levels. Belligerent and non-belligerent countries alike have been affected", he said, before going on to hope that the end of the European war would "usher in a period when the unparalleled calls on our Exchequer and on our taxpayers will come to an end." Post-war development, he argued, "can become a reality only if the cost of supply services after the war is radically curtailed and if the emergency services, such as food and fuel allowances and subsidies, disappear. . . . The country cannot carry the double burden of emergency services and post-war development." McElligott referred again to these matters in a draft memorandum which he proposed to circulate to the government in October 1945 after Finance had already come under pressure from Seán Lemass, as Minister for Industry and Commerce, to introduce taxation reliefs for industry akin to those introduced in the British Income Tax Bill of 1945. This pressure had been resisted and McElligott now argued that his minister should inform the government that, while he was "keenly aware of the necessity for granting taxation reliefs in the interests of stimulating production and employment and reducing the present high cost of living", he believed "that reliefs must be withheld until the present high

cost of the supply services, including emergency services, is reduced" and that, "having regard to the amount of the Exchequer's present and prospective liabilities, he could not see his way to recommend any reduction in taxation unless substantial reductions in budgetary expenditure have been secured."[110]

Although Aiken refused to agree to the circulation of this particular memorandum, it may be seen as an early variation of a theme to which Finance were to return again and again in the coming months and which found especially forceful expression a year later in a memorandum from the Minister for Finance on the subject of further increases in the cost of state services. The tone of this document, from its very first sentence, dramatically illustrates the pessimism which coloured the Finance view of the post-war world:

> This is a small country. It has a small population which is still dwindling, and limited national resources. The age constitution of the population is bad and is growing worse. Our economy is mainly agricultural and at that consists chiefly of small farms. Our economic position was relatively stagnant for a long period before the war. It has not since improved. Although there has been a 50% increase in the value of our sterling assets their purchasing power is no greater than before the war owing to the rise in the British price level. It is doubtful if these increased savings will make good the capital deficiency of the war years, but so far as they are used for this purpose the real income from the remainder will be considerably less than before the war.
>
> Exports of industrial products from here have always been limited and show little or no prospect of any material expansion. They are confined for practical purposes to beer, whiskey, textiles and biscuits, where we can spare them after meeting our own requirements.
>
> In the case of agriculture, we have lost the power to compete in butter, bacon and oats. Cattle are the mainstay of our country's export trade, with poultry, eggs and canned meat as subsidiaries.
>
> The excess of imports over exports in the first six months of this year amounted to £15 million, which is equal to the total annual excess in the pre-war period. This shows our dependence on imports in many directions, which is now obviously greater than ever in order to make up war arrears of maintenance and replacement of plant, to replenish stocks, restore the fertility of the soil, etc. Forty per cent of our exports are to the UK and all our foreign investments are there. Our requirements of hard currencies have grown with our need to make up for wartime deficiencies and with our increased interest in aviation. If all our accumulated sterling is not to be freely convertible into scarce currencies for some years to

come, it may be necessary to adopt a policy of limiting imports during that period.

At the same time our export capacity has been reduced. It is likely to be a long time before we again make our appearance as sellers in the British butter or bacon market. . . . It is a weakness of our position that we can sell our surplus agricultural products only on the British market and that in any single line we provide only a small proportion of its total requirements. Even during the war when a food-producing country might be thought to have exceptional advantages the terms of trade turned against us. The extension of bulk buying into the post-war period is in these circumstances a highly unfavourable development from our point of view.

The volume of agricultural production, excluding turf, shows no tendency to expand. Many farmers are abandoning lines of production which involve hired labour. No less serious perhaps than the wage question in regard to agricultural labour is the question of hours and of holidays for whole or half days. This does not fit in with what may be called the farm cycle, and its inappropriateness is particularly marked in the case of dairying. There is a tendency to get out of the dairying industry notwithstanding that the country is particularly suited to it, and the production of milk is declining.

A budget of £54 millions (excluding provision for capital items and Transition Development Fund) on such a narrow basis resembles an inverted pyramid. Even with this unstable position proposals are still pouring in to the Department of Finance for further expenditure from other Departments and from State-sponsored organisations. Few of the proposals are productive in the economic sense and if adopted they will give rise to increased taxation, even if financed by borrowing at present low rates of interest . . .

The overhead expenses of running this country are already immense. The all-in cost of the civil service in the current year amounts to about £8,550,000 as compared with £8,100,000 last year and £5,900,000 in 1939. The percentage increase in total costs over the pre-war figure is 44%, due partially to increase in numbers.[111]

The devastingly bleak diagnosis was, inevitably, coupled with a no less gloomy prescription. After reiterating the trenchant appeal for economy which had appeared in the Department's estimates circular earlier that month, the Finance memorandum argued that this appeal would be reduced "to a farce if substantial increases in public expenditure are to be permitted". It argued, too, that it would be "much better to reduce the cost of living than to give increased pay" and

referred to the danger of "inflationary pressures on prices accentuated by budget deficits covered by borrowing".

The problem of controlling wage increases was then a particular preoccupation of Finance. The Emergency Powers Orders (notably the Wages Standstill Order of May 1941) which had held down industrial wages since 1941–42 were finally repealed in 1946–47; this year saw also the passage of the Industrial Relations Act, under the sponsorship of Seán Lemass as Minister for Industry and Commerce, which provided for the establishment of the Labour Court. Finance were apprehensive of the possibility that the chairman of the Labour Court could decide "by his single will the outstanding and most vital of all questions of public policy today": namely, the size of wage and salary increases; and they feared that he would "naturally be inclined to yield most to the side which is most vigorous and tenacious in any dispute . . . usually the trade union side". Finance argued that for these and other reasons (among which was the irksome fact that the powers of the chairman of the Labour Court were "in many ways" greater than those of the Governor of the Central Bank), the government should exercise the right — "not expressly stated in the Act" — of ensuring "that it shall be consulted as to the policy the Court should pursue 'in the public interest' when . . . deciding the value of our money by making recommendations which determine the value of goods and services in relation to the supply of money." A declaration that "a decrease in the number of hours worked, unless accompanied by a sure guarantee of increased output" was unjustified under existing circumstances and another rejecting any "general campaign by all sections of the community to compensate themselves in full for the increased cost of living since 1939" were among the principles which Finance suggested that the government should lay down for the Labour Court's guidance.[112]

There followed, in December 1946 and January 1947, a bitter and prolonged controversy about the effect of wage increases on prices, in which memoranda from Finance, Industry and Commerce, Agriculture and, not least, from Brennan as Governor of the Central Bank were exchanged.[113] Finance argued in vain that the government should hold down wage increases to 40 per cent or below of 1939 levels, and, by 6 January 1947, McElligott was already minuting gloomily that "the Trade Unions and the Labour Court have by their single or combined pressure obtained increases exceeding 40, 50 and 66 per cent, accompanied at the same time by reduced working hours and

other improvements in conditions, which will inevitably add to the cost of goods or services produced."[114] By the end of July he saw "the need for action to avoid any major economic crisis" as "more and more evident."[115] The action he recommended to his Minister, following the announcement on 1 August 1947 that CIE workers were seeking further wage increases, was nothing less than "the imposition of a new Standstill Order on wage, salaries and profits" against the background of a British government statement that they intended to announce special measures to deal with their own economic crisis in the following week.[116] But not even McElligott anticipated how great the impact of the British measures upon Ireland would be and it is to Finance's reaction to those measures that we must now turn.

IV: The Dollar Crisis of 1947

The dollar crisis burst upon the Department of Finance on 21 August 1947 when Owen Redmond — McElligott was on leave — called a special meeting which was attended by leading officials from Industry and Commerce, Agriculture, External Affairs and his own Department. Redmond read to the meeting a special communication from the British to the Irish government which the British representative in Dublin, Lord Rugby, had given to the Taoiseach late the previous night. The British communication

> . . . set out the circumstances in which the United Kingdom Government have been forced to drastic action to endeavour to prevent a complete breakdown of trade between the Sterling Area countries and the dollar and other non-sterling countries. This would include the suspension in part of the sterling convertibility provisions in the Anglo-American Loan Agreement (so as to minimise British dollar requirements in respect of non-Sterling Area countries), severe curtailment of the United Kingdom import programme (to reduce foreign exchange requirements generally in respect of the United Kingdom itself) and discussions at an early date with the governments of the other members of the Sterling Area as to the scale on which dollar and other foreign exchange expenditure could be contemplated in future. It was indicated, however, that relying on the exchange control restrictions imposed in the Sterling Area countries, the United Kingdom Government hoped to continue to provide conversion facilities for their essential requirements, which it was hoped would be kept as low as possible. A discussion with the Irish Government at an early date was suggested and an estimate of our foreign currency requirements was requested.[117]

Although the meeting could do little more than set in train the arrangements for the compilation of the necessary figures, a significant division of opinion between the different departments immediately emerged. The Industry and Commerce representatives said that "they felt strongly" that their minister would argue for the inclusion of the full Irish requirements and that no reductions should be contemplated "until the British put all their cards on the table. They doubted whether the British action was motivated in reality by foreign exchange exigencies" and stressed that at no time had they "regarded themselves as restricted in any way by exchange control", arguing that "there was no reason why Great Britain's balance of payments difficulties should unduly concern us here". The officials from Agriculture generally supported this view. The Finance representatives (Sarsfield Hogan and Seán Murray), however, took a very different line, arguing

> . . . that the informal agreement under which our foreign exchange requirements have, up to now, been provided was at all times generously honoured by the United Kingdom authorities, even in the most difficult years of the war. They had never set hard and fast limits to our foreign expenditure but had been content to rely on the discretion of our exchange control in determining what was reasonable, even when the exercise of this discretion resulted in expenditure on commodities which the British themselves were foregoing. If, in putting forward our estimate of needs, we ignore the obvious reality of the economic situation, confidence in our good faith will be impaired, our bargaining position tactically weakened, and disproportionate sacrifices may well be imposed on us. Apart from these considerations, the prevention of the collapse of sterling is so vital to our interests, that our approach to this matter must be realistic and constructive. Accordingly, we must be prepared to effect import economies.[118]

These considerations were central to the line adopted by Finance throughout the crisis. When, on 4–6 September 1947, McElligott, Hogan and Murray went to the Treasury for a series of informal talks with Rowe Dutton, McElligott emphasised that, following his own consultations with the Taoiseach and the Minister for Finance, he was authorised to say "that the Irish Government are anxious that confidence in sterling should be maintained" and that they would "co-operate in measures to that end" provided that such measures would "enable Ireland to provide to the fullest extent for the utilisation and development of her productive resources."[119] The same

point was more formally made in an *aide-mémoire,* handed by de Valera to Lord Rugby on the same afternoon, which called for Anglo-Irish discussions covering not merely the immediate financial crisis "but the whole field of trade betweeen the two countries."[120]

The gravity of the crisis was heavily underlined by Rowe Dutton in his opening discussion with the Finance officials. He first outlined its origins — the American insistence upon the conversion of sterling into dollars at will as a condition of their loan of £$3\frac{3}{4}$ billion worth of dollars in December 1945, and the fact that, since convertibility became effective on 15 July 1947, "every country that could turn sterling into dollars hastened to do so". He then adverted to the subsequent American acceptance that the arrangement must be suspended subject to all economies being taken to "hasten a return to full convertibility" and declared that the only policy open to his government was to use their reserves in the hope that they could "hold the position for six to nine months when the so-called Marshall Plan might come into operation . . . If it does not materialise the dollar famine will become absolute". The "dominant note of his remarks" was that there is no "'must' in relation to future claims on dollars; if they are not there, and they will not be there in a very short time unless all sterling area countries retrench, it will be useless at that stage to regret not having taken the necessary measures earlier." Hence the necessity of the proposed sterling area talks to coincide with a forthcoming London meeting of the IMF and, emphasised Rowe Dutton, the British government wished "very much that Irish representatives would take part in the talks, but they did not want to invite Ireland if Ireland did not wish to be asked."[121]

McElligott's reply was that, if the separate bilateral Anglo-Irish trade talks desired by the Irish government could be arranged, "an invitation could be issued to Ireland to attend the sterling area discussions without fear of rejection".[122] Nevertheless in further discussions the same day with Sir Edward Bridges, the Permanent Secretary to the Treasury, McElligott stressed that

> . . . his Ministers regarded it as fundamental that such bilateral discussions should cover a very wide field relative to the supplies of essential commodities to Ireland by the United Kingdom, thus saving foreign exchange and enabling Ireland's productive capacity to be increased, a development which would in turn lead to a saving of foreign exchange by Britain if they replaced dollar imports of food by importing the produce of increased Irish agricultural output . . .

Mr McElligott pointed out that, from the political angle, it was regarded as fundamental by his Ministers that they should have the fullest information as to the prospective deficits of the United Kingdom and of other sterling area countries, and of the reserves available and of the sacrifices to be made to meet the situation . . . Certain savings in dollars could be applied in Britain without serious effect on employment, whereas a similar saving in Ireland would lead to difficulties.[123]

The first round of talks between Treasury and Finance officials concluded with Rowe Dutton's pressing strongly for a detailed estimate of the immediate dollar economies which Ireland could effect and of her minimum requirement of dollars for the next nine months and McElligott's indicating that such immediate assessments were impossible and arguing that Ireland should receive special treatment in the crisis; "in particular he stressed that Ireland had before the war acceded to a request by Britain that she would not convert her sterling holdings into gold or dollars" and this "should not be overlooked now when such conversion was no longer practicable."[124] But Rowe Dutton showed no inclination to entertain such a proposal.

The Sterling Area Conference took place in London from 19 September to 6 October 1947 and was attended by representatives from Australia, New Zealand, South Africa, India, Pakistan, Southern Rhodesia, Burma and Ceylon, in addition to Irish and British representatives. The bilateral Anglo-Irish trade talks and other discussions between Finance and Treasury officials took place within the same period. The instructions given on the government's behalf to the Finance officials in London on 19 September, following discussions between members of the British cabinet and the Taoiseach, Tánaiste, and Ministers for Finance and Agriculture, were:

1. That they "should take the line that there is still in existence in Ireland a strict foreign exchange control on the same broad lines as the United Kingdom control" and that the best estimate of their foreign exchange requirements "for trade and non-trade purposes" for the next nine months was about £64 millions of which the dollar content, after deduction for dollar income, was £24 millions.
2. That they should decline to indicate what reductions might be effected in that estimate "until the Irish Government has knowledge of what the United Kingdom is prepared to do in the way of furnishing essential supplies to enable our agricul-

tural and industrial output to be increased"; it was calculated that about another £10 millions of dollars might be saved "if alternative supplies of the commodities in question are made available from the sterling area".

3. No indication of just what savings might be made should be given unless the British "firmly bound themselves to make available certain supplies, e.g. coal".

4. In the event of the British contending that the trade negotiations would take time while dollar savings could not be postponed, they should reply that "(a) there are political considerations involved which make it difficult for the Irish Government to ask their people to submit to austerities and sacrifices without being able to tell them at the same time that there is an assurance, definite and binding, of better supplies and better terms from the United Kingdom, and (b) that the same savings which can be made in the United Kingdom cannot be carried out in Ireland without a relatively greater degree of sacrifice and upset to national economic interests."[125]

The sterling area conference negotiations were long and complex and their details, in as much as they hinged upon questions of supplies and thus fell within the spheres of Industry and Commerce and Agriculture rather than Finance, need not detain us. The inflexibility of the Irish delegation's negotiating instructions, however, caused problems for Finance. The Treasury, wrote McElligott to his Minister from London, regarded "the reduction of dollar expenditure as of paramount importance . . . independently of the outcome of the bilateral negotiations"; and he suggested that he and his colleagues "may appear in a invidious light" if they continued to withhold information as to the dollar savings they might effect.[126] But the Taoiseach, following further and fruitless talks in London between himself and the British Prime Minister and Chancellor of the Exchequer on the same day that McElligott wrote, hoped for "an improvement in the British attitude and instructed the delegates to persevere in their efforts to achieve their objects."[127] Subsequent government confirmation that their delegation should continue the "policy of not promising any cuts in expenditure until the British side would show that they are ready to meet us in our requirements"[128] led to a difficult conversation between Finance officials and Rowe Dutton

who observed that it was "a source of worry to him that there was so much 'if' in the Irish talks". He also said that, while "he would like the talks to be useful . . . it was very difficult to make progress when it looked as if it were merely a question of how far the United Kingdom can go towards meeting Ireland's requirements". However, McElligott, when repeatedly pressed on the point, was only prepared to offer "his personal view" that economies in dollar expenditure would be forthcoming and said that he could give "no official assurance to this effect until a satisfactory conclusion had been reached regarding supplies and agricultural prices".[129] The Irish delegation held out to the end and Finance's memorandum for the government, after the conclusion of the sterling area conference, noted that "pending the outcome of the bilateral negotiations no indication as to possible economies in dollar and other foreign exchange expenditure has been given by the Irish to the British Government".[130]

The bilateral negotiations were resumed in the form of ministerial talks held in Downing Street on 3–4 November 1947, which were attended by the Taoiseach, the Tánaiste, the Ministers for Finance and for Agriculture, the Irish High Commissioner in London and by the British Prime Minister, the Chancellor and six other British ministers. The talks resulted in agreement on "various practical steps designed alike to increase the exchange of goods between the two countries and to strengthen the balance of payments position of the sterling area as a whole, including measures to effect substantial reductions in dollar requirements." The supply of British coal, together with other specific industrial and agricultural requirements, came in for special attention and it was agreed that a joint standing committee of British and Irish officials be established to implement the agreement.[131]

In the meantime the dollar crisis continued unabated and, on 21 November 1947, the Irish High Commissioner in London, J. W. Dulanty, together with other High Commissioners from countries within the sterling area, was summoned to an emergency meeting at the Commonwealth Relations Office. This was called by the British because they needed quicker and more regular information about dollar expenditure since the Treasury was concerned that if the drain on its dollar reserve continued "at the present rate . . . it would be catastrophic" and they accordingly proposed that regular fortnightly meetings should be held over the next twelve months.[132] Dulanty felt that Ireland should be represented on this body and suggested Sarsfield Hogan as Finance's most appropriate representative, a suggestion

which McElligott accepted and the Taoiseach approved — a very necessary step in the light of Ireland's highly ambiguous relationship with the Commonwealth and the political sensitivity of the implications when a general election campaign had begun. The first meeting of the new body, the Sterling Area Statistical Committee, took place on 18 December 1947 and its terms of reference as then stated were:

(i) to assemble forecasts of dollar and hard currency expenditure

(ii) to set in motion any further machinery necessary to obtain prompt and adequate progress reports against these forecasts, and

(iii) to study the progress made by the Sterling Area as a whole towards bridging the gap between dollar and hard currency receipts and expenditure.[133]

The committee's work dealt largely with technicalities and administrative details but it is worth mentioning that the sense of continuing crisis was sufficiently acute to merit Cripps attending one of its meetings in person at the end of February to emphasise that point — when he again urged the desirability of Ireland's joining the IMF.[134] The sense of urgency did not finally begin to ebb until the autumn when the flow of Marshall Aid dollars was under way. One indication that the committee's proceedings had become of a more routine nature was Hogan's less regular attendance, the task being delegated instead to one of the Irish High Commission's London staff.

However, the committee agreed upon in the Anglo-Irish trade negotiations of November 1947 — officially entitled the Standing Joint Committee on Anglo-Irish Economic Relations — was stillborn. Officials from Finance, Industry and Commerce, External Affairs and Agriculture discussed the matter at a meeting held under McElligott's chairmanship at the end of November when they were informed of a British proposal that the committee should meet quarterly and alternately in Dublin and London under the chairmanship of officials from External Affairs and the Commonwealth Relations Office. The Irish officials saw no difficulty about this, other than feeling that there need be no fixed frequency for meetings; they felt, too, that the committee was potentially so important as to argue that the permanent heads of the departments concerned should ordinarily be nominated to act on it.[135] Two months later External Affairs forwarded a press release framed on these lines which announced the establishment of the joint committee to review Anglo-Irish trade relations and to consider "the feasibility, within the limits of the economic policy of

each country, of further measures of mutual advantage." Although the Fianna Fáil government approved the press release, after pressure by Finance upon External Affairs that they do so, it was never issued, for on the very next day, 18 February 1948, Fianna Fáil left office for the first time in sixteen years.

CHAPTER TEN

The Department of Finance and the First Inter-Party Government

The years of Fianna Fáil government from 1932 to 1948 were, from the Finance viewpoint, "if not the winter of discontent, a long grey autumn" suggests an anonymous profile of McElligott, published in the first issue of *Administration* when he became Governor of the Central Bank. "In the brief St Martin's summer of 1948", it continues,

> old hands in the Department of Finance, once more alert, aggressive, successful, looked back on the sad sixteen years just ended, a period of attrition at the hands of departments under Ministers capable of getting their way in money matters; a period for Finance of constant retreat and guerilla delaying actions, with never an offensive except for a short burst when the war broke out, reduced to the beggarly expedient (one hesitates to use the term lest it should be construed an insult!) of Fabian warfare. Though the prospect seemed so hopeful what resulted was no victory. Fabius had to retire to far winter mountains, fighting rearguard actions all the way. By 1951–52 the estimates volume showed a figure of £83 million, and there was no longer a single budget to balance: birth had been given to a second, for capital works. The third great balance, the Balance of Payments, had soon consciously to be struck. As for the old Finance hands — by now their thumbs were through their gloves![1]

Such is one appraisal of the impact on Finance of the first inter-party government. These years are also significant, John A. Murphy has recently argued, because "the beginnings of economic planning are to be found in this first coalition period, predating by seven years T. K. Whitaker's famous memo . . . which is still popularly believed to be the point of departure for government economic programming."

The focal point of this development was the publication of Ireland's Long-Term Recovery Programme, published as a government White Paper in January 1949 at a time, Murphy writes, when the

Department of Finance was "apathetic, if not hostile, to the idea of economic programming and it is noteworthy that responsibility for producing the White Paper rested with the Department of External Affairs under Seán MacBride and the department's secretary, F. H. Boland". Although the senior officials most intimately concerned with the preparation of the programmes in the Department of Finance a decade later would consider Professor Murphy's statement to be, at best, an exaggeration — Dr Whitaker has noted that "no one who took part in preparing the Recovery Programme (and that includes myself) ever looked on it as a development programme, but rather as an exercise that had to be undertaken to persuade the Americans to give us Marshall Aid" — it does illustrate how, after 1948, ministers and government officials alike became increasingly concerned with framing a longer-term financial and economic policy than had previously been contemplated.[2] The days of *ad hoc,* year-to-year, financial management were clearly numbered.

How, then, did the 1948 change of government affect Finance? How did Finance react to Marshall Aid, that first great milestone in the path leading tortuously but inexorably to increased Irish involvement in European affairs? The answers to such questions are highly political in as much as they are inextricably bound up with the changing nature of Irish party politics in the post-war era. Yet the historian of the Department of Finance cannot sidestep such questions without misrepresenting the significance of what happened in Finance at this time. It is to be hoped that the material in this chapter will help us to arrive at certain general conclusions which, while relevant to the history of Irish party politics, are in no way irrelevant to the history of the Department.

Why is such an *apologia* now necessary when nothing of a directly comparable kind has been proposed in respect of any earlier part of this work? The answer, briefly, is that major questions concerning the direction of Irish financial and economic policy became more highly politicised, in public at least, at the end of the nineteen forties than ever before in the history of the state. Indeed the relative lack of public interest in economic policy *qua* economic policy is a remarkable feature of the first quarter of a century of the state's history. The reasons for it are clear enough: the Treaty split, the civil war, partition — all gave rise to a continuing national obsession with the British connection and ensured that political debate would be conducted almost exclusively in terms of the nature and achievement

of national sovereignty. By the end of the war that debate lacked the compulsive power of earlier years. The 1937 Constitution, the 1938 Anglo-Irish Agreement and the successful conduct of the policy of neutrality throughout the war sufficed to convince most Irishmen that sovereignty had been attained and exercised; the final proof, if such were needed, lay in the inter-party government's decision to repeal the External Relations Act and in the enactment of the Republic of Ireland Bill. Fianna Fáil's defeat in the 1948 election — a defeat generally attributed by historians to low wages and rising prices[3] — is in itself perhaps a notable testimony to the emergence of economic policy as the predominant electoral issue for the years which followed. Britain's financial difficulties, moreover, and the doubts which they raised about the convertibility of sterling, further contributed to this process.

This politicisation of financial policy was further enhanced by the multi-party nature of the new government. That, for the first time, the members of the government were drawn not from the ranks of a single party but from four separate parties prevented that easy consensus about the foundations of financial policy which was characteristic of one-party government. Differences in government between the Minister for Finance and the ministers of the spending departments — commonplace, no matter which party was in office — were accentuated by ideological differences and inter-party antagonisms such as arose from the presence in government of the leader of the new and highly successful Clann na Poblachta party, Seán MacBride, and his colleague, Dr Noel Browne.

MacBride's appointment as Minister for External Affairs was especially significant for Finance. Even before the change of government, External Affairs — under the direction of a new secretary, F. H. Boland (the son, incidentally, of that former pillar of the Finance establishment division, H. P. Boland) — had begun greatly to extend its range of activities and area of influence. Ireland's thwarted application for membership of the United Nations, her participation in the Paris conference on European Economic Co-operation in July 1947, her interest in the Marshall Plan and consequently in stronger diplomatic representation in the United States — were all factors in that process. An inspection of Finance's archives, moreover, reveals an explosive growth in the volume of its records from 1946–47 onwards and a notable feature of this development is how much of the additional documentation came from the Department of External

Affairs. Another index of that department's new power and confidence was its insistence that all negotiations between Irish government departments and their British counterparts should be conducted under its auspices and that the practice of direct negotiation (which had been especially favoured by Finance and by Agriculture) should cease.[4] The new role of External Affairs in 1946–47 is further borne out by some of the developments recounted in the last chapter, such as the exchanges between Boland and McElligott about the International Trade Organisation conference at Havana and the recommendation that they should provide the Irish chairman of the proposed Joint Committee on Anglo-Irish Economic Relations. MacBride's appointment, then, as a strong, independent-minded and outward-looking minister powerfully reinforced tendencies which were already apparent in External Affairs at the very moment when the Marshall Plan ensured that department's participation in areas of economic policy where they had not previously encroached and where they henceforth presented a new challenge to Finance's authority.

But there was another reason why MacBride's appointment was particularly significant for Finance. He subscribed in general to the views on currency and credit enunciated in the Minority Report presented to the Banking Commission by P. J. O'Loghlen;[5] and such notable critics of the Finance attitude as Bulmer Hobson (whom MacBride recommended for appointment to the government's advisory committee on the problems created by the British devaluation of September 1949)[6] and Mrs Berthon Waters (who was one of the more hostile witnesses examined by the Banking Commission and who wrote long memoranda for MacBride, at his request, with such titles as "The Monetary Defence of Ireland" during the sterling crisis of 1949)[7] were among those whom he consulted on economic and financial policy throughout his years in office. Even in his short period in opposition in 1947, MacBride had put down a series of questions in the Dáil on such subjects as the Irish acquisition of currencies other than sterling and Irish membership of the IMF,[8] which, coupled with his party's inclusion of the repatriation of sterling assets in its electoral programme, clearly marked his antagonism towards Finance. MacBride himself has acknowledged his sense of "outrage" at the Finance attitude to the questions of economic planning and investment in Ireland from the moment he entered office, and it is significant that both of the "conditions" he laid down for his party's participation in the coalition (that the government should provide the funds for a

reafforestation programme and provide for the release of Hospital Trust funds for building new hospitals and sanitoria), while reassuring to Fine Gael — who feared that he might seek more stringent terms which they could not concede — were directly to affect Finance policies. MacBride also knew in advance of, and favoured, Patrick McGilligan's being appointed Minister for Finance.[9] While it seems unlikely that Finance officials knew what had been discussed by the participants in the coalition prior to its formation, MacBride's public statements and his policies in office convinced them that for the first time since the state's inception, financial orthodoxies were being seriously threatened from within the government.[10]

The practical effects of this may be best illustrated by again taking up the account of two developments whose earlier history, in 1947, we have already considered and by investigating how they were influenced by the change of government: first, the fate of the proposed Standing Joint Committee on Anglo-Irish Economic Relations and, second, the restriction of dollar expenditure consequent upon Ireland's participation in the Sterling Area Conference. The Fianna Fáil government, it will be recalled, had approved a press release announcing the setting-up of the Joint Committee the day before they left office. An inquiry from Finance to External Affairs more than a month later, however, revealed that the papers had been referred to MacBride who decided that no action need be taken pending the opening of more general negotiations with the British. Finance made similar and equally fruitless inquiries of External Affairs about the progress of the project throughout 1948 and finally conceded defeat a year later when, against the background of the repeal of the External Relations Act and the establishment of the Republic, Sarsfield Hogan suggested to McElligott that the time was "hardly . . . opportune for reviving this matter" but that, if McElligott wished, he would "send a 'naif' inquiry" to External Affairs. McElligott agreed and no more was heard of the ill-fated Joint Committee.[11]

Irish participation in the sterling area, however, was an established fact and could not just be pushed aside. Finance put forward what it saw as the essential issues in March 1948 in a memorandum to the government on foreign exchange requirements for the period 1 October 1947 to 30 June 1948. The Department sought approval "for the control of dollar and other expenditure outside the Sterling Area" in accordance with the assurances given to the British during the bilateral financial negotiations of the previous autumn which committed

the government "to arranging that expenditure in the U.S. dollar area on all commodities and services be kept as low as possible and that in any event it will not exceed the agreed limit." Finance proposed, in particular, that such expenditure should not exceed a maximum of £11 millions, that maxima for specific purchases and payments be approved in accordance with an agreed table of detailed estimates which they provided, that any expenditure not so specified be referred "to an inter-departmental committee consisting of representatives of the Ministers for Finance, Industry and Commerce, Agriculture and External Affairs [yet another instance of the growth in prestige of that Department], which in turn would refer any points on which it could not reach agreement to a Cabinet sub-committee consisting of the Ministers mentioned", and that any major change in the pattern of expenditure be referred to the government. Finance stressed that "everything that has happened since the termination of the London negotiations renders more urgent the necessity for reducing dollar expenditure" and argued that, even if the European Recovery Programme, which grew out of the Marshall Plan and which was then before the US Congress, were to be implemented, "severe pressure on the sterling area reserves will continue." They also proposed stringent control of other 'hard' currencies through the same committee procedures and the continued close supervision of the 'easier' currencies through the operation of their own exchange control division.[12] The government, following consideration of the matter at meetings on 15 and 19 March 1948, approved Finance's proposals, although they hesitated before deciding against the alternative proposal of the Minister for Industry and Commerce, Daniel Morrissey, that the critical supervisory functions should be exercised by the economic committee of the cabinet — a body set up in the first instance at MacBride's initiative[13] and one which played a powerful role in the formation of economic policy throughout the life of the inter-party government.[14]

The committee set up as a result of Finance's proposal, the exchange control committee, met for the first time on 14 April 1948 and was but one of several important inter-departmental committees under the inter-party government which helped resolve differences of opinion between departments over financial and economic policy — the foreign trade committee and the sterling area committee were other examples.[15] Another such committee was concerned with the Marshall Plan and the European Recovery Programme.

I: The European Recovery Programme

The first seeds of the European Recovery Programme were sown in General Marshall's celebrated Harvard speech on 5 June 1947. A month later, on 12 July, the conference on European Economic Co-operation began in Paris; Ireland was represented by a delegation which included Seán Lemass and F. H. Boland and, at the final session, Eamon de Valera, as Taoiseach and Minister for External Affairs. Ireland's interests were handled exclusively by External Affairs for the first few months and, from the outset, Finance were highly sceptical of the benefits which might accrue to Ireland under the scheme: "we cannot expect any measure of salvation from the so-called Marshall Plan", McElligott witheringly observed in the course of a general review of economic prospects submitted to his minister on 1 August 1948.[16] Nor did the Department react any more enthusiastically to a Benelux proposal to the OEEC Committee of Financial Experts for a stronger central organisation. "Our interests in the matter", wrote O. J. Redmond to External Affairs, "are obviously closely related to those of Great Britain because of the direction of our foreign trade and our position as a large sterling creditor."[17]

These factors, which lead Finance to emphasise the desirability of the closest possible co-ordination between the British and Irish response to the Marshall Plan throughout this period, loomed large in the Department's approach to the financial experts' conference at the Treasury between 22–27 September, the opening session of which was attended by McElligott, Hogan and Whitaker. Whitaker, who represented the Department for the remainder of the conference, made a statement on the 24th which declared that Ireland was "in a special position . . . in not having any payments agreements with other countries", and because it conducted its transactions "with Continental European countries within the framework of the payments arrangements between the United Kingdom and those countries". He made no reference to the possibility of any Irish action at the conference independent of this United Kingdom link.[18]

Things began to move more quickly, however, towards the end of the year and, on 25 November 1947, Boland told the inter-departmental committee meeting (called for the purpose of setting up the Joint Anglo-Irish Economic Committee) that it now seemed certain that the European Recovery Programme, at least in its broad outlines, would be approved by the American Congress. He also advised that Ireland should immediately prepare to make the best possible case

about such matters as the financing of her long-term capital development before the Americans came to any final decisions which might prejudice Irish interests in respect, in particular, of the control and use of local currency funds resulting from American aid. There was a danger, he said, "that Britain might claim that such local currency funds held in Ireland should be applied in reduction of our claim against Britain on foot of accumulated sterling balances" and he felt it imperative that an inter-departmental working party be set up to consider this and related topics — such as the possibility of Irish participation in the ITO and IMF.[19]

External Affairs continued to make most of the running on the matter and, on 19 January 1948, the inter-departmental committee on Ireland's participation in the European Recovery Programme met for the first time. It consisted of representatives of Finance, External Affairs, Industry and Commerce and Agriculture, and Boland, as chairman, "suggested that whatever direct aid Ireland received its interest in the Plan was mainly indirect. If European countries, in particular Britain, France and West Germany, were enabled to restore their currencies and economies, the indirect benefit to Ireland would, in the long run, far outweigh the benefit from any direct aid received." At this inaugural meeting of the committee, Finance agreed to look into the question of whether Ireland could continue to draw dollars from the sterling pool once the Programme was under way. The necessity for close liaison with the equivalent British committee was again underlined.[20]

But it was at the next meeting, on 2 February, that Whitaker, following consultations with McElligott that morning, put the two questions to Boland which Finance felt should be answered before "finally determining" the Irish attitude to the European Recovery Programme [ERP], namely: "(1) whether we should not offer payment in Irish currency for any US aid received and (2) whether we would not be better advised to seek to have our dollar requirements supplied, as hitherto, from the sterling area pool, US aid to Britain being arranged in such a way as to make this possible."[21] The two questions reflect the twin fears which continually characterised the Finance reaction to ERP: that it would lead to heavy and unjustifiable borrowing and that it might jeopardise the special Anglo-Irish financial relationship. Whitaker elaborated upon the reasoning which lay behind the Finance questions when he pointed out that

> Ireland, unlike the majority of the OEEC countries, may be said to have

no overall balance of payments problem. It was true that last year we had an overall deficit on current account of some £20 millions and that the consequential draw on our external assets is of serious domestic import in so far as it represents expenditure of capital assets on consumer goods. We were, however, in a position to pay for our huge import surplus and, ignoring for the moment the question whether it would be desirable to do so, we would continue to be able to import at this or on an even higher level if our sterling earnings, present and past, were convertible into dollars and other currencies. If the situation which existed . . . when current sterling was freely convertible we would have no interest in US aid. Even now, if US aid to Britain were arranged in such a way that the sterling area pool would be in a position to meet, as hitherto, our reasonable foreign exchange requirements, we would consider it altogether unjustifiable to look for a single cent of grant-in-aid from the US or any other country. In these circumstances, it was necessary to inquire whether there was not some arrangement by which we could avoid the indignity of accepting US aid.

Whitaker also argued that the expressed intention of ERP to enable the participating countries "attain an economic condition which will make unnecessary further abnormal outside assistance" once the Programme had run its course, was something which Ireland "could never hope to attain" and that only the restoration of the convertibility of sterling would enable her to "meet her deficit with the Western Hemisphere". What was important about ERP from the Irish viewpoint, therefore, was the recovery of the other countries involved, and, above all, of Britain "so hastening the day when the pound sterling will again be able to look the dollar in the face and our present foreign exchange difficulties will be removed." He doubted whether the "acceptance of direct aid from the US to overcome these difficulties will be to our ultimate advantage" and argued that "separate dollar aid for Britain and ourselves tended to weaken our claim for the convertibility of our sterling earnings, despite any assurances by the British to the contrary."[22]

But, whatever the economic validity of Finance's arguments, they were clearly politically unacceptable for, as Boland pointed out, as "independent participants" in the OEEC, "it would not be appropriate" for Ireland to "seek to have US aid transmitted to us via a third country", let alone that that third country should be Britain. Although for the most part Irish involvement in ERP was discussed only between the officials, rather than the ministers, of the departments concerned in January-April 1948, McElligott thought these

exchanges sufficiently significant to forward them to his minister — who initialled them without comment. The outcome, confirmed at a further meeting of the inter-departmental committee on 23 February after the change of government, was that External Affairs would send a memorandum to the government urging the preparation of a White Paper on ERP.[23] In the meantime, Finance — strongly prompted by Boland who cautioned against letting "this Marshall Plan business draw us into *too* close an economic cooperation with the people across the water"[24] — had sought and received an assurance from the Treasury that while they recognised that it was "clearly necessary" for the Irish to make their case with the Americans on the basis that they would be unable to meet "any part of [their] dollar requirements during the period of aid from the sterling area pool," the Treasury "clearly understood" that the Irish position *vis-à-vis* the pool would not be prejudiced by their refraining from making demands upon it during the aid period.[25]

External Affairs put the draft OEEC agreement before the government on 2 April 1948 when it was ratified subject to "the sanction of the Minister for Finance thereto, following consultation by him with the Governor of the Central Bank" and to the understanding that the Minister for External Affairs would again consult the government if there were any last-minute material alteration in the agreement.[26] Brennan expressed strong reservations about ERP when he called on McGilligan on the 5th, especially on the thorny question of local currency funds — his and Finance's apprehensions on the subject were summarised in an earlier Finance minute which pointed out that "while it might seem to be a great advantage for the national exchequer to have access to a large volume of funds easily obtained, there were dangers inherent in a facility of this sort which provided a standing temptation to governments to incur expenditure without regard to the economic consequences"; the danger was all the greater since Ireland's sterling assets already encouraged the government to undertake "ever-increasing capital commitments, largely of an unproductive nature, irrespective of the extent of the current savings of the community."[27] But neither these apprehensions, nor Brennan's additional complaints that he was not kept properly informed of the progress of the ERP negotiations,[28] could delay the march of events and, on 16 April 1948, the OEEC agreement (the 'Convention for European Economic Cooperation') was signed at a special conference in Paris.

A fortnight later, McElligott wrote to Boland and commented on an External Affairs draft memorandum to the government on the immediate problems concerning the European Recovery Programme — these included the need to conclude a bilateral agreement with the US as required of each participating country under the terms of the Economic Cooperation Act passed by Congress; the question of whether the aid given to Ireland should be by way of grant or loan; the arrangements for the constitution of the local currency fund and the preparation of a quarterly and twelve-month programme for American approval. His letter exemplifies the tensions between Finance and External Affairs which the administration of ERP was to provoke. "It seems inherent in your proposals", observed McElligott, "that the Minister for External Affairs should assume all responsibility *vis-à-vis* the Government in relation to ERP matters"; and, while he acknowledged that External Affairs should play "a preponderating role", not only because of its departmental function but because of Boland's own "special knowledge", he presumed that they would not claim that no other department "should approach the Government on a subject relating to ERP except via the Department of External Affairs. Occasion will arise when the interests of the Minister for Finance are paramount" and, McElligott argued, Finance should be "the vehicle for the submission of all proposals and memoranda of a financial character to the Government, subject, of course, to prior consultation with other Ministers concerned."

The same concern lest ERP policy become the sole prerogative of External Affairs prompted McElligott to urge that the ERP inter-departmental committee should remain in existence; and, finally, he argued for continued close co-operation with the British, on the grounds that Ireland was the "only other sterling country drawing ERP assistance and it is very desirable that we should know what the British are doing and what the terms of their bilateral arrangement with the USA are likely to be."[29]

Finance's anxiety about matters arising out of ERP was more formally embodied in a memorandum prepared for the ERP committee of the cabinet which declared that "the most important single issue to be resolved is whether the assistance . . . will be given by way of grant or loan". Having reviewed the relevant clauses of the Foreign Assistance Act passed by Congress, Finance pointed out that the onus for proving to Paul Hoffman, the head of the Economic Cooperation Administration, that Ireland merited a grant would rest with the

participating country and they proposed that the issue was of such importance that Irish representations on this point should be made by a ministerial delegation in Washington as soon as possible. Finance were also concerned to set up the ERP accounting machinery and suggested that there should be as little departure as possible from the method then in operation for the financing of Irish dollar requirements

> . . . whereby the Irish banks purchase from London their net requirements of dollars to meet purchases in the dollar area which have been specifically approved in each case by the Department of Finance. Clearly, the least administrative inconvenience and the maximum degree of ease in adapting foreign exchange regulations to the requirements of ERP would be gained by continuing the present day-to-day method of financing all Western Hemisphere imports in the first instance from the sterling area pool and then claiming from the Administrator [Hoffman] recoupment of the dollars necessary to cover that portion of the total imports which fell within the ERP programme approved by him in relation to this country. Under such a scheme the dollars so re-imbursed by the Administrator would be sold to the sterling area pool and the sterling proceeds of the sale would form the local currency fund established in this country.

But this procedure, as Finance admitted, would need the prior approval not only of Hoffman but of the British and might excite already existing American suspicions "that the sterling area mechanism may be used for the purpose of diverting ERP dollars to other purposes". External Affairs was sufficiently apprehensive on this point to argue that no such suggestion should even be made. But Finance was "not satisfied that these doubts and apprehensions are sufficiently cogent to outweigh the advantages of maintaining the existing system" and laid heavy stress on the need to avoid the danger

> . . . that severance from the sterling area pool in order to meet American procedural requirements under ERP would at the end of the period of aid place difficulties in the way of resumption of full convertibility of our sterling balances through London. It is in the interest of this country, having regard to the size of our sterling balances and our dependence for their realisation on the ultimate recovery of sterling, that any open or covert American attack upon the integrity of the sterling area system should be resisted.

Finance also pointed out that ERP aid alone would not cover the cost of the Irish import bill and posed the question of "whether, tactically, it would be better policy for Ireland to decide now that she

would refrain from seeking dollars from the [sterling area] pool to augment American aid" for fear of aggravating the strain on sterling.[30]

The proposals reflected the Department's wish that ERP should entail the smallest possible dislocation of the existing financial mechanism as organised by its exchange control division, which in turn underlined its conviction that the dollar gap was the most pressing problem since the United States was almost the only source of scarce commodities. But, following renewed objections from External Affairs, Finance agreed to withhold its memorandum to the ERP cabinet committee. Instead, Finance's representations to the government were limited to asking whether a ministerial delegation should go to Washington to make the Irish case "for full assistance by way of grant"; whether the British should be approached informally for their reaction to the Finance proposal that Ireland should continue to obtain her dollar requirements through the sterling pool and then seek ERP reimbursement, and whether assurances should be sought from the Treasury about the restoration of the convertibility of Irish sterling assets into dollars.[31] Sarsfield Hogan discussed these matters with Rowe Dutton and Otto Clarke in the Treasury a few days later and concluded that the British were "not unduly apprehensive as to the effect on their own relations with the Americans of the question of the continued use of the sterling area mechanism" or of Finance's proposal that Ireland should continue financing their dollar requirements "in the first instance" through the sterling area pool.[32]

But in the meantime a major difference of opinion had already come to light between Finance and certain of the spending departments about the way in which Ireland's ERP counterpart funds should be used. Both Education, on 11 May, and Agriculture, a day later, submitted memoranda staking out their claims to part of the funds. Still more significant was a "secret and urgent" memorandum addressed by MacBride to his fellow ministers. MacBride wrote that it was now necessary to negotiate both the crucial question of whether Ireland's aid would be by way of grant or loan and the bilateral treaty with the Americans which would, "*inter alia*, specify the purpose of the Local Currency Fund i.e. the fund which will accrue here as a result of the goods made available under ERP". MacBride had already informed the State Department that Ireland needed aid in the form of a grant since they would be unable to repay a loan and would not therefore avail of one; and he now said it was imperative to

inform the Americans of

> . . . the plans we contemplate for economic development and the use to which we propose to put the Local Currency Fund which will become available if the ERP aid is given to us by way of grant.
>
> Both privately and officially the US State Department officials have made it clear to us and to the other European countries:
>
> *that our plans must be dynamic in their constructiveness and must aim at increasing production; that we must not merely avail of ERP aid to 'carry on as we are' but that we must avail of it to rebuild our economic structure so as to render us independent of outside help, to increase production, to ensure full employment and to ensure prosperity.*

MacBride argued that the proper use of the Local Currency Fund was "vital not merely to satisfy the Americans . . . but also to ensure that we shall build our economy on a proper basis", and he suggested that "the key-note of our approach should . . . be dynamic and should indicate a definite intent to lift ourselves out of our present rut."[33] MacBride had voiced similar sentiments in a letter to McGilligan a few days earlier which had emphasised that the banks were "already alive to the possibilities involved and are on the warpath to secure control of this fund."[34]

Finance's response to MacBride's proposals was predictably dusty; they had, after all, already declared themselves satisfied that the kind of independence of outside help to which he looked was impossible of attainment.[35] "Before we have even a single ERP dollar or a shilling of Local Currency Funds", minuted Whitaker in response to the External Affairs and Agriculture memoranda, "here are two Departments busy thinking up ways of ridding us of the prospective *embarras de richesses*." The principle which would inform the forthcoming bilateral agreement under the terms of the American Foreign Assistance Act, he suggested, would be that American aid "should be used in ways which will tend to restore financial and economic equilibrium in the various Participating Countries" and he implied that the Americans would not agree

> . . . to any proposed use of the Local Currency Funds which would work against 'internal monetary and financial stabilisation' — such as the charging to the Special Account of current expenditure on subsidies, agricultural education, etc., which is proper to be met from ordinary budget revenue and the assumption of commitments which would threaten budgetary and financial equilibrium in the future, such as unduly heavy expenditure on land reclamation, drainage, afforestation, minerals

development and other schemes of very doubtful economic value.

In our own interests, the Local Currency Funds should be used only for productive capital purposes and the redemption of debt. The financing of advances to the ESB, the Local Loans Fund and other borrowers for approved capital expenditure appears to be a legitimate and acceptable use of these Funds. It should also be borne in mind that of the State debt now outstanding some £28 million will fall due for redemption in 1950, a further £9 million in 1953 and a further £7 million in 1956. With these obligations in sight and prospective capital expenditure on electricity development, housing, etc., on a large scale it is not necessary to go searching frantically for new means of spending the Local Currency Funds.[36]

Although Whitaker's optimism about the Americans turning down MacBride's proposals for economic development proved misplaced, his remarks reveal the outline of Finance's vigorous if unavailing rearguard action on the subject of the use of ERP funds in the months ahead. But that debate was temporarily postponed by the news, cabled from the Irish legation in Washington on 14 May, that the first instalment of Irish aid ($10 millions for the June–October quarter) was to be in the form of a loan, and by the government's decision when they met that night that a ministerial delegation should go immediately to Washington to argue the Irish case for getting ERP aid "as an outright grant".[37]

Seán MacBride headed the delegation, whose other members were McElligott, Boland and Sarsfield Hogan, which left Dublin on 18 May and returned on the 27th. On the opening days of the visit the delegation discussed tactics and prepared their case. MacBride called on Secretary of State Marshall and on other officials of the State Department to stress the "political repercussions" of the decision, saying that "the allocations of $300 millions by way of gift and $100 millions loan to Britain and the Six Counties would be compared with the offer of a $10 millions loan to Ireland, so that the impression would be created that the US were, in fact, intervening in favour of the continuance of Partition" as well as "increasing the disparity between the economies on both sides of the border". The delegates also met British diplomats in Washington, one of whom (Frank Lee) had established "exceptionally close contact" with the officials of the Economic Cooperation Administration (ECA).[38]

The first meeting between the delegation and the ECA team — headed by the Administrator, Paul Hoffman — took place on the morning of 21 May. MacBride's opening statement

> . . . stressed the opportunity which Ireland had of playing a useful part in ERP provided suitable assistance was given; the inadequate extent of Irish dollar earnings; the consequent inability to repay a loan in dollars no matter how generous the terms that might be fixed; the unwillingness to take a loan unless it could be repaid; the serious effects of the war on the Irish agricultural economy; the further decline that would ensue from the failure to get quickly abundant supplies of fertilisers, feeding stuffs, machinery etc.; the complex problems arising from the vast number of small holders and their lack of working capital; the requirement not only of adequate dollar aid, but also of State assistance to achieve optimum production of food for export in the shortest possible time; and the advantageous uses to which Local Currency Funds could be put.

He also quoted certain figures on agricultural production and McElligott cited statistics on the trade deficit and on American imports and exports.

Hoffman's response was that ERP funds had not finally been appropriated and that, while he "appreciated 'the fine attitude' of refusing a loan when the means of repayment were not clearly foreseen", the recovery, which Congress insisted the aid must produce, would make repayment possible even if it would take some time. Both Hoffman and the Deputy Administrator, Howard Bruce, emphasised that if, as they assumed, the plan worked, "there would be free convertibility of major currencies" which would solve the Irish repayment problem. They said that if they were "prepared to take that chance", the Irish should be too. They agreed to meet again on the 25th after the Irish delegation had submitted a memorandum presenting their case, and a table, requested by Bruce, setting forth a projection of the likely effect of ERP dollars on agricultural recovery. Hoffman also laid particular stress upon the fact that "allocations for the present quarter were in no way indicative of the allocations for the coming and subsequent quarters."

The Irish delegation devoted the next few days to preparing its written statements and to meetings with Irish-American representatives, State Department officials and notable American political figures — MacBride paid a courtesy call on President Truman on the 24th — none of which gave them grounds for hoping that the loan decision would be reversed: an official at the Irish desk in the State Department, for example, though favourably disposed himself, suggested that the Irish case "suffered from the absence of a communist

movement in Ireland and from propaganda about our tourist trade and the good living conditions in Dublin."

The meeting on 25 May justified his pessimism. Bruce, who headed the ECA team on this occasion, insisted that the allocation for the present quarter could not be changed and the most he conceded was that the Irish government could state publicly that this would not prejudice future allocations. The meeting ended with MacBride's saying that he would have to consult his colleagues in government as to whether Ireland would accept a loan.

The question of whether or not a loan should be accepted was discussed at a meeting in Dublin on 1 June, chaired by McElligott, shortly after the delegation's return from Washington, and attended by the Secretaries of External Affairs, Industry and Commerce and Agriculture. It was agreed that the pros and cons of the issue should be set out in a Finance memorandum to the government. McElligott gave it as his own opinion that,

> . . . with the future course of ERP uncertain because of the interaction of American politics, there were grounds for bagging all we could now. It would not be essential to take the whole of the $10 million offered and he had in mind that we might possibly take a lesser sum. He admitted that possibly some tactical advantage might be lost by taking a loan in face of our very recent protestations of our inability to repay and our moral rectitude in financial matters . . . To take a loan might prejudice the possibility of a reasonable grant allocation in future quarters. Not to take a loan, however, would be inconsistent with our stand against drawing on the sterling area pool. There was also the point that the Americans indicated that a decision on our part to take a loan for the current quarter would not prejudice the grant v. loan issue in succeeding quarters.[39]

McElligott's arguments were elaborated in the Finance memorandum to the government[40] which recommended the acceptance of the loan — not necessarily for the full $10 millions, "but in respect of the total of such items within that maximum as are included in the programme to be approved by the Administrator." The overriding reason for that recommendation was that the loan for the quarter ending 30 June would effectively be used to refund the $8 to $10 million dollars drawn from the sterling area pool in the current quarter. This, Finance argued, "would be a material benefit to the sterling area pool which is at present under a great strain. It is in our interest, on account of our immense stake in the ultimate recovery of sterling, that the strain on the sterling area dollar reserve should be

eased in every way possible." Finance had agreed with the Treasury, moreover, that they would do all they could to avoid being responsible for such strain (an exchange of correspondence between Hogan and Clarke, referred to earlier in this chapter,[41] was annexed to the Finance memorandum) and the Treasury had "strongly expressed the view that, in the general interests of the sterling area, we should take assistance by way of loan, if grant terms cannot be secured, rather than leave the burden of our dollar expenditure resting on the pool."

But Finance's recommendation was strongly challenged by External Affairs before the memorandum, drawn up after the inter-departmental meeting of 1 June, was sent to the government.[42] It was MacBride's view, moreover, that Finance's attitude was unduly circumscribed and that, in particular, "the Treasury was the limit of their horizons".[43] The External Affairs memorandum to the government, opposing the Finance case, argued that to accept the loan after the Washington talks would raise doubts among the Americans about "the strength and sincerity" of the Irish delegation's attitude and would disconcert Ireland's friends in the United States who were trying to ensure that she received a more favourable allocation in future. The memorandum further suggested that the British would appreciate that the Irish stand on the issue was "in the interest of the sterling area as a whole" and that they would not want to see "so easy a surrender . . . of important positions of principle, merely for the purpose of securing a few million dollars for the sterling area pool in respect of the present quarter." Furthermore, MacBride pointed out that, under the terms of the arrangement made during the sterling area talks in London the previous November, the Irish government were fully entitled to draw on the sterling area pool for dollars up to the end of June and their availing themselves of that entitlement would tend "to ensure British support for [their] case in Washington — a point of by no means negligible importance."[44]

Hogan and Whitaker, having considered the External Affairs memorandum, decided that it was "a moot point" whether the government should accept the loan for the current quarter but felt that if they were to reject it, the Treasury should be told why they had done so.[45] This was the decision arrived at by the government on 11 June when it was also decided that, for future quarters, the question of a grant or loan "should be considered on the facts and that the acceptance of a loan should not be prejudiced by [the] refusal to accept a loan for the current quarter" and that MacBride should immediately

act to "assure" the Irish right to aid for the next quarter.[46] But the final outcome was still far from settled and was in fact to be materially affected by the more general Anglo-Irish negotiations which were then in prospect.

II: The Anglo-Irish Economic Discussions of June 1948

The Anglo-Irish economic discussions of 17–22 June 1948 had their origins in Irish dissatisfaction with the 1938 trade agreement, first voiced by Industry and Commerce officials in their Dublin talks with representatives of the Board of Trade on 10–13 May 1946. Just over a year later, on 10 June 1947, the government decided that, pending the complete revision of the agreement, they should seek to enter into an understanding with the British enabling them "to proceed with the protection of any of the industries" they were precluded from protecting under the first article of the 1938 agreement, provided only that they gave prior notice to the Board of Trade.[47]

Industry and Commerce returned to the subject just before the change of government when they suggested that Ireland should press for the termination of the agreement as provided for by article 19. "Altered conditions of international trade", Industry and Commerce argued, "have rendered the agreement largely inoperative", especially since "the British Authorities [*sic*] have shown themselves prepared to set aside obligations under the agreement that would otherwise have operated in favour of this country" which would forfeit "no substantial benefits" through termination; "on the other hand, this country's industrial development would be freed from certain restrictive obligations."[48]

Finance were unhappy about the proposal and felt that the need to keep down the cost of living and the cost of agricultural production precluded them from supporting "any proposal which would result in increasing the range of protected commodities and quantitative restrictions",[49] but they refrained from replying to Industry and Commerce in this vein in the hope that the change of government might mean that it was no longer a live issue: Leydon, as Secretary of Industry and Commerce, Whitaker suggested, was the protagonist of the proposal and Lemass "had not made up his mind on taking this drastic step".[50] Sarsfield Hogan agreed that "it would be better to 'keep our powder dry'"[51] in view of the general trade negotiations with the British which were then in the offing. At the end of May, when Finance were asked if they had any proposals for the agenda for

the forthcoming June talks, they indicated that they wanted to talk to the Treasury about Ireland's future relationship with the sterling area pool. This came about because of the termination of the agreement made the previous autumn whereby the Department could draw up to a maximum of £14 million worth of dollars and because of Irish participation in ERP, although Finance also specifically requested that these subjects should not be included in any draft agenda for the trade talks.[52]

Irish strategy in the coming talks was discussed at the inter-departmental meeting on 1 June. McElligott then expressed his reservations about the demands which Industry and Commerce and Agriculture were proposing, saying that "we were asking for a lot from the British but had little to offer in return" and suggesting that "if we could not be more forthcoming in the matter of increased food exports, etc., the British might well seek compensation in the financial sphere, e.g. by restricting our recourse to the sterling area pool" and that they might react unfavourably in trade negotiations if the Irish refused to accept the ECA loan then being considered by the government.[53]

McElligott's forebodings were borne out at the opening session of the London talks, on 17 June 1948, when the British Prime Minister, Clement Attlee, who took the chair and welcomed the Irish delegation before handing over to the Chancellor of the Exchequer, Sir Stafford Cripps, described Ireland's balance of payments position with the sterling area and with the rest of the world as "the most important economic question for Great Britain and Ireland". He described Ireland's dollar drawings on the sterling area pool as "*fairly* large" and looked for an Irish statement of their position in regard to ERP. Costello — who, as Taoiseach, replied and whose fellow-delegates were Norton, MacBride, Dillon, McGilligan and Morrissey (Dulanty and McElligott were also present) — refrained from taking up the point.[54]

But much worse was to come in the next day's plenary session when Cripps (who effectively headed the British team and who had impressed at least one of his Irish listeners with an hour-long opening speech on the first day delivered without interruption or notes or assistance from any of his officials)[55] announced that, as from 30 June, Ireland could no longer draw dollars from the sterling area pool — a statement which the Taoiseach described as "a bombshell" about which he must consult privately with his colleagues, and which

McElligott intervened to challenge as a breach of Finance's understanding with the Treasury.[56]

McElligott again expressed his "surprise and alarm" in discussions which he and Hogan had with Rowe Dutton in the Treasury that afternoon. Ireland, he said, had honoured her agreement not to draw dollars above a maximum of £14 millions from the pool: it had never before been suggested that her "normal relations with the pool would not continue"; the notice to end them was "much too short" and "appeared to be selective or discriminatory" as well as "most inconsistent with the general sterling area arrangements". Rowe Dutton replied that " the Chancellor's attitude was motivated by the serious position of the reserves and by the fact that Ireland was a participant under ERP and thus might be expected to meet . . . dollar expenditure without recourse to the pool." Nor did he respond favourably to Sarsfield Hogan's accusation that the Cripps volte-face was a breach of the understanding arrived at in correspondence between himself and Otto Clarke of the Treasury the previous February[57] — this was what had prompted McElligott's intervention at the plenary session that morning. There followed a discussion of whether or not Ireland intended taking up the ERP loan for the current quarter and McElligott said "that it was likely that the Irish Government would reconsider their attitude towards the loan question and possibly also towards the IMF in the light of the Chancellor's statement", although he reiterated the Irish dislike of the IMF.[58]

McElligott and Hogan again interviewed Rowe Dutton at the Treasury the next day, when McElligott requested that Cripps be asked to make a further statement on Ireland's access to the dollars in the pool at the next plenary session and when he again stressed what he thought was the discriminatory treatment implicit in Cripps's earlier statement. Although Rowe Dutton gave no assurances, his attitude was more placatory and he did say "that the doors were not being closed against Ireland; they were still open but it was felt reasonable, on the part of the UK, to ask Ireland that she should remain outside the doors and limit her dollar expenditure to what was available to her from her own earnings and ERP."[59]

The crucial decisions were made at the end of a meeting held in the Taoiseach's suite in the Piccadilly Hotel in London on the night of 20 June when, at midnight, after the other British Ministers had left following the conclusion of agreements on Irish agricultural exports and on the revision of the 1938 trade agreement, MacBride asked

Cripps for a general statement about the sterling area pool. The discussion which followed, and in which most of the Irish ministers as well as McElligott and Rowe Dutton participated, lasted until 1.30 in the morning. Although Cripps began by painting a very bleak and confidential picture of Britain's diminishing hard currency reserves, which had fallen from £552 millions at the end of March to a projected £450 millions at the end of June, and although he repeated at some length the arguments which Rowe Dutton had put to McElligott in their Treasury discussions, he eventually agreed, under pressure from McGilligan, to modify his earlier statement. His alternative, "correct statement" was that

> if Ireland was not taking Marshall Aid then an application for membership of the International Monetary Fund might be made. A sum of £15 m. in dollars might be expected from the Fund over a period of four years. If Ireland desired to secure admission to the IMF Great Britain would put up the subscription. As a choice between the membership of the IMF and adherence to ERP the Chancellor said there was no question but that the choice should be in favour of ERP. If Marshall Aid were taken Ireland would have difficulty in getting anything from the IMF.

After still further discussion, when Cripps stressed the significance of the £500 millions hard currency level as "a psychological level" below which "confidence in sterling would be endangered", he finally offered the assurance that the pool would advance dollars in anticipation of ERP aid to be received by Ireland, on the understanding that she would do her utmost to get the maximum aid. "If despite your efforts, you fail to get adequate aid for essential requirements, we will still stand behind you." What Cripps in fact said, recalled T. K. Whitaker, who was present, was "We will stand behind you as we stand behind ourselves" — a phrase too memorably damaging to be set down in the "polite record"! Cripps would not agree to his assurance being publicised because of the intense pressure upon Britain for dollars from other sterling area countries — notably India, whose delegation on that mission had already arrived in London.[60]

The details of the agreement were hammered out at two further meetings at the Treasury on 21 June when Rowe Dutton again emphasised that Cripps's assurance was subject to "the understanding that Ireland would take measures to reduce to the minimum her level of dollar expenditure. In other words, if ERP assistance for Ireland

was insufficient she was obviously not entitled to a blank cheque on the reserves for an unknown deficit." While Rowe Dutton expressed "some diffidence" about saying what Ireland's dollar economies might be, he did say that "the Irish standard of living was higher than in the UK" and spoke of "the large number of American cars on the road, the apparent liberality of petrol supplies, the wide range of goods on offer to tourists"; he admitted the desirability of reaching agreement on a statement which might be incorporated in the press communiqué to be released at the formal conclusion of the talks.[61] Eventually Rowe Dutton accepted Finance's amendments ("mainly directed towards ensuring that the terms of the note would be consistent with the understandings in the Hogan-Clarke correspondence, . . . with the assurance given by the Chancellor, and . . . [with] Irish requirements for wheat and maize")[62] and the following text was agreed and duly incorporated as the third and final part of the communiqué:

> . . . it was agreed that, pending clarification of the amount of assistance to be received from the USA under the European Recovery Programme, the Government of Eire would continue to effect the maximum economy in expenditure of hard currencies and would not exceed the level of expenditure during the first half of 1948. The Government of Eire will use its utmost endeavours to obtain the maximum amount of aid available under the European Recovery Programme, with the object of ensuring as far as practicable that their recourse to the sterling area pool for hard currencies will not involve any drain on the pool.
>
> The two Governments will keep in close contact with reference to the above arrangements and, in particular, will consult as to the provision of Eire's essential requirements of wheat and coarse grains.[63]

The outcome was a vindication of Finance's belief in the pre-eminence of the sterling crisis in Anglo-Irish economic relations and, on 25 June, the government duly reversed its earlier decision about the ERP loan and decided "(1) that a loan for the current quarter should now be accepted, if such a loan is still available; and (2) that, in the case of future quarters, loans should be accepted to such extent as may be necessary."[64] But the matter did not end there, for just what *was* necessary was to provoke considerable dissension between Finance and the spending departments — notably Industry and Commerce — in the months ahead.

In the meantime, however, preparations were going ahead for Ireland's ratification of the Economic Cooperation Agreement — the

bilateral treaty with the United States, demanded by the United States Economic Cooperation Act as a prior condition of participation — which Ireland had signified her intention of accepting in a letter from the Minister for External Affairs to the American Secretary of State on 28 April 1948. The agreement, identical drafts of which had been presented to each of the participating countries in mid-May and which had been the subject of informal OEEC discussions early in June, was circulated to the government on 24 June by the Minister for External Affairs. MacBride now observed that no more favourable draft seemed likely to be obtained. Finance, whose representatives had already considered the draft at the ERP inter-departmental committee, did not disagree but McElligott's reaction was indicative of his continuing concern lest Ireland's ERP participation disturb the harmony of Anglo-Irish economic and financial relations. He agreed with the External Affairs recommendation that the agreement be accepted, provided that Ireland could incorporate in the final text any emendations secured by the British or French as a result of OEEC talks in Paris the next day: "it should be made clear", he observed, that in accepting the text as it stood "we won't upset the British. We depend on them for many things."[65] The agreement was duly signed and ratified in Dublin on 28 June.

Finance's next task was to set in motion the consideration of certain matters arising out of the London talks. These, broadly, were three: the terms of the ERP loan agreement — it was believed that the Americans were considering a loan of $50 millions, including the original $10 millions they had offered for the first quarter; the need to implement dollar economies in order to adhere to the undertaking that dollar expenditure would not increase beyond the level of the first half of 1948 — this required a probable cut-back in the dollar requirements of the motor-assembly industry in order to pay for projected tobacco imports; and the restriction of imports in order to improve the balance of payments.[66]

On 21 July Finance circulated the heads of a memorandum to the government on these matters to the secretaries of the other departments concerned which, among other things, questioned the legitimacy of Ireland's continuing "an uneconomic motor assembly industry based on dollar imports" and catering simply "for a luxury trade". The Department accordingly recommended that the dollar allocation for private car assembly be halved for the second half of 1948 and then be discontinued completely — the object of the six

months' grace being to allow the motor industry to diversify to non-dollar imports and so reduce unemployment.[67]

Industry and Commerce was strongly critical of these proposals. They first denied that "the need for strict control over dollar expenditure" was "quite as obvious" as Finance alleged and doubted the necessity for keeping dollar expenditure below the level of whatever ERP loan was available; and they stressed, too, the use to which the local currency funds could be put for these purposes. But it was the problem of sterling convertibility that most plainly revealed the gulf between the two departments' attitudes. If sterling was not convertible at the end of the ERP period, claimed Industry and Commerce,

> . . . it will matter little to us whether the amount involved is £50 m. or £100 m. since it has been made abundantly clear to the Americans that we can never hope to repay a loan out of our own dollar earnings and since they themselves appear to be reconciled to the fact that repayment of the loan will depend on sterling being convertible.
>
> It is obvious that any economies which Ireland might adopt during the period of aid would never have the slightest effect on the convertibility of sterling at the end of the period and the position of the sterling area pool should not, therefore, influence us unduly towards adopting a policy of drastic economies on dollar expenditure.
>
> If we cannot repay the loan at the end of the period we will be in good company and the only effect of economising in the meantime would be to have done without goods which we could in effect have got for nothing. Assuming that we can get the dollars to buy the various goods we require there would be no more reason for refusing to buy the same goods from other countries. If the balance of payments problem is to be tackled it must be dealt with in a general way and any measures taken should not be directed solely against dollar purchases; in any case it is too big a question to be dealt with merely as an appendage of the dollar problem.

The Industry and Commerce note went on to dispute Finance's contention that the exchange control inter-departmental committee had decided in favour of retrenchment in the motor industry as well as in the textiles and apparel industry; it disputed, too, Finance's description of American cars as luxuries and the "airy fashion" in which Finance had proposed to cope with unemployment in the assembly industry, arguing that "the industry simply cannot be abandoned overnight". Leydon, finally, in his covering letter to McElligott, requested an inter-departmental discussion on the whole matter before it was submitted to the government.[68]

McElligott was not disposed to accept this request since he felt that there was "so little common ground" between the departments that it would prove "fruitless": he saw no purpose in any discussion based on Leydon's arguments that there was "no need to restrict dollar imports" or "no balance of payments problem". What was necessary, he maintained, was to decide the allocation of dollars for the motor assembly industry.[69] Although Leydon claimed that this was an exaggerated summary of his views, he did say that he saw "no apparent reason why we should not go all out to get and spend every dollar we could obtain under ERP, once we have accepted the principle of borrowing dollars" and he argued that Ireland should refrain from "any voluntary or avoidable sacrifice for the purpose of strengthening the position of sterling".[70]

There was no point, Finance decided, in continuing the "disputation" with Leydon. Instead they decided to revise their memorandum in the light of the government's decision of 28 June (that "loans should be accepted to such extent as may be necessary") and to refute *en passant* Leydon's "major heresies". For Finance the "vital issue" was straight-forward: "should we spend up to the limits of loan accommodation — or should we endeavour to keep below it and progressively reduce the level of our dollar imports?"[71]

Finance's revised memorandum, circulated to the government and to the secretaries of the departments concerned on 27 September, criticised the government decision on the grounds that it necessarily meant that the full amount of the loan (then projected at $79 millions for the twelve months beginning 1 July 1948) should be taken up:

> The loan should be used only to meet essential requirements and should not be applied to unnecessary goods or services or to dollar imports which could without adverse effects on our vital needs be obtained from sources of supply outside the Western Hemisphere.
>
> If the European Recovery Programme is to be successful it demands a readjustment of the existing dependence of Europe on the Western Hemisphere. So far as possible Ireland's needs should be supplied from Europe or from countries within European monetary systems, e.g., the sterling area, and every effort should be made to achieve this objective. Otherwise the position may arise in 1952 when we shall be unable to procure essential commodities because dollars are no longer available. . . .
>
> Assistance by way of loan imposes the burden of repayment with interest . . . [and] and the repayment of the loan obligation in dollars involves an addition to the strain on sterling convertibility and in view of

our vital interest in the ultimate full recovery of sterling we should not unnecessarily add to the strain. Normally loan obligations should be assumed only for capital projects or other expenditures which create the means of repayment but in our case we have no choice but to apply the loan monies to all classes of imports which cannot be met from our own earnings.

Finance went on to recommend that, in keeping with their exchange control division's previous practice, they should refuse authorisation of expenditure on luxury and non-essential dollar imports and, specifically, they renewed their proposal for a 50 per cent cut in the dollars allocated to the motor assembly industry, although their new deadline was 30 June 1949.[72] The government procrastinated for some weeks and, on 19 October, Industry and Commerce submitted a counter-memorandum seeking the rejection of Finance's proposals. The issue eventually seems to have become bound up with the wider debate, in which Finance and Industry and Commerce were again on opposite sides, about the balance of payments.

Finance had first expressed their concern about the balance of payments in a memorandum to the government on 30 July when they drew attention to the growing trade deficit (£9½ millions a month, as compared with £8½ millions in 1947) against a background of "external resources . . . worth much less than before the war . . . being rapidly dissipated on imports of consumption goods" and the depleting effect of the redemption of dollar borrowings on those resources in the future. The memorandum also referred to American requests for assurances that ERP aid would be used to restore equilibrium in the balance of payments and to the anxiety expressed by British representatives on this score in the recent London talks. Finance saw "domestic inflation" as the "fundamental cause" of the problem:

> The excess purchasing power generated by wage and salary increases not balanced by greater output, by the unprecedented volume of government expenditure and by capital outlay in excess of current savings can only find an outlet in domestic price increases and excessive expenditure on imports. The existence of external resources which can be used to meet this swollen demand for goods tends for a time to obscure, but cannot in the end avert, the development of a situation in which we will be forced to adopt painful measures to restore equilibrium in the balance of payments. It is vital that remedial action should be no longer delayed.

Finance therefore asked the government "to approve in principle the proposal that import restrictions are necessary for this purpose."[73]

The government's approval, on 31 August, provoked a strong reaction from Industry and Commerce who sought to have it rescinded, arguing that the balance of payments problem "should be considered solely from the point of view of this country and undue weight should not be attached to advice tendered by, or on behalf of, the British and American Governments" and suggesting that

> . . . the time which has elapsed since the net draw on sterling assets began is too short to warrant the assumption that it represents a permanent trend . . . A large proportion of our sterling holdings represents enforced savings accumulated during the war years. They should not all be treated as capital assets nor should there be objection to their use for the purchase of consumption goods now obtainable for the first time in six or seven years . . .

Industry and Commerce also anticipated an inevitable decline in imports, questioned the basis upon which Finance's statistics had been drawn up and argued that "the introduction of a regime of restriction and austerity would involve unemployment and emigration".[74]

Finance were at the same time under different pressures from the Governor of the Central Bank, who called on the Minister to inquire what action the government intended to take on the balance of payments issue and to deprecate "what he called the crude methods of prohibiting or restricting imports while other government measures were helping [increase] the purchasing power of the community".[75] In particular, he criticised "the enormous budgetary expenditure" and "heavy capital outlay by State or State sponsored organisations" and suggested that "the Government were absorbing all, or more than all, of the savings of the community and . . . making heavy inroads on our sterling assets."

Finance, for its part, rejected Industry and Commerce's criticisms of their memorandum on the balance of payments and continued to argue for a trenchant appeal for economy on the estimates then being prepared — which McGilligan approved on 7 October — and for the reduction of dollar imports.[76]

It was against this background that the government, at a meeting on 22 October, finally decided in favour of Finance on the issue of dollar

economies and the American loan, subject to the qualification that any disagreement between departments, "as to whether any particular item, whether of luxury and non-essential imports or of dollar imports hitherto regarded as necessaries, should be included in the programme . . . should be referred to the Government." Finance's recommended cut in the allocation of dollars for the motor assembly industry was similarly approved, although without prejudice to what might subsequently be decided for the post-June 1949 period.[77] The significance of the government's decision was not simply the exclusion of dollar luxuries and non-essentials but also, in as much as they approved of Finance's proposal on American cars, the acceptance of the general principle of "a deliberate attempt to switch away from traditional or customary necessary imports from the dollar area".[78] As we shall see, it was a decision which played an important part in enabling the exchange control officials in Finance to exercise a larger influence over the scale and direction of dollar imports — and thus over an important area of economic policy generally — than they would otherwise have possessed.

A few days later, on 28 October, the ERP loan agreement — for $60 millions at 2½ per cent "for financing the acquisition of such commodities and services as are approved by the Administrator" [for Economic Cooperation] — was signed on behalf of the Minister for Finance and the Export-Import Bank of Washington.[79] The terms of the loan (that no interest should be paid before the second half of 1952 and no principal until 1956, and that the first principal repayments should be small) represented a qualified triumph for Finance officials who had gone to some pains closely to coordinate their negotiations with the Americans with negotiations the British were simultaneously conducting in Washington. Indeed this well-orchestrated campaign, which took care to avoid giving the Americans the impression that the Irish and British were "ganging-up", is among the more striking examples of the intimate working relationship which Finance officials enjoyed with their Treasury counterparts — that their correspondence was sometimes conducted on christian name terms (something almost unheard of in the correspondence of senior Finance officials with their colleagues in other Irish government departments at this time) is but one index of this intimacy.[80] But this did not prevent the British from keeping the Americans fully informed of the course of Anglo-Irish financial negotiations. While the larger political implications of the closeness of the Anglo-American alliance for Irish

interests fall outside the compass of this book,* it should be noted that Rowe Dutton gave the American Embassy in London a detailed account of his June 1948 talks with McElligott and his colleagues which was immediately communicated to the State Department, to the American Treasury and to the Economic Cooperation Administration in Washington.[81]

III: The Use of European Recovery Programme Funds

Once it became clear that Ireland would benefit financially under the Marshall Plan, the use of the monies so obtained was an inevitable and predominant concern of the Department of Finance, and Whitaker's memorandum of May 1948 is but an early expression of that concern.[82] "The question of the disposal of the proceeds of dollar borrowings" was again discussed by McElligott, Hogan and Whitaker in July when it was decided that, in order to avoid "further aggravation of internal inflation", "provision should be made in the Appropriation Bill for payment of the proceeds into an account of the Minister for Finance with the Central Bank instead of directly into the Exchequer",[83] a decision which symbolised Finance's anxiety about the possible effects of the expenditure of these monies, and their inability to determine how the monies would be spent.

The responsibility for drafting the Irish European Recovery Programme rested instead with Seán MacBride as Minister for External Affairs. MacBride's power on this critical matter derived from the terms of the European Economic Cooperation Agreement which laid down that the Administrator of the ECA would negotiate directly with the OEEC and not with the individual countries participating in the Programme; it was therefore for the OEEC to approve each country's national programme. MacBride, as Ireland's Minister for External Affairs, was a Vice-President of the Council of Ministers of the OEEC and was given the responsibility by the OEEC to negotiate with the ECA on behalf of the sixteen countries involved.[84] His influence was further enhanced by his friendship with Averell Harriman, the European Ambassador at Large for the ECA with whom he acted as a sort of unofficial representative of the Council of Ministers, and by his even closer friendship with the American Minister to Ireland, George Garrett, with whom he regularly shared a

*I intend to examine this question more fully in a forthcoming book on the United States and the Irish question, 1945–49.

frugal lunch of poached eggs on toast in his office in Iveagh House.[85] Both Harriman and Garrett were obviously in key positions to influence Paul Hoffman, the head of the ECA, and the man who had to approve the commodities and services upon which aid could be spent and with whom MacBride was also personally friendly. The Americans, too, had their bureaucratic divisions and conflicts about Marshall Aid; Harriman, as special representative, became "extremely powerful . . . and his office in Paris came to be almost independent of ECA Washington", particularly since Hoffman "in certain ways . . . abandoned a central role in policy-making almost from the start".[86]

All of these factors strengthened MacBride's hand in preparing the proposals ultimately incorporated in the White Paper on *Ireland's Long-Term Programme (1949–1953).* His differences with the Department of Finance had clearly emerged by mid-December 1948 when he sought cabinet authority to tell George Garrett how the government proposed to use ECA funds and to say also "what plan has been evolved which, fitting into the objectives of ECA policy, would be best effected by a grant of US funds, rather than by a loan." Garrett needed this information, said MacBride, "for the purpose of representations he was making in Washington on the Loan-v-Grant issue" and he had also strongly expressed the hope that "the moneys which were now accumulating with the Irish Exchequer as a result of the ECA Loan would be used for national development purposes of a productive nature and would not be invested in British or other securities and thus allowed to become unproductive from an Irish point of view." MacBride's proposed reply did nothing to disappoint that hope. It contained the embryo of the Recovery Programme under the headings of land reclamation and drainage, reafforestation, fishery development, electricity development, agricultural training and education, fertilisers and harbour development.[87]

Finance's reaction was predictably hostile: "I do not think the Government should be asked to commit itself at such short notice to [this] ambitious programme", minuted McElligott to McGilligan, having first complained that he himself had been given no time properly to examine it. If further American aid was in the form of loans, he argued, none of the proposals would facilitate repayment and that burden would fall on the taxpayer since none of the new schemes would produce revenue for the Exchequer. There were, he said, "no moneys now accumulating with the Irish Exchequer as a result of the ECA loan" — and we can here see the significance of

Finance's amendment of the Appropriation Bill the previous July — "and if there were we would use them to avert further borrowing from the public here which had now become urgently necessary and also to meet the £37 million odd of debt maturing in 1950." McElligott then went on to argue that

> . . . we are already spending on capital development as much, if not more than, the country can afford and certainly more then we can hope to continue to raise from the public by means of voluntary loans. For these reasons alone we must not commit ourselves to expending any loan counterpart funds that may accumulate here or any other projects unless they relieve the Exchequer either of current or capital expenditure.
>
> It is no business of the Americans what we do with the loan counterpart funds and they should be told that distinctly. It is generally recognised now that one of the advantages of being a loan country is that you are subject to less 'snooping' by the Americans.
>
> Any large scale release of fresh funds in this country would inevitably have inflationary effects on a big scale.[88]

Although McElligott argued in vain (the government decided the same day to approve MacBride's proposed, unofficial reply to the American Minister) the exchange reveals what lay at the heart of the controversy over the use of the loan counterpart funds — a controversy which continued throughout 1949.

MacBride took the view that the funds must be used for economic development — above all, for land reclamation and reafforestation — and he characterised the Finance arguments that this would be inflationary and that the moneys should be used only for the amortisation of the national debt as timid, reactionary and owing too much to the Treasury's influence. He took the precaution of discussing his afforestation proposals with both Costello and McGilligan before publicising them and before Finance got wind of them, citing the Shannon Scheme as an earlier example of the kind of state intervention which he now thought was necessary.[89] McElligott believed that MacBride's determination to obtain dollars was such that he was ultimately indifferent as to whether aid was obtained by way of grant or loan; that he was indifferent to the implications of repayment and adopted the attitude of "let posterity pay".[90]

The terms of the continuing debate were fixed by a government decision authorising External Affairs to seek the observations of all other Ministers on the "utilisation of the funds consequent on the loan arranged under the European Recovery Programme" — the Local

Currency Fund — "on the hypothesis that the funds referred to could* be used for purposes of national development".[91] The decision, wrote Whitaker, "presents the curious spectacle of the Minister for External Affairs inviting the Minister for Finance to furnish proposals for expenditure." The basis of this "paradoxical situation", Whitaker argued, was that

> . . . we plunged into ERP, rather than take our chance for dollars as a member of the sterling area, not so much because of the hope, which then seemed bright, of getting dollars for nothing as of having vast amounts of free funds in Irish currency which could be spent, assuming American agreement, on schemes for which it would be difficult to find money by taxation. . . .
>
> How could one [otherwise] explain not merely our readiness to borrow dollars to pay for currently consumed wheat, maize . . . etc., but the anxiety of the Minister for External Affairs, and other Ministers, that we should search for means of spending as many dollars as possible, even to the extent of buying dollar goods in preference to sterling goods?[92]

There was a danger, Whitaker suggested, that the matter would get so "out of hand" that control of expenditure would "slip" from the Minister for Finance — Hogan, too, observed that it was "important to check the intervention of the Department of External Affairs in matters which under the Ministers and Secretaries Act 1924 and other legislation is reserved to the Minister for Finance."[93] The fundamental points which had been lost sight of, Whitaker wrote, were "that borrowings from the United States Government will have to be repaid" and that such borrowings should be treated with "at least equal care and responsibility . . . as would be exercised in the use of borrowings from the Irish public." The repayment of both could ultimately be met only from taxation, and the ERP funds should not be used, therefore,

> . . . to finance schemes for which it would be considered doubtful wisdom to borrow internally on the same scale. Indeed, we should be much slower to incur external than internal debt since repayment of external borrowing, involving as it does a transfer of goods and services out of the country, imposes a greater real burden on the community.

None of MacBride's projects, claimed Whitaker, "can be said to

*"Could" read as "should" in the original letter from the Taoiseach's Department, but McElligott ascertained "that 'could' is the operative word" — see note 91.

pass the test of productivity in the sense of producing revenue for the Exchequer from which the interest and redemption instalments could be met as they fell due". Indeed some of the proposals — the provision of deep-water harbours, subsidised fertilisers and extra agricultural training — were acknowledged to have poor repayment prospects; others — "land reclamation, drainage and afforestation, though, like many other things desirable in themselves, fall far short of yielding an adequate revenue to offset the corresponding debt service. . . . Expansionist ideas, however admirable, which involve adding to the public debt and to future taxation are completely out of touch with the reality of the present financial position", which Whitaker then proceeded to analyse. He anticipated a gap of £2 millions between revenue and expenditure in the current year and a still worse shortfall in the following year with capital expenditure amounting to £10 millions. Further heavy additional taxation would be necessary if the budget were to be balanced, and borrowing at the rate of £10–£12 millions a year would be required to finance what he described as "pre-ERP" capital development schemes. ERP funds, he therefore argued, should be "devoted . . . to . . . the relief of internal borrowing"; and this was all the more necessary because of "the inflationary effects of the addition to domestic purchasing power resulting from the loan proceeds. . . . The ideal would be to neutralise the effect of this adventitious increase in the volume of money by investing the loan proceeds outside the country."

These, then, were the considerations which Finance felt should determine the statutory powers their minister should take for using the proceeds of the American loan. Whitaker's memorandum concluded with a strong denunciation of the deleterious effects of the Marshall Plan upon the direction of financial policy:

> In Ireland and elsewhere ERP has had unfortunate as well as beneficial effects. It has yet to be seen whether a less generous gesture by the United States would not have contributed more to European recovery by forcing countries to face the realities of the situation and take urgent and adequate steps to reduce their excessive dollar expenditure. Under this four-year programme the attention of statesmen is diverted from urgent and awkward problems such as balancing the budget, adjusting exchange rates to fundamental realities, substituting home production for dollar purchases, to more pleasant activities such as striving for the maximum slice of the current total allocation of dollar aid and devising popular means of spending the local currency proceeds. The tendency towards this form of

demoralisation is not completely checked by the aid being given in loan rather than grant form.

We cannot afford to let our commonsense in the matter of expenditure be blurred either by the receipt of US aid or by misleading slogans like 'Whatever is physically possible is financially possible.' Our resources are not unlimited. The State competes with private individuals for the resources required for capital expenditure. If current savings are not adequate to meet capital expenditure, public and private, this competition forces up prices and causes inflation. The economic problem cannot be avoided. The decision to use savings to build houses, develop electricity, etc., necessarily involves a choice as between these and alternative modes of investment. All are not physically possible. Some must be selected in preference to others. If the pace is forced too much inflation acts as an automatic and drastic brake. No one questions the desirability of better housing, improved health services, etc., etc., but State borrowing for these purposes, even if it can be effected on the scale desired, carries with it the obligation of finding the debt charges in cash. In an economic system which is mainly dependent on private enterprise, the resultant high level of taxation may discourage production and so inflict social loss. Nothing, therefore, should induce in us a light-hearted attitude towards increasing the public debt. Our policy in regard to dollar borrowings should be (1) to borrow as few dollars as possible and (2) to use the counterpart funds in such a way as to facilitate repayment of the borrowings with interest.[94]

Whitaker's peroration has been quoted at length because it is of cardinal significance — the *cri de coeur* of a Department of Finance trying to regain the power of policy direction. Whitaker himself, Hogan and McElligott all proposed that Whitaker's memorandum be made the basis of a major submission by their minister to the government. Hogan too had "urged that the existence of the ECA counterpart funds should not be allowed to influence the normal tests for any new capital schemes that might be proposed"; and he thought it "manifestly desirable that the Minister for Finance should assume the initiative in formulating proposals to the Government regarding the control and uses of the funds in the Central Bank" adopted as a purely precautionary device, so that some safe deposit would be available for ECA dollars when received.[95]

But McGilligan was not persuaded by his officials' advice — their minutes on the subject are scarred by his queries and exclamations in red crayon — "under Stalin and Molotov?" was the most striking of his glosses, made with reference to the suggestion that Europe might have benefitted more from less generous American financial assistance.

He made no submission to the government and the outcome was the inclusion in the Central Fund Bill of 1949 of a provision for the establishment of a fund known as the American Loan Counterpart Fund into which the Minister for Finance could transfer moneys from the Central Bank account set up under the 1948 Appropriation Act. The purpose of the section, said McGilligan in the Dáil during the debate on the bill, was "to get these monies . . . eventually into the Exchequer" in order that they might be "utilised in the way Exchequer monies are. I could use these monies for the Electricity (Supply) Acts or for any purpose authorised by estimate."[96]

McElligott brought the subject up again with his minister before the year was out when, just before the counterpart fund was established, he urged the need ("in view of the magnitude of Exchequer requirements" and "despite its inflationary consequences") "to get hold, for Exchequer purposes, of portion at any rate of the moneys in the Counterpart Fund . . . to redeem loans, amounting to £27,375,000" — a purpose, he argued, to which the Americans would give "maximum approval". The government, wrote McElligott, was too ready to spend ERP moneys "as if they were grant aid and not loan aid . . . the utmost caution should be exercised in regard not only to their expenditure but to the use of their counterpart in local currency and more rigid standards applied than in the case of expenditure of internal borrowings."[97]

The interdepartmental committee on ERP did not take McElligott's view and expressed the "general feeling" that, in the Irish financial situation, "retirement of the National Debt would be unlikely to be accepted by the ECA as an appropriate use for the Fund", and arranged for External Affairs to prepare a memorandum for the government giving details of all the projects submitted by all the departments which would be suitable for financing out of the Fund.[98] However, Finance, at a later meeting of the same committee, announced their intention of submitting a statement "on the use of the Counterpart Funds for the retirement of Debt".[99] This statement finally took the form of a memorandum to the government on the use of counterpart moneys and recapitulated in summary the arguments adduced by Finance officials since the submission of the important External Affairs memorandum of December 1948, arguing "that any further proposals for drawing on counterpart moneys must be considered on their merits as proposals involving direct charges on the Exchequer". The "primary responsibility" of the Fund was, "and

should remain" the servicing of the American loan: ". . . to dissipate the resources of the Fund on non-profit earning objects is simply leaving to the taxpayers of the future the responsibility of providing the services of the loan".[100]

But the government deferred consideration of the Finance memorandum until after the summer recess[101] and instead approved a draft letter which MacBride proposed to send to the ECA mission to Ireland "intimating the Government's proposals that 10 per cent of the moneys, or approximately £100,000, should be devoted to the promotion of dollar tourism and that the balance should be devoted to capital expenditure required for the expansion and improvement of agricultural, forestry and veterinary research and education and extension services."[102]

Finance had no objection to the dollar tourism project and had in fact included it in its own submission to the government, but the other proposals were just what the Department had argued against for so long. "This memorandum", minuted McElligott of the document containing the Department of Agriculture's proposals for utilising the Fund, "simply oozes optimism, and I do not. Can we not modify some of its raptures and its figures?" [103] But Finance's representations were again rejected by a government decision approving the transmission of the statement, subject to such amendments as MacBride and the Tánaiste, William Norton, might decide upon;[104] and consideration of Finance's memorandum was again deferred pending the submission of a further memorandum from the Minister for Finance, when he knew just how much money would be forthcoming from the ECA.[105]

This further memorandum on the use of counterpart moneys was submitted to the government on 15 December 1950 (to be considered in conjunction with the June memorandum). It revealed that the total Marshall Aid to date of $144·2 millions had "produced a counterpart in Irish currency" of £36·5 millions. Finance predicted that some £24 millions would be available for investment by way of loan counterpart and another £11·5 millions in the form of grant counterpart — Ireland had succeeded in getting $13 millions of its 1950–51 allocation classified as grant aid — and the Department argued that it was "essential that loan counterpart should be reserved as a supplement to normal sources of finance for housing, power development and other capital projects and that such existing projects as are likely to command specific ECA support should be switched in whole or in

part to grant counterpart, e.g. the land reclamation project, tourism" and so on. The memorandum also included what had by now become the traditional Finance warnings about the inflationary effects of the use of counterpart moneys and the need to use them for debt conversion.[106]

But the Department's proposals met with no more favourable a response than previously and by the spring of 1951 they finally acknowledged their cause lost. No mention was made of debt redemption in a memorandum drawn up in Finance on the use of grant counterpart moneys in April 1951 because, minuted McElligott to the Minister, "I gather you do not favour utilisation in this way":[107] his admission signals the end of Finance's prolonged and generally unsuccessful rearguard action on the use of European Recovery Programme funds.

IV: The Devaluation Crisis of 1949

Rumours of the sterling devaluation which finally took place on 18 September 1949 had long been in the air. Two years earlier, during the London talks on the dollar crisis, Finance representatives had asked Rowe Dutton about the possibility of devaluation and were told that "the United Kingdom did not contemplate a revaluation of the £. The matter had not been discussed at any stage; neither had the question of revaluation of gold been discussed." Indeed Rowe Dutton went so far as to mention a theoretical case made in a recent number of *The Economist* for raising the value of the £ in terms of dollars![108] The pattern of Treasury denial in response to growing speculation about sterling devaluation soon became familiar in the wake of the devaluation of the French franc on 25 January 1948. For example, the record of the Irish delegation's Washington talks with officials of the Economic Co-operation Administration on the grant-versus-loan issue in May 1948, reveals that leading ECA officials were already referring "specifically to the advisability and likelihood of the devaluation of sterling".[109] By February 1949 the Department of External Affairs was relaying Washington inquiries as to whether Ireland would maintain parity with sterling in the event of devaluation.[110] But both McElligott and Brennan thought devaluation unlikely and, a month later, McElligott recorded that he knew nothing that would cause him to change his mind.[111] By the end of March, however, McElligott was forwarding to External Affairs the latest foreign report of *The Economist* intelligence unit which was very pessimistic about the future of sterling; and, two months later, McElligott himself

was becoming increasingly pessimistic about the weight to be attached to the Chancellor of the Exchequer's latest denial, which he saw as being prompted by the Labour government's wish to postpone devaluation at least until they had fought and, they hoped, won the next general election. He was sufficiently concerned to ask External Affairs to make soundings in London and Washington "to ascertain what measure of truth there is in all this cloud of witness" in a situation where

> . . . the USA authorities are credited everywhere in the financial and general press with bringing pressure on the British. . . Sometimes it is the American Treasury, sometimes it is ECA in Washington and sometimes it is the European end of ECA that are considered to be bringing influence to bear . . . if the Americans have these ideas on the subject, what measure of devaluation [have they] in mind? I need hardly say that the whole question is one of the utmost importance and urgency from our point of view.[112]

In the meantime the possibility of devaluation had been discussed at a meeting of the inter-departmental foreign trade committee on 17 May, as a result of which Finance were asked to prepare a memorandum on the effects of devaluation on foreign trade. This memorandum, of 13 June 1949, is important since it delineates the official views of the Department on devaluation at a time when the matter was about to become a subject of controversy and debate between ministers. Devaluation, the memorandum argued,

> . . . would be anathema to orthodox thinking in Britain. For one thing, it would shake still further London's position as a financial centre and thus create new difficulties by reducing British earnings from banking and insurance transactions, etc. Moreover, it would not be necessary so long as Marshall Aid is sufficient to bridge the gap between dollar earnings and dollar expenditure and the gradual fall in world wheat and maize prices should offset, in part at least, the falling off in sales of British goods to dollar areas. It seems unlikely, therefore, that there will be devaluation of sterling in the immediate future; on the contrary, Britain is not likely to devalue until every other alternative has been tried and, even then, only when the ultimate monetary reserves of the sterling area have been seriously reduced.

Having analysed its likely effects at some length, the memorandum went on to consider "whether any action could be taken internally in Ireland which could offset or nullify devaluation. A theoretical possi-

bility is that the link with sterling might be cut and the Irish £ kept at the present parity with the dollar, i.e., at a premium in relation to sterling." But — after an examination of the effects of such an action upon the balance of payments, together with the arguments that it might make Ireland's position as a member of the sterling area "uncomfortable, if not untenable", "that before the war there was no evidence that our currency was undervalued in terms of sterling . . . [or] that the influence of inflationary forces here is on the wane" — the conclusion reached was that there was "no method by which this country could escape the effects of devaluation of sterling". It was also suggested that "devaluation might prove to be a temporary expedient" and the example was given of how in 1933, when the Americans followed the British off the gold standard, "the £ regained its parity with the dollar and, in fact, for a period was worth $5·50." Reference was also made to the Banking Commission's review of the link between the Irish currency and sterling at parity and, the memorandum declared, "the arguments which were advanced in favour of that position have in the interval lost none of their cogency". Since nothing could be done to escape the effects of a sterling devaluation, the memorandum concluded,

> . . . there does not appear to be any possibility of action by the foreign trade committee which would minimise these effects. Theoretically, it would be possible to import goods from hard currency areas in advance of devaluation, but there are now so many other limiting factors in this connection that the possibility of effective action appears to be negligible, even if we were prepared to face the consequences of any loss of goodwill in Britain and USA. In any event, in view of the closeness of our economic relations with Britain and the settled tendency towards a parallel structure of wages and prices, any exchange value between the Irish pound and sterling other than parity would be unreal.

In mid-June 1949, then, Finance were still clutching to the straw that the British government would continue to resist devaluation until all other alternatives had been exhausted, while at the same time insisting that, even if devaluation were to take place, there was nothing that Ireland could do about it. But the fact was that Finance knew little or nothing about the British government's intentions, as McElligott implicitly acknowledged in the covering letters to the Finance memorandum sent to the secretaries of External Affairs, of Industry and Commerce and of Agriculture, asking them to alert their officials "who presumably are in fairly close contact with the

British departmental and trading interests" and who might "hear something that might throw light on the future course of events".[113] McElligott explicitly asknowledged this dilemma a week later:

> we are completely in the dark here as to what the intentions of the British Government are in relation to the devaluation of sterling, and it is possible that its own mind on the subject is not at all clear. Certainly no one outside that government knows when or how much sterling will be devalued. It is unlikely to come one would imagine on this side of a general election in the UK and indeed there is no immediate necessity for it while British gold and dollar reserves are in the region of £450 million and Marshall Aid is continuing.

But McElligott then went on to admit the possibility that the British would be left with no other option but to devalue in the event of "heavy draws on her reserves" as happened when she went off the gold standard in 1931. He believed it "likely that sterling devaluation when it comes will be accompanied or followed by a general revaluation of European currencies, and indeed many such currencies, like our own, will have no option but to follow it down"; and he also presumed that Irish ignorance of British intentions put her "in the same boat as other large holders of sterling investments and balances, e.g., India, Pakistan, Egypt, Palestine, Iraq, Ceylon."[114]

McElligott's comments suggest that, privately at least, he was already convinced of the inevitability of devaluation and to that extent shared the views of Seán MacBride, who presented the government with a formidable memorandum on the subject on 23 June 1949. Where MacBride differed radically from Finance, however, was in the belief that "the remedies necessary to anticipate the results of the devaluation of the [*sic*] sterling and the effects of a period of depression coincide". The remedy he proposed was that the government should take immediate and urgent action,

> . . . as a matter of definite policy, [to] endeavour, by every means available, to promote the repatriation of our 'sterling assets' and the investment of monies at present invested in Britain, in national development projects in Ireland. Such a policy would serve the double purpose of safeguarding our 'sterling assets' and of preventing the effects of the depression.
>
> *Any reasonable impartial objective view of the situation leaves no doubt that, putting it in the mildest form possible, there is a definite element of speculation in investing Irish monies in Britain at a time when the British economy and sterling are confronted with such dangers and uncertainties.*

MacBride went on to argue that if Ireland had invested the capital which it had invested in British securities since 1914 in such projects as the creation of state forests, the Shannon scheme and the land rehabilitation scheme, a 64 per cent depreciation in sterling assets between 1914 and 1948 would have been avoided and such "invaluable assets" as a reduction in imports, an increase in employment and raw material for industry would have been acquired. He thus saw his proposals as "not merely anticipating the possibility of devaluation and depression but of remedying some of the basic defects present in our economy." Finally, MacBride urged that the question of maintaining the Irish pound at parity with sterling "be examined as a matter of urgency by independent economists", suggesting that the evidence adduced in the Banking Commission's majority report, "if valid then, [is] not valid now".[115]

MacBride's memorandum reveals the breadth of the division between his views and those of the officials in the Department of Finance — essentially the same kind of division which separated them on the use of ERP funds and which, earlier, had separated the signatories of the Banking Commission's majority report from O'Loghlen's minority report.[116] The case against repatriation of sterling assets had been made by Finance as early as 1943 and the Department's officials did not now see any reason to change their minds, nor to depart from the line adopted in their June memorandum to the foreign trade committee. The results of devaluation for Ireland, wrote Whitaker, "though serious, could scarcely be described as 'disastrous';" nor did he see any point in rehashing the issue of parity with sterling. MacBride's memorandum, he observed, "makes no attempt to show that the enlarged capital programme he outlines is either practicable or economic" and he questioned the "physical possibility" of some of his proposals, stressing, in particular, that sterling assets could not be "repatriated" save over a period of years. Neither did he see any purpose in what he described as "wishful speculation about the comparative advantage of afforestation as compared with investment in sterling assets", since private individuals would not invest in afforestation, nor could the state have done so because of shortages of seeds and other materials during the years of sterling accumulation. Similarly, Whitaker thought it "idle to speculate on the relative security in the present state of the world of capital invested in Britain and capital invested at home". MacBride's whole approach to the repatriation of sterling was, he argued, invalidated by "the following facts": that

Irish sterling assets not "in absolute government ownership or control" (even in the case of assets held by the Post Office Savings Bank, the government was only a trustee); that "private individuals remain free to hold sterling investments or sell them as they think fit"; that Ireland's sterling accumulation "really represents the forced savings of two war periods" and that present government policies (notably its capital programme and protection of Irish industry) were already "using up the savings of the past". The one point, indeed, where Whitaker tended to concur with MacBride was on the government's seeking independent economic advice, which he saw as possibly "advantageous in the long run".[117]

But the government took no action on MacBride's memorandum which remained on the cabinet agenda until after devaluation had taken place. Finance, consequently, do not seem to have found it necessary to produce any further, formal statement on the subject until 3 September when their June memorandum to the foreign trade committee was reissued. The format, and for the most part the wording, remained unaltered and there was no change whatever in Finance's assessment of the problems which devaluation would cause and what could, or, rather, could not, be done to counter them. The one major change in the document concerned the likelihood and possible timing of devaluation, for by now the Finance view was much more pessimistic. Talks between McElligott, Hogan and Treasury officials in London between 29–30 July on the gravity of the dollar situation led them to the "cheerless", if certain, conclusion "that there is now no prospect whatever of sterling convertibility being restored in 1952". Although an Irish "query about devaluation elicited an emphatic no",[118] such denials no longer carried comfort: "the Treasury were stubbornly negative on the question of devaluation" was McElligott's subsequent appraisal of the talks.[119]

Finance, then, in their reissued memorandum of 3 September, dropped the passage about devaluation seeming unlikely in the immediate future, and spoke of the major reduction in British monetary reserves, which they had previously suggested would be a necessary prelude to a decision to devalue, as having effectively taken place; the fall in the reserves in the twelve months ending March 1949 had quickly accelerated since then and it was anticipated that, unless this decline were arrested, the reserves would soon be down to £350 millions (only two-thirds of what the British had previously regarded as their minimum safe figure of £500 millions). "The position has thus

changed out of all semblance in a period of little over a year, and a continuance of the drain at recent rates would result in devaluation before the end of the year unless a decision were taken that the reserves should be allowed to fall to a very low level in the hope of an alteration in the British trading position before they were approaching exhaustion." The British financial papers were openly discussing the most likely date of devaluation, "thus indicating that they regard postponement as impossible", and the Sunday after the next IMF meeting, 18 September, was considered most likely. The dollar-sterling talks in Washington between the Finance ministers of the United States, Britain and Canada which ended on 12 September did nothing to change this assessment and, by 16 September, McElligott told his minister that devaluation could now "be taken for granted".[120]

On the morning of the next day, Saturday, 17 September 1949, Finance finally received official intimation of the British decision to devalue the £ sterling to $2·80, through top secret messages from the British Prime Minister to the Taoiseach and from the Bank of England to the Governor of the Central Bank. "Conferences were held during the afternoon and evening of that day between the Minister for Finance, the Governor of the Central Bank, the Secretary, Department of Finance and others to consider the action to be taken in the event of the Government deciding to allow an equivalent devaluation of the Irish £" and McGilligan immediately approved a direction (delivered to the banks by hand) suspending dealings in foreign exchange. On the same day discussions took place with the foreign manager of the Bank of Ireland on the new buying rate for American dollars, based on the assumption that an equivalent devaluation would take place in Ireland.[121]

That evening the government met in emergency session in Iveagh House where, coincidentally, an official reception in honour of Cardinal Cushing was taking place. The meeting continued until 3 o'clock next morning and resumed again on Sunday evening. McElligott, Sarsfield Hogan (who, as assistant secretary of the exchange control division, had been called up from Donabate where he was on leave), Whitaker and Patrick Lynch (then an economic advisor in the Taoiseach's Department) were present for much of the prolonged and bitter discussions. MacBride, supported principally by Browne and opposed by McGilligan and James Dillon, argued strongly against the government's devaluing *pari passu* with the British.

Whitaker vividly remembers MacBride sitting astraddle on a chair in the middle of the room (with other members of the government sitting around the sides) and relentlessly cross-examining his senior Finance colleagues, a process which began at 2 o'clock in the morning. He remembers, too, fearing that MacBride intended to question all the officials present and that this would expose major inconsistencies in their opinions, particularly regarding the probable effect of devaluation on the cost of living — the significance of which McElligott emphatically denied.

At one critical point, when MacBride was pressing Sarsfield Hogan very strongly for an estimate of how devaluation would affect the cost of living, which Hogan was reluctant to give, McElligott had intervened and given an estimate (some 8 per cent) of how proposals for new expenditure put forward by the ministers for the spending departments would increase the cost of living, which he compared with an estimate of $1\frac{1}{2}$ per cent for the effects of devaluation. After this exchange, McElligott began collecting his papers prior to leaving the meeting and when asked to remain until a decision was taken, replied that he had not realised that this was the matter under debate. Acting in accordance with his minister's instructions after consultations with the Governor of the Central Bank, he had already, he said, issued the necessary preliminary instructions to the banks. But, McElligott's confident assumptions notwithstanding, the outcome remained in some doubt until the Tánaiste, William Norton, threw his weight behind Finance's advice.[122]

The government's final decision was, "on the recommendation of the Minister for Finance", "that an equivalent devaluation of the Irish pound in relation to the United States dollar should be allowed" and that the Minister for Finance should issue the banks and other authorised dealers in foreign currency the directions necessary for

(a) the temporary suspension of dealings in foreign currencies,

(b) the resumption of dealings in United States dollars, at the new rates, on Tuesday, 20 September 1949, and

(c) the resumption of dealings in foreign currencies, other than United States dollars, as soon as the necessary information as to the altered rates of exchange became available;

and that he should also issue a public statement announcing the

government's decision.[123] That statement said that the decision had been taken "in the light of the economic circumstances of this country . . . [as] the course of least disadvantage"[124] — a phrase thought up by Whitaker at breakfast on Sunday morning which especially pleased McGilligan. It is noteworthy that the first draft prepared by Finance was markedly different in emphasis from the final version. It included, for example, the sentence: "In the case of Ireland there is no reason in present circumstances why the change of the dollar sterling rate should alter the existing parity of the Irish pound with the pound sterling and accordingly the major part of external transactions of Irish interest will continue to be conducted as heretofore."[125]

But, whatever these differences of wording, there could be no doubt about the real meaning of the decision. "On and after Tuesday 20 September 1949, you may resume dealings in any foreign currency in respect of which new official buying and selling rates are from time to time announced in London", McElligott informed the banks in a confidential circular on 19 September; "resumption of dealings may take place as such London rates are announced without further reference to this Department."[126] The smoothness of the transition, and the Department's confidence in the arrangements it had proposed as soon as the news of devaluation broke, were highlighted by the fact that the Irish banks and stock exchanges remained open on the Monday after devaluation which the British government proclaimed a bank holiday. This was the one respect in which Irish practice differed substantially from British in the immediate aftermath of the crisis.

The shock waves which the devaluation decision created in government circles did not immediately recede and, on 20 September, the government decided that the Departments of Finance, Industry and Commerce and External Affairs should submit memoranda on "the effects of devaluation and the further steps that it may necessitate".[127] In fact the government considered no fewer than six separate memoranda at a meeting on 28 September: one each from the Departments of Finance, Industry and Commerce and Agriculture and no fewer than three from External Affairs — one of which was the memorandum of the previous June which, significantly, seems only now to have been formally considered by the government. The Department of Finance had tried to achieve a certain consensus with their colleagues in other departments and the concluding paragraph of their memorandum pointed out that it had been prepared only after consultation with officers in Agriculture, Industry and Commerce and

the Central Statistics Office — the separate memoranda from these departments were relatively uncontroversial and almost exclusively devoted to the probable effects on prices of products which fell within their special preserves. The position of External Affairs was completely different: two of their officials, "Boland and Cremin, were with us right through the talks", noted McElligott for his minister, "and while concurring on most points, they prefer, for reasons which will emerge in their minister's memorandum, not to be included as agreeing with the Finance memorandum."[128]

A great deal in the two memoranda from External Affairs,[129] both dated 27 September, was given over to further criticism, both implicit and explicit, of the advice tendered by the Department of Finance throughout the devaluation crisis. The first (entitled "Possible Disintegration of Sterling Area — Steps to Safeguard Sterling Investments and Government Funds") suggested that foreign opinion was "very reserved" about the prospects of the British achieving their objectives through devaluation, and argued that "one of the most frequent criticisms brought against the monetary policies of Irish governments in the past is that the holding of all our external assets in a single currency exposed them to special risk and deprived them of the security they would have enjoyed if they had been more widely 'spread'." It proposed that the government should guard against the eventuality of the break-up of the sterling area by distributing their holdings over the currencies of the area's other members: "*it is merely a measure of elementary prudence* to ensure that our foreign assets are secured, not on the economic resources of the United Kingdom alone, but on those of the sterling area as a whole" — a belated recognition, in Finance's view, of the limited possibilities of diversification. The second memorandum contained MacBride's proposals for government action in the aftermath of devaluation. It began with an explicit rejection of McElligott's view put forward at the critical government meeting — that the increase in internal prices would be negligible — and a proposal that a government order be made "freezing the cost of all commodities". Other proposals advocated "immediate and drastic steps" to increase dollar earnings, including the provision of extra accommodation for American tourists and the appointment of Irish trade attachés in North America and Europe "to study market conditions and help to develop export trade"; that the government take legislative powers, which Finance denied it then had, to vary the parity between the Irish £ and the £ sterling (powers without which

"the Government is deprived of any control of the finances of the nation; this is both intolerable and imprudent"); an exhaustive review of the investment of government and Central Bank funds in British securities and their reinvestment "in development projects such as afforestation, drainage, housing and industrial development" (the details of this proposal necessitated, for example, the doubling of the afforestation programme); and, finally, the revision of the trade agreement with Britain.

Finance, on the other hand, took a line which was at once less pessimistic about the effects of devaluation and more pessimistic about how those effects might be countered; they concluded, for example, that "no great increase in income from dollar sources seems likely to be realised". In contrast to MacBride's development projects, the Department argued for the restriction of capital outlay "at a time when private savings will tend to contract and the raising of capital by borrowing will be more difficult and more expensive", and that

> . . . to curb the forces of inflation, which are likely to gain in strength, substantial economies in public expenditure, both current and capital, must be achieved and a firm stand must be taken against increases in wages, salaries and profits. Whatever increase there may be in the cost-of-living owing to devaluation must be accepted. It would only be aggravated by attempts by any section of the community to seek compensation through higher incomes or increased subsidies.

Finance also envisaged the necessity for further restrictions in currency facilities for dollar imports and warned against the assumptions that devaluation would lead to an early return to the convertibility of sterling or, if Marshall Aid ended in 1952, that there would be "any diminution of the difficulties which have been envisaged in finding the means of payment for dollar imports".[130]

The government marked time: its meeting of 28 September did not endorse any of MacBride's proposals but asked the Ministers for Finance, Agriculture, Industry and Commerce and External Affairs to "examine independently, and report to the government on, the question of the probable effects on prices in Irish currency of the devaluation of the pound." The Minister for Industry and Commerce was also specifically asked to examine the need for a prices standstill and to prepare proposals for the tourist industry. Finally, the Attorney General was asked for his opinion on whether the government was empowered under existing legislation to break the link at parity with sterling.[131]

Nor did these procedures produce a government mandate for MacBride's policies. The Attorney General's opinion was that there was "no power under existing legislation to depart from 'the existing par rate of exchange between Irish currency and sterling' " as laid down by the Currency Act of 1927. Indeed, the Attorney General, Cecil Lavery, went so far as to conclude that "Irish currency is sterling though taking the form of legal tender notes", after adverting to the fact that "the notes bear on their face the words 'one pound sterling payable to bearer on demand in London'."[132] Lavery's opinion was circulated, "for the information of the members of the government", by the Taoiseach[133] — a procedure which may well have been designed to obviate further cabinet dissension on the matter and which in any event had the effect of ensuring that the pressure to break the par rate with sterling was relaxed. Similarly, after an exchange of memoranda to the government on the likely effect of a devaluation on prices, the government finally "concurred in the opinion of the Minister [for Industry and Commerce] that no standstill should be imposed either on the prices of all commodities or on the prices of any particular commodities."[134] The government's decision coincided with the Finance view that, if the economies they had urged in their memorandum of 24 September were adopted, the increase in prices "should not be of such serious consequence, or be so sudden in its incidence, as to necessitate drastic action of any kind on the part of the government" which could be deferred "until trends can be more clearly discerned".[135]

But it should not be thought that the Department of Finance emerged from the devaluation crisis with its orthodoxies intact. For one thing, the main debate about MacBride's policies of development was carried over into the controversy about the use of Marshall Aid moneys, and here, as we have already seen, Finance suffered reverse after reverse. The devaluation crisis, indeed, was inextricably entangled with the latter dispute and had a catalytic effect upon differences of opinion on financial and economic policy, which had hitherto remained partially submerged. But much more than the tip of the iceberg hove into public view when, in October 1949, Seán MacBride delivered a series of lectures and talks (some on the radio, some to Clann na Poblachta audiences) which were published under the title *Our People, Our Money*.[136] Joseph Brennan felt one of those lectures amounted to "a public censure of the Central Bank" and protested to the Taoiseach and the Minister for Finance;[137] it may be safely

assumed that the reaction of McElligott and his colleagues was no more enthusiastic.

It is MacBride's own retrospective opinion that Finance's standing in the inter-party government suffered severely as a result of what he saw as their misleading advice prior to devaluation and that their influence upon government policy was thereafter very much weakened.[138] Such an interpretation is not borne out by the above account nor by the fate of the devaluation committee (set up at a government meeting on 11 October and intended to comprise the Taoiseach and Ministers for Finance, Industry and Commerce, Agriculture and External Affairs, officials from their respective departments, the Governor of the Central Bank, three university professors of economics, Bulmer Hobson[139] and a nominee of the Irish Banks' Standing Committee)[140] which seems never to have functioned.[141] What is undeniable, however, is that the devaluation crisis accelerated the polarisation of opinion in government circles on financial policy and this meant that the Department of Finance's advice was increasingly questioned, and sometimes rejected, by the government.

MacBride and some other ministers, notably James Dillon, were particularly suspicious of the operations of the Department's exchange control division which was responsible for processing Irish importers' applications for foreign exchange to pay for imports from outside the sterling area: in the quarter ending March 1949, for example, the division processed 11,000 such applications.[142] The exercise of these powers, MacBride believed, enabled Finance covertly to frustrate government economic policies to which the Department was opposed. One notable controversy of this kind was a dispute about the allocation of dollars for paper, about which Sarsfield Hogan, as the responsible assistant secretary, had been cross-examined at a government meeting on 8 February 1949. "The function of the government is to determine policy and not to have to spend hours ascertaining facts or in persuading officials to carry out the policy decided upon by the government", complained MacBride in a letter to the Taoiseach next day.[143] "To a large extent we are probably suffering from the ill effects of the inefficiency of our predecessors who, in many instances, appear to have let the machine run them. To a lesser degree we are also suffering, if not from deliberate sabotage, from lack of co-operation." MacBride stressed that "no degree of blame . . . in the matter attached to McGilligan, as Minister for Finance", since he "obviously had to rely on the advice of his officials and on the

accuracy of their statements". MacBride felt too that the war and currency problems had inevitably led to "a certain degree of control and interference with people's lives and business" which made officials feel "that they are all-powerful: in a great many instances they must inevitably make mistakes, as they cannot be experts, and are not trained to be experts in the businesses over which they are given such wide control." MacBride appealed to the Taoiseach and his colleagues

> . . . not to treat this matter as an inter-departmental row. I feel that some definite action is required by us to ensure that things of this kind will not occur again . . . it is essential that we should protect ourselves from having hours, and even days of government time unnecessarily wasted by such matters. Most of us are already overworked and it is very disheartening to have to face difficulties of this kind in addition.[144]

But the matter was not so easily disposed of and, in October 1949, MacBride again complained to the Taoiseach about a three-month delay in Finance's sanctioning an allocation of Canadian dollars to Independent Newspapers for imported paper — devaluation had taken place towards the end of the three months in question, causing a loss of over £8,000[145].

The scars of the devaluation controversy were doubtless largely responsible, too, for MacBride's taking the "strongest exception" to Joseph Brennan's reappointment as the Governor of the Central Bank in 1950 on the grounds that his "views, policy and acts . . . are in direct conflict with the policy of the government". His party, he said, felt similarly and, in an inter-party government, an office of this kind should be filled by an agreed nominee.[146] But MacBride's objections were in vain and Brennan's reappointment, on the Minister for Finance's recommendation, was duly confirmed. The Department's sensitivity to questions of banking policy in this period was underlined in November 1950 when McElligott suggested omitting some passages in Whitaker's draft of an address, to be delivered by the Minister for Finance to the Institute of Bankers, on liquidity and the unique Irish banking practice of investing almost the entire security portfolio in British government securities. The remarks in question, said McElligott, offered "a focus for attack by the many declared enemies of the banking system". It was, he suggested, "more our duty and our interest to repel such attacks rather than invite or encourage them."[147] McElligott's criticisms showed how the devaluation crisis exposed certain hitherto latent differences of opinion

within his Department, but McGilligan disagreed and observed that he particularly liked the passages in question, although he did accept that it might not be the most appropriate occasion to utter such sentiments. The passages were consequently watered down in the final draft.[148] The episode again illustrates the problems of a Minister for Finance caught between the conflicting pressures of advice proffered by his departmental officials and the contrary financial policies of his ministerial colleagues. Another example of this kind was the first capital budget in 1950 which provides us with the final landmark in the history of the Department during the first inter-party government.

V: The First Capital Budget

"One of the primary responsibilities of a government", declared McGilligan in his speech drafted by Whitaker, introducing the first capital budget on 3 May 1950,

> is to promote, by an enlightened budgetary and investment policy, the continuous and efficient use of national resources in men and materials. A sound economic system is an essential condition of progress but, unfortunately, the automatic working of economic forces does not guarantee that available resources will adequately and unfailingly be employed to advance the national interest. The modern democratic State is, therefore, rightly expected, not only to maintain the essential liberties of its citizens, but to take an active part in securing conditions favourable to their material well-being. This entails a continuous survey of the economic and social scene and effective intervention, not merely to protect the community against the worst effects of the periodic set-backs to which modern economies are subject, but to ensure that there is adequate capital investment to develop the national economy and to provide ample opportunities for productive employment. . .
>
> An opportunity is now presented for bringing together the estimates of capital outlay both above and below the line, in other words, for presenting a capital budget of the central government which will focus attention on the extent and nature of State investment. It is desirable that the public should know the extent and purpose of the investment which is being undertaken on their behalf, and that there should be adequate consideration of its financial, economic and social aspects.[149]

McGilligan's speech was "the first explicit expression of Keynes in an Irish budget".[150] The introduction of the capital budget was especially significant for the Department of Finance in as much as the initiative for the change came from outside, and not from within the

Department. Its origins lay in a major speech on economic and financial policy made by the Taoiseach, John Costello, to the Institute of Bankers in Ireland on 19 November 1949 when he declared that "the government must budget primarily to allocate a certain part of the nation's finances to public purposes, but must also ensure that the resources of the nation are utilised in the way which can best advance the interests of the community" and when he pointed out that "as long ago as 1936, the late Lord Keynes declared that the duty of ordering the current volume of investment cannot safely be left in private hands."[151]

The origins of Costello's speech, in turn, began with his private talks earlier that autumn with James Dillon, Patrick Lynch (then his economic advisor) and Alexis Fitzgerald (Costello's son-in-law and the most influential of the younger proponents of change in the Fine Gael party). Lynch's role, in particular, was crucial: a young assistant principal in the Department of Finance before the change of government, he transferred at the same grade to the Taoiseach's Department when Costello asked McElligott for an official to advise him on economic matters.[152] Although former heads of government were not precluded from seeking financial and economic advice elsewhere than in the Department of Finance — Professor Smiddy, for example, had acted for de Valera in this capacity on an *ad hoc* basis, particularly in the early thirties — Lynch's formal appointment was without precedent and was another witness to the emergence of the debate about economic policy as the great political issue of the post-war years. It testified also to Costello's conception of his own role as the mouthpiece of the inter-party government on major issues which might split the coalition — a role he also assumed, for example, in the direction of the government's foreign policy.[153] In short, the capital budget was too important a decision to be entrusted to the Department of Finance alone.

It is difficult to exaggerate the significance of Costello's speech. Although he, like all his predecessors who had headed successive Irish governments since 1922, was not an economist and had little or no specialised knowledge about the Department of Finance, never before in the history of the state had the head of government delivered a major speech devoted *exclusively* to the principles underlying his government's economic policy — a fact which is itself a remarkable testimony to that pre-eminence of political over economic issues to which we adverted at the beginning of this chapter. For Patrick

Lynch, who, in consultation with Alexis Fitzgerald, drafted the speech and who believed that the decisive problem confronting Irish economists was "not that we were living beyond our means but beyond our income", it was an unrivalled opportunity firmly to install Keynesian principles at the centre of the government's economic policy. His efforts, embodied in the speech, were strongly if ineffectually resisted by his former colleagues in the Department of Finance, with the exception of Whitaker and one or two others. Yet again, the reason why that resistance was ineffective was that their own minister was out of step with them, for McGilligan had been shown the Taoiseach's Bankers' Institute speech in advance and, after going through it word for word with Lynch, did not propose a single alteration of substance.[154]

McGilligan, then, as Minister for Finance, whatever the attitude of his senior officials, was a firm supporter of the new departure in economic policy which Costello's speech signified. A certain ambiguity had long characterised McGilligan's own economic ideas: he had, as Lynch himself was subsequently to point out, "repeatedly expressed his detestation of state encroachment on the preserves of the private individual. Yet, it was he who many years earlier had undertaken the Shannon Scheme as one of the first and the most successful of the more ambitious experiments in public enterprise in Great Britain or Ireland."[155] He was, moreover, much more an economist than any of his predecessors as Minister for Finance and, ever since the Dáil debates on the Central Bank Bill in 1942, the Labour Party "had half an idea that he was nearer to them than to his own party . . . though if anything it was he who had created, or at least given expression to, the Labour Party's post-Connollyite line on finance."[156] McGilligan was undoubtedly one of the earliest of Keynes's converts among Irish politicians and a file of press cuttings in his papers bears witness to his keen interest in the British debate about the need for increased state intervention in the economy from 1945 onwards. He was thus an obvious choice for the sensitive Finance portfolio in the inter-party government, as MacBride's prior knowledge and approval of his appointment shows.

McGilligan's officials in Finance thought him the most intelligent of the ministers under whom they had served until then, but they also recognised that "his shrewd, critical, questioning approach was hampered by the tensions of the Inter-Party Government."[157] The poor health which dogged him throughout his career was another handi-

cap, for it meant that he often missed government meetings: he was absent, for example, on both occasions when one of his officials, Sarsfield Hogan, was called upon by MacBride to defend exchange control transactions.[158] When he did attend, however, his contributions were among the most effective; indeed the secretary to the economic committee of the cabinet (Patrick Lynch) remembers how, even when ill at home, he could alter the nature of decisions taken on crucial issues when consulted by telephone.[159]

McGilligan used this committee — then the only one of its kind which worked in the British sense of a cabinet committee in as much as its recommendations were ordinarily accepted by the cabinet without further debate — most effectively in seeking compromises on divisive issues satisfactory to all parties in the coalition. And there can be little doubt that, with Costello and Richard Mulcahy the only survivors of the Cumann na nGaedheal government of 1932 to go into a wilderness from which they would not return, embittered, for sixteen years, he was particularly sensitive to the necessity for such compromises. His role as one of the linchpins of the coalition made him reluctant to propound the policies most favoured by his departmental advisors as frequently or as vigorously as they wished; what they would have regarded as the Finance case was thus lost by default. None of the ministers in charge of the important spending departments at the time — Norton, Everett and Murphy of the Labour Party at Social Welfare, Posts and Telegraphs and Local Government respectively; Browne at Health; Morrissey (an ex-Labour man) at Industry and Commerce or even James Dillon at Agriculture (not then a member of Fine Gael) — could be accounted party colleagues of McGilligan's in the fullest sense of the term, to say nothing of their not sharing his Cumann na nGaedheal background. The pressure upon Finance to loosen the purse-strings was thus complicated by the fact that, if McGilligan said no, he was often denying the demands, and sometimes the ideology, of a party other than his own, with all the consequences which that entailed for the unity of the coalition. This factor alone was not conducive to Finance's resorting to the traditional method of sending memoranda to the government in order to defeat policies originating in the spending departments.

The account of McGilligan's tenure of office as Minister for Finance currently favoured by historians — that he "belonged to the conservative Cumann na nGaedheal tradition in economics"[160] and that he "presided with stern austerity over the Ministry of Finance"[161] — is in

the context of the history of the Department of Finance, singularly misleading. On the contrary, the counsels of conservatism and austerity had never before fallen on such stony ground in the Department's history. While he differed from MacBride on such key issues as devaluation, the exchange rate and the repatriation of sterling assets, he was not readily persuaded to propound the orthodox Finance attitude at government level. So, "although McGilligan favoured rational proposals for repatriation . . . understanding the technical implications of the process, he was impatient with those who talked as if nothing more than a paper operation was involved in a transfer of assets from sterling to Irish currency."[162] If less radical than MacBride and others might have wished, he was at the same time less ready to imbibe the conventional wisdom of the Department of Finance than any of the former political heads of that Department.

CHAPTER ELEVEN

The Emergence of Planning

On 3 February 1951 *The Statist*, the London financial journal edited by McElligott until he came to the Department of Finance in 1923, published a sixty-four page supplement on the Irish economy. The supplement is an interesting record of the perspective in which government ministers, public servants, employers and trade unionists then viewed the country's economic prospects. Two articles are of particular interest for the light they shed upon the prevalent attitudes in the Department of Finance early in the decade which, as we shall see, was to prove the most turbulent so far in the Department's history. The first was by the Minister for Finance, Patrick McGilligan (drafted by Whitaker) on national finances. The second was an article on external trade and the balance of payments, again written by Whitaker but published anonymously. "A civil servant is somewhat inhibited in expressing himself publicly on current affairs", Whitaker had responded when asked to contribute this latter article and when he sought "the shelter of anonymity as a 'special correspondent' ".[1] His reply is itself illustrative of the gulf in attitudes which separated 1950 from the fanfare of publicity which followed the publication of *Economic Development* in 1958.

The review of the national finances began by pointing out that public expenditure then totalled £94 million, "or, say, £32 per head of the population" and that the average Irish income per head of population was about £120 a year, "only about half the British average". Taxation, on the other hand, totalling some £81 million, was notably lower than in Britain:

> . . . taxation of all kinds represents between one-fifth and one-fourth of the national income. This is somewhat less than in the United States and Canada, but is higher than in Switzerland. For Britain, the fraction is over two-fifths. Most people probably would not value the benefits of government as against all other good things of life even in the ratio of 1:4.

> Indeed, many economists hold that taxation cannot, without ill-effects, be allowed to exceed 25 per cent of the national income. Fortunately we are still within that limit, but when the upward trend in prices, in social services and in debt charges is considered it is difficult to find means of easing the tax burden or even of keeping it within present limits.

Whitaker then went on to review capital expenditure, giving details of the capital budget for 1950–51 which, he stressed, was the first time it had been "presented in a comprehensive form". The public investment programme it contained (envisaging "an outlay of £14.1 million for housing, £6.3 million for agricultural development (mainly draining and fertilising) £6.25 million for electricity and power development and £2.25 million for extension of the telephone system") was intended, he wrote, "to remedy economic and social defects for which underinvestment in the past in domestic resources has been largely responsible — unemployment and underemployment, involuntary emigration, impoverished land, industrial underdevelopment and bad housing."

The article laid particular emphasis upon the need to develop housing, agriculture and electricity and, while acknowledging the importance of the counterpart moneys available under the European Recovery Programme as a source of finance for the investment programme, cautioned against their proving "a potent cause of inflation". Investment should rather be financed from current savings and it was to this end that a national loan of £15 millions had been issued in September 1950, although the article gave warning about the need for "adequate real resources" as well as monetary resources "if the State is not to trench upon the supply of capital for private enterprise".

But despite these and other warnings — about possible disequilibrium in the balance of payments, particularly in relation to the dollar area, for example — the tenor of the article was sufficiently optimistic for it to conclude that

> . . . the national finances are, on the whole, in good order. Inflationary measures have so far been contained and production is on the increase. If there is a fair measure of order and stability in international affairs, Ireland can look forward with reasonable confidence to an expansion of production and employment and to a general improvement in living standards.

The article on external trade and the balance of payments was less sanguine about what the future might bring and revealed a situation where "the excess of merchandise imports over exports, was £69 mil-

lion in 1949, or roughly one-sixth of the total value of goods and services used in that year — the corresponding proportion for Great Britain was less than one-fiftieth"; where, again in 1949, Irish exports paid for less than half of imports, compared with three-fifths in 1939 and three-quarters in 1929, and where, consequently, only invisible income from tourism, emigrants' remittances and external investments made it possible to sustain the standard of living; where 90 per cent of the Irish export trade was with Britain; where "the volume of exports in 1949 was 10 per cent below the 1939 level and little more than half of that in 1929"; and where total agricultural output had been "virtually stagnant for the past twenty years" and was still below 1929 levels.[2] Given that emigrants' remittances were "essentially a wasting asset — they tend to dry up the longer an emigrant stays away" and given that the "spectacular tourist receipts of the post-war years" (£33 million net in 1948) were attributed "not only to the charms of Ireland as a holiday resort but to such special attractions as the relative abundance and variety of food, drink, tobacco and clothing at moderate cost" at a time when the British were faced by rationing and high prices at home and the absence of alternative holidaying opportunities on the Continent, the need for an expansion in trade exports was indeed "obvious". While the volume of trade exports had expanded during the past two years, the trade gap was widening because of higher import prices and "the stimulus to capital imports generated by the government's investment programme" to an anticipated deficit of £30–£35 millions.

Such deficits, Whitaker's article pointed out,

> . . . could not be sustained at all were it not that Ireland is a creditor nation and has also been in receipt of Marshall aid. The current rate of realisation of external assets . . . could not continue for many years without soon impairing the Irish standard of living and leaving the economy without any cushion against vicissitudes in its external trade and earnings. The fact that an expansion of exports or permanent saving of imports is unlikely to accrue to an adequate degree from the recent increase in imports is a disquieting feature from the point of view of the balance of payments.

No less disquieting was the increase in dollar debt at a time when more than half of the accumulation of sterling holdings during the war years (some £140 millions, "almost entirely the result of forced saving due to an acute shortage of imports") seemed likely to be

wiped out by the combined deficits of the years 1947–50. Despite the disparity between dollar earnings and expenditure which, it was hoped, could be best bridged by earnings from tourism, Anglo-Irish trading relations were still seen as the key to the balance of payments problem; Britain was described as the "nearest" as well as the "best" market and the two economies as complementary "to an impressive degree". Whitaker concluded that

> . . . a solution to the Irish balance of payments problem depends fundamentally on the expansion of the British market at fair prices and our ability to supply an increased demand at such prices through greater efficiency and productivity in Irish agriculture; it depends also, from the currency standpoint, on an adequate degree of convertibility of sterling into dollars.

In the opinion of the Department of Finance, then, the immediate outlook for the balance of payments (no less than for national finances generally) would be shaped by circumstances beyond its control, such as the stability of international relations and the strength of sterling. Hopes for the future founded on such preconditions did not long endure. The Korean War, which began in 1950, had a disturbing effect on world prices and international trade, and the so-called Korean "boom", centred on the United States, was followed by something of a recession in 1952.[3] The same year witnessed yet another major balance of payments crisis in the sterling area.

I: The Climacteric of 1951–52

Nineteen fifty-two, in the opinion of J. J. McElligott, was a singularly critical year in the history of the Department of Finance.[4] Another senior officer of the Department of that time, Sarsfield Hogan, independently volunteered a similar opinion: in his view, 1951–52 is a notable landmark in the period between the end of the economic war in 1938 and the origins of *Economic Development* in 1957, a time which saw the erosion of the concept of budgetary policy as a kind of annual, national housekeeping statement and which saw the first signs of economic planning in embryo; nor, believes Hogan, do these developments bear much relation to which party happened to be in government at the time.[5]

The ebb and flow of party politics, indeed, here demands further consideration if only because the years which form the subject of this chapter are in this respect unique: in a space of less than six years,

between June 1951 and March 1957, there were no less than three changes of government, the Fianna Fáil government which was in office from mid-1951 to mid-1954 being succeeded by the second inter-party government which lasted until March 1957. Still more remarkable, perhaps, was the unprecedented turnover of ministers presiding over the Department's fortunes at Merrion Street: no fewer than four in the same six-year period: Patrick McGilligan, Seán MacEntee, Gerard Sweetman and James Ryan. Yet Ryan, speaking in the Dáil two years after his appointment and curiously echoing Sarsfield Hogan's contention that the seminal developments of these years bore little relation to changes of government, quoted from four separate budget statements (one made by each of the ministers concerned) and defied his audience to distinguish between them. His claim went unchallenged, other than provoking the not unreasonable interjection, from Tom Kyne, that "the same man" in, presumably, the Department of Finance "must have written them all"![6]

Yet the politicisation of questions of financial and economic policy, which, as we have already seen,[7] began to gather momentum in the late forties, inevitably accelerated because of such frequent changes of government. Given the ever-increasing recognition of the pre-eminence of such policies in winning elections, it could scarcely be otherwise and one result was that the officials of the Department of Finance found that their advice to ministers was criticised increasingly in public in the unwelcome limelight cast by Dáil debate.

As early as March 1948, for example, in one of his first speeches after shedding the cares of office for the first time in sixteen years, and mindful perhaps of the reverses he had suffered because of the "Finance attitude" during those years, Seán Lemass delivered a remarkable "word of warning" to the supporters of the new inter-party government:

> Beware of the Department of Finance. It has always been restrictive of development. Under the Fianna Fáil Administration it was not successful because Fianna Fáil had its own policy and they went ahead with that policy and were undeterred by any impediments. With a Minister for Finance who has got the outlook of Mr McGilligan, the Deputies opposite should beware. They will find that any plans for development which they may have had in their minds coming into the Dáil will be lost, and lost for ever, in the dim recesses of the Department of Finance.[8]

So, too, three years later, did Seán MacBride (mistrusting "completely the view of the Department of Finance" and its allegedly

"complete subservience to the British Treasury"[9]) impugn the supposedly conservative background of Seán MacEntee as Minister for Finance and suggest that "he had to leave the Department of Finance before, more or less because of difficulties created on that score."[10] James Dillon, speaking in the same debate on the Supplies and Services Bill in November 1951 in valediction of the financial policies of the first inter-party government, referred in like manner to MacEntee and also to

> . . . certain officers of the Department of Finance, who constitutionally live in the shadow of the terror of imminent national ruin, and who were delighted in their hearts but consternated in their minds that the country that ought to have gone smash had not gone smash, that the country they always believed God had ordained to be poor . . . had managed to lift itself up a bit by its own boot straps and was finding it fun. In their hearts they were as glad as we were, but in their heads they felt that something had gone wrong, because all their fundamental beliefs persuaded them that the nation ought to have been running down, getting blowzy and showing all the signs of early dissolution.
>
> To their amazement, it appeared to be getting young and going places. . . . When they found these facts, even though they conflicted with the prophecies that had been so confidently made — true to the great tradition of the civil service of this country, the facts were reported to the government of which I was a member and there was no attempt to make them different from what they were found to be, no attempt to conceal that the facts as they were did not confirm the best advice we had been given and had chosen, after careful consideration, to ignore. That was the state when we left Upper Merrion Street.[11]

That the quality of the Department of Finance's advice to successive governments was now exposed to the full glare of the political limelight was still more clearly demonstrated by the remarks of both the Taoiseach, Eamon de Valera, and the leader of the opposition, John Costello, in their speeches in the same debate. Costello proclaimed that notwithstanding "the familiar wail of the Department of Finance to which we have been accustomed for so many years", he had "the greatest admiration" for the Department's officials

> . . . who have stood rock-like against the assaults of all sorts of queer characters in the shape of Ministers since 1922. They have had their point of view. They have . . . a very distinct, a very valuable function to fulfil in the machinery of government of this State. They are the watchdogs of public finance. It is their duty to point out certain dangers but it is not

their function to create economic policy. It is their function to work within the framework of a policy, economic and financial, devised by a government. It is their function to point out what they think are dangers but, having done so, it is their function loyally to carry out the policy of the government. I believe that the Department of Finance have done that. They have stuck to their wails and their woes and pointed to the fact that the country is going to become bankrupt. They come up smiling with government after government, Minister for Finance after Minister for Finance, who do not take their advice and do not bring the country down into bankruptcy.[12]

Costello's speech — which, it must be emphasised, was delivered *before* either MacBride or Dillon (the ministers most antagonistic to Finance control in the first inter-party government)[13] had spoken in the debate — was mirrored by de Valera's reply when he put on record his own view of the Department of Finance and its officials. While he acknowledged that it was "possible for anybody to dispute calculations which are made by the Department of Finance", he asked "what better expert advice can we . . . get than the advice of people who have had a long experience in the accountability of public money?" It was, he said, "commonplace for Deputies to abuse the Department of Finance" and he admitted that he himself had had his "own disputes" with Finance "over a long period of years", as, he was sure, had every other government. But, he continued,

> . . . as far as the officers of the Department of Finance are concerned, . . . my chief complaint against them is that they have been trying to be better than the government. But in their anxiety to serve the public weal, they have been constantly at pains, on every occasion on which expenditure is being contemplated for which the means are not obvious, to make that fact clear to the government. I think it is very good that they should do so. Surely no government wants to hide its head in the sand and to proceed in a direction in which there are dangers, if these dangers can be pointed out to them.
>
> It is the duty of the Department of Finance to point out to the Minister for Finance, if he does not see it himself, and, through him, to point out to the government, the direction in which they are going. It is for the government then, knowing all the facts which have been brought out by the Department of Finance, to take their line and to choose their policy in their wisdom even though it may not be in accord with the view of the Department of Finance. I am sure that has been done by successive governments. On more than one occasion, I think, we did it because we

believed that our judgement of the public weal was superior to the judgement of the Department of Finance.

I often thought that that Department was inclined to think too narrowly in relation to the financial side and did not take fully into account other considerations which must be taken cognisance of by any government that thinks upon the public weal as a whole... Surely, then, Deputies ought not to ride away on a pretence and act as if the Department of Finance and its officials were the enemies of the public.[14]

While these speeches are indicative of the new-found public interest in the fiscal and economic debate which characterised the late forties and early fifties, they are no less important for what they show of the similarity in outlook towards the Department of Finance on the part of the leaders of the two major parties; what James Ryan said about the difficulty of deciding who said what when he quoted from the budget statements of four different Ministers for Finance, applies with equal force to Costello's and de Valera's observations about the Department of Finance. Nor have the researches of the present writer into the Department's records indicated that the frequent changes of government in the nineteen fifties necessarily caused any drastic shifts of direction in the main course of events then preoccupying the Department's officials.

The Central Bank Report for 1950–51

Maurice Moynihan's *Currency and Central Banking in Ireland* admirably depicts the effects upon the Central Bank of what has been described above as the increasing politicisation of financial policy,[15] and any further lengthy discussion of such issues in these pages would be otiose. We have already seen, moreover, something of the suspicion with which the first inter-party government (and, in particular, Seán MacBride) viewed the Central Bank's activities.[16] Yet the 1950–51 report is of such significance, not least in providing us with a backdrop for the crises that were so soon to follow in 1952, as to merit brief examination.

It was the responsibility of the Department of Finance, through its minister, to circulate to the government copies of the Central Bank report. In 1948, this procedure caused the Taoiseach's Department to protest to Finance about the report being presented to the houses of the Oireachtas and being made available to the public "before being brought to the attention of the government", and to ask that, in future, the text of the report (other than the elaborate tabular matter)

should be presented to the government before publication.[17] Finance officials responded to this request by noting that there could be "no question of requesting the Central Bank to alter a report in any way before publication", although they readily acknowledged that their minister was fully entitled to circulate the report to his colleagues in government once he received it.[18] They consequently agreed that, in future years, duplicated copies of the report would be presented to the government in advance of publication.

But the precise relationship between the report's contents and the advice on financial policy proffered to the government by the Minister for Finance remained ambiguous. When, for example, the Minister circulated for his colleagues' information the proof copies of the report for 1949–50, his brief accompanying memorandum used the traditional formula that he desired "to draw special attention to those parts of the report which deal with the main facts relating to public finance, the balance of payments and the general monetary position" — an action which could hardly be interpreted other than as endorsing the Bank's traditionally gloomy warnings on these and related matters.[19] Moreover, it was the Minister for Finance's responsibility, under the 1927 Currency Act,[20] to present the report to the Oireachtas, and the view that the report's contents reflected Finance opinion seemed to be borne out by the legend "Roinn Airgeadais" which, until 1950, appeared on the cover of the published Central Bank reports.

It was probably no coincidence that this legend suddenly disappeared with the publication on 24 October 1951 of the 1950–51 report which led to such a prolonged furore that a Dublin newspaper could detect its reverberations a full two years later and could remark that "seldom since the Communist Manifesto has a slim volume produced such a medley of noise and heat".[21] Such was the gloom and pessimism which traditionally permeated the Central Bank's reports that the Bank had already earned the sobriquet of "the banshee of Foster Place"[22] and now that the banshee was in full voice and on the point of incensing ministers and ex-ministers more than ever before, the Department of Finance deemed it prudent to forswear its more clamorous cries. The last minute decision to remove the name of the Department from the cover of the 1950–51 report at the final proof stage was taken at McElligott's initiative because he felt "it gave misleading prominence to the Department of Finance. It is not the Department's report but that of the Central Bank which is an indepen-

dent body." McElligott also thought it desirable to avoid as far as possible a repetition of earlier differences with the Taoiseach's Department.[23] The timeliness of this move was demonstrated by the next month's Dáil debate on the Department's role, which has already been cited at some length and which treated no less comprehensively of the Central Bank's role — a debate in which Seán Lemass explicitly repudiated what he described as the Opposition's efforts "to tie the report of the Central Bank around the neck of the government".[24]

But if the events surrounding the report's publication testified to Finance's anxiety to stress its independence of the Central Bank, it would be foolish to imagine that the grave misgivings expressed in the report about the financial state of the nation were not substantially shared by the Department. The Minister's (Seán MacEntee) memorandum to his government colleagues[25] continued to follow the traditional practice of drawing their attention to some of the gloomiest passages in the report — passages pointing to deficits in the balance of payments of £30 million (more than treble that of the previous year) and of £86·8 million of trade imports over exports which, it was argued, were caused by "factors which have no self-adjusting character but . . . threaten to aggravate the disequilibrium along lines of open inflation"; passages claiming that "for the time being the nation is living beyond its means" and criticising increased government expenditure, especially on public works and subsidies; passages urging "fiscal measures to curb inflation, balance the budget and restrict improvident spending" as well as restraint in wage policy and restriction of bank credit; and a concluding passage arguing that

> . . . the present economic picture is one of high consumption, high investment (with insufficient early output of the character most needed) and low savings. These three factors in combination, when related to the factor of external disequilibrium, create a situation which if not effectively redressed entails continuing pressure against the Irish pound and its inevitable reflection in high domestic prices.[26]

Trend of External Trade and Payments 1951

The degree to which the Department of Finance shared the Central Bank's preoccupation with the balance of payments and the external trade disequilibrium may be readily ascertained from a comprehensive memorandum which they prepared for the new Fianna Fáil government a fortnight after it had been returned to office in June 1951.[27] The

salient features of the state of the economy were here summarised as follows:

> agricultural output still below pre-war; industrial output and employment considerably higher, but mainly as a consequence of state-aided building; merchandise exports at the 1938 level; the volume of imports, on the other hand, 43 per cent higher; deterioration in the terms of trade; a deficit in 1950 in the balance of payments (financed by external disinvestment) of £30 million, which was only partly offset by increased home investment and stockpiling;* consumption, particularly on non-essentials, much above pre-war; savings grossly inadequate to meet capital expenditure.

The 1950 statistics, in short, were susceptible of only one interpretation, and that curiously anticipatory of the conclusion reached in the Central Bank's report: "that the public and the government between them are spending more than the nation can afford. As the supply of goods is still relatively elastic and the external value of the Irish pound is fixed, this excessive spending has so far forced up imports more than prices."

Under these circumstances, Finance advised, budgetary policy should be used as a weapon to control inflation. The purpose of the budget should be reconsidered: it "should not merely be concerned with making the current receipts and expenditure of the government balance but should exercise some influence towards securing a *national* balance between income and outgo." Future budgetary proposals, as in Britain and the United States, should be designed "to correct whatever is shown to be amiss in the economy" (this is further evidence of the emergence of a more positive approach to budgetary policy). What was principally amiss was a continued deterioration in the balance of payments which might lead towards a possible 1951 deficit of £60 million and render "completely inadequate a budgetary policy contenting itself with an arithmetical balance between revenue and current outgoings". Finance's self-acknowledged "severe prescription" was that

> . . . all government expenditure, current and capital, should be met from the public in the form of current revenue or savings . . . necessitating a drastic increase in taxation. It may be beyond the reach of practical politics to impose a really adequate increase but, in recognition of what

*Fears that the Korean War might lead to shortages in essential commodities led the government to favour stockpiling.

> the situation calls for, taxation should at least be raised to a level sufficient to cover not only *all* current outgoings (with a due allowance for items not provided for in the Estimates) but also a substantial fraction of capital expenditure. This could at least be described as an attempt to control inflation and failure to do more could be defended by reference to the difficulties and uncertainties of the times. . . . There is . . . an urgent need to *control* the progress of inflation by fiscal means . . . reinforced by other measures, e.g., to prevent undue increases in prices, wages, profits and other incomes. The notion that, in present circumstances, a rise in the cost of living, due to higher external or internal prices, affords justification for a corresponding rise in incomes should be firmly repressed.

Within three months this bleak prescription had grown even bleaker with a revised forecast of a £70 million deficit in the 1951 balance of payments. "The sooner the better", minuted MacEntee when McElligott proposed that a further memorandum on external trade be circulated to the Government.[28] The memorandum pointed out that the trade deficit for the first eight months of 1951 (£92 million) had already exceeded the deficit for all of 1950; that this was principally due to heavier imports, which had increased both in volume and in price, while exports had declined in volume; that the volume of imports was 60 per cent higher than pre-war levels while the volume of exports were below those levels; that the rise in import prices would continue while "no significant improvement either in the volume or price of exports can be expected in the near future"; that the anticipated balance of payments deficit of £70 million was only in small part (£10 million) due to stockpiling; that only "a reduction in imports of consumer goods and materials" could relieve the balance of payments; and that this general picture of unrelieved gloom was not affected by domestic capital investment which appeared stagnant. The memorandum concluded that "the dissipation of external resources represented by the incurring of balance of payments deficits merely to boost current consumption" had greatly accelerated to the point where £50 million of national capital was likely to be wasted in 1951 compared with £18 million in 1950.[29]

The trends revealed in the Finance memorandum so impressed the government as to persuade them that it should be published as a White Paper. Dr Brendan Menton, the first economist appointed *qua* economist in the Department of Finance and the official largely responsible for the preparation of the memorandum, saw the decision as breaking new ground in so far as the memorandum was "primarily a

commentary on our trade and balance of payment trends" which would, he hoped, achieve "the object of instructing public opinion".[30] That that object was at least partially achieved by the publication of the White Paper on 23 October 1951 — the day before the more notorious Central Bank Report was published — is suggested by the comment of the economic correspondent who observed that "it revealed, as it was intended to reveal, the quality of the economic thought that informed the government's budgetary policy. Rarely has the official mind revealed itself so fully in Ireland."[31]

The Sterling Area Crisis of 1952

Balance of payments difficulties also lay at the heart of the sterling area crisis which broke at the beginning of 1952. The crisis was first foreshadowed early in November 1951 when the British Chancellor of the Exchequer, R. A. Butler, speaking in the Commons only a fortnight after coming into office as a member of Churchill's last administration, referred to the deficit in the sterling area's balance of payments in terms sufficiently ominous to cause Sarsfield Hogan to bring it to McElligott's attention.[32] Nor was Hogan reassured by talks he had in the Treasury on 13 December when he was asked for balance of payments estimates for 1951 and 1952 as part of a new Treasury scheme to build up "overall balance of payments estimates for the various sterling area countries" — a request he found embarrassing and yet difficult to refuse lest "refusal might be misinterpreted and lead to . . . disadvantages in obtaining satisfactory accommodation from the Sterling Area Pool."[33] The full dimensions of the crisis only became apparent in mid-January, however, when a secret Finance memorandum to the government revealed that the Minister for Finance had received a letter, "marked 'top secret and personal' ",[34] from the Chancellor of the Exchequer which emphasised "the gravity of the position of the sterling area owing to the heavy drain on its central gold and dollar reserves" and which hoped for Anglo-Irish discussions as soon as possible after the London conference of Commonwealth Finance Ministers scheduled for mid-January. The British feared that the 1951 gold and dollar deficit of the sterling area of some £410 million might accelerate in 1952 to the point where, by June 1952, the reserves would be reduced to $1,500 million — roughly the same level to which they had fallen at the time of the September 1949 devaluation. The sterling area's "present difficulties",

the Finance memorandum argued, were

> . . . more fundamental, more widespread in character and more critical than those which caused the crises of 1947 and 1949. On the earlier occasions the problem was primarily one of overcoming a severe and persistent deficit with the dollar area. Now the sterling area is faced with a drain on the central reserves arising not only from transactions with the dollar area but from transactions with practically all other countries as well.

Thus an estimated 1952 deficit of £325 million with the dollar area was complemented by a £420 million deficit with other countries. Ireland, it was argued, was "doubly interested" in preventing the further deterioration in the position of sterling, since it was not only "the currency in which the bulk of our foreign income is received but . . . the currency in which virtually all our foreign assets are held." The United Kingdom was the only country with which Ireland had a trading surplus and the convertibility of sterling was thus essential for the discharge of "large and growing deficits with the dollar area, with European countries, and, indeed, with every single country of the world other than Britain." If the international value of sterling collapsed completely and the sterling area system broke up, moreover, Finance suggested that "the immediate consequences for this country would be disastrous, with far-reaching effects on our standard of living, on the possibility of economic development, and on our demographic problem."

In addition, Ireland's own balance of payments crisis, as revealed in the previous October's White Paper, reinforced her concern with the similar difficulties of the sterling area as a whole. The conclusion reached by Finance was that, without British cooperation and the sterling area system facilities, she "could not meet trading commitments with the outside world"; and, consequently, if the sterling area system collapsed, she would be unable to finance "merchandise imports from non-sterling sources" which included such commodities as "wheat, sugar, timber, chemicals, fertilisers, coal, machinery, metals, animal foodstuffs, oils and fats, and petroleum products." The Irish balance of payments crisis was attributed "primarily to excessive national spending, itself induced by the financing of government expenditure on an unprecedented scale by inflationary means" and the deficit, although appearing small in comparison with the aggregate deficit of the sterling area, was described as "vastly excessive" in relation to external earnings and resources, with an "exceptional" dis-

parity between external earnings and expenditure "proportionately greater than even recent British experience".

"*The redressing of the basic disequilibrium in our balance of payments is our most immediate and vital problem*", the memorandum proclaimed, adding that "no alternative to budgetary measures exists which would be even partially effective" — measures requiring "the achievement of a better budgetary balance by increased taxation, supplemented by reductions in food subsidies and by the curtailment of government expenditure generally. Unless the inflationary gaps in both the current and capital budgets are closed, effective demand will continue to be inflated and no direct controls over imports or exchange restrictions can be expected to contain it."

But these latter controls were seen as a weapon with which the Department of Finance could and should immediately arm itself, and the memorandum proposed that the exchange control committee should be asked to make recommendations which would "reduce by, say, $5 million the net deficit on transactions with the dollar area during the first half of 1952" and on how ("without overt breach of our undertakings to OEEC" and to other countries with which Ireland had trade agreements) payments in respect of certain commodities from Europe "could be reduced by administrative action of the Department of Finance". Other proposals included the application of "a strict test of essentiality to imports and other transactions, before giving the necessary exchange control approval" in respect of non-European and non-dollar area countries, and the imposition of a £50 "basic foreign exchange allowance for holiday travel outside the sterling area". While the Minister for Finance emphasised that these measures could not "serve as a substitute for . . . fundamental corrective measures", he felt that they would indicate Irish "willingness to cooperate in the common effort to safeguard sterling" to other sterling area members.[35]

The government accepted these proposals at a meeting on 22 January 1952 when they also accepted the Chancellor of the Exchequer's suggestion that an early meeting be held. But that they did so only reluctantly, and with no great sympathy for the problems of the sterling area as a whole, was clearly reflected in a further decision taken at the same meeting, namely:

> . . . that an inter-departmental committee comprising representatives of the Departments of Finance, Industry and Commerce, Agriculture and

External Affairs should be established to examine the respects in which British policy in matters concerning Ireland's economic interests (for example, in relation to the supply of coal) has been detrimental to those interests and to present a report to the Minister for Finance, for submission to the government.[36]

The report of this inter-departmental committee (chaired by Whitaker and composed of two other representatives of Finance, two from External Affairs and one each from Agriculture and Industry and Commerce) was presented to the government on 7 February. Its contents were unremarkable: it contained little or nothing that was inconsistent with the advice given the government by Finance officials in the preceding months. While it analysed in some detail the British failure to meet Irish coal requirements in 1951 (as undertaken in the 1948 agreement) and acknowledged that the cost of making good the deficit (some 330,000 tons) by American imports was over £1 million, it also outlined at some length the British case "that they have not broken the agreement but have been prevented by circumstances outside their control from fulfilling their undertaking". Nor did they find "evidence of discrimination" against Ireland in respect of British exports of steel or other scarce raw materials.

In general, moreover, the report argues that

> . . . there is such a degree of economic interdependence between countries in the world today that the economic policies of particular countries — especially the major countries — are bound to react in various ways on others. A corollary of the close trading and economic relations between Ireland and Britain is that practically every aspect of British economic and monetary policy impinges in some way or other upon us. This is true of British policy even when concerned with purely domestic issues and it is impossible for us to insulate ourselves against its pervasive effects.
>
> The effects have not, however, been entirely disadvantageous. For instance, the low interest rates maintained until recently as a feature of British credit policy have influenced credit conditions here and enabled the government and private borrowers to obtain capital requirements on reasonable terms. We have had free access to the Sterling Area Pool for our foreign exchange requirements, including our dollar requirements outside the period of Marshall Aid. The post-war British policy of encouraging exports has made available to this country supplies of certain kinds of consumer goods greater than those available to domestic purchasers in Britain. On the other hand, British policy in regard to social welfare, full employment and wages has set headlines which have

stimulated demands for similar standards here and thus imposed serious strains on our economy. These, however, are matters of domestic policy in which individual countries claim to exercise sovereign rights.

Similarly, in the wider area of finance, while the report admitted that "it might reasonably be contended that greater concern should have been exercised [by Britain] in recent years for the interests of the sterling area as a whole" and pointed out that the British devaluation decision in 1949 "was taken unilaterally" and "that primary responsibility for the critical position of the sterling area reserves rests on the United Kingdom", nevertheless the ways in which Ireland had "contributed to the difficulties of the sterling area" were yet again reviewed.

On balance, then, the report found little evidence that British policy had been inimical to Irish economic interests and it concluded that, while "there may be instances ... in which we have been embarrassed by unexpected changes in British decisions . . . these do not constitute a genuine cause of grievance." The accused, in short, was acquitted.[37]

In the meantime the talks between the Commonwealth Finance Ministers had taken place and the Department of Finance analysed their outcome (on the basis of the official communiqué issued on 21 January) in another secret memorandum to the government. The communiqué, it was argued, would form the basis of the British position in the forthcoming Anglo-Irish talks and conveyed the message, first, that the crisis was serious and, second, that it demanded both immediate corrective action and a long-term policy. The immediate action would try to ensure that the sterling area as a whole would be in balance with the rest of the world (and above all with the dollar area) for the second half of 1952, while the long-term policy was "to make sterling freely convertible into all the main currencies of the world so that its position need not be supported by negative and restrictive methods"; such a policy envisaged a surplus with the rest of the world in order to build up sterling reserves to the point where free convertibility could be maintained.

The importance which the British attached to the forthcoming talks was also confirmed by the Irish Ambassador in London, F. H. Boland, who spoke of attending a luncheon at which the Chancellor of the Exchequer, had made a public if jocular reference to the fact that he was "looking forward" to meeting the Minister for Finance shortly

and "to 'having a very serious talk with him' ".[38] Boland, who stressed that he was "rather conservative in developing personal relations with the Treasury people so as to avoid crossing lines" with the Finance officials, saw the forthcoming talks as an important opportunity for maintaining personal contacts between officials and took some pains to this end in organising the social arrangements for the Irish party's visit to London.[39]

The Anglo-Irish talks on the sterling area position finally took place in London on 18-19 February. The Irish delegation consisted of two Ministers (Lemass and MacEntee) and six officials (including McElligott, Hogan and Whitaker from Finance) as well as F. H. Boland. The British team, headed by the Chancellor, R. A. Butler, was similarly composed. Butler's opening statement was much as anticipated by Finance in their memorandum to the government but two points which he made deserve particular attention. First, he went out of his way to give an assurance that in 1952 Britain would supply the full quota of solid fuel specified in the 1948 agreement, freely acknowledging that the Irish 1951 dollar deficit "had been inflated by the need to import American coal"; and, second, that the Irish estimate of their anticipated balance of payments deficit for 1952 (£50 million, "the dollar element being £22 million") was lower than the British had calculated. Butler finished by saying that if Ireland were to achieve the individual target, consistent with the sterling area's immediate aim of achieving balance with the non-sterling world in the second half of 1952, then their deficit would need to be reduced from £25 million to £10 million.

MacEntee's reply underlined what the government had already done to inform the Irish public of the gravity of the crisis but stressed that the problem was not merely financial but political: for instance, measures which would increase unemployment and emigration would be unacceptable. He regarded it as necessary "to give primary attention to positive measures, particularly in regard to exports, which would enhance Ireland's capacity to deal with her balance of payments deficit and avoid any kind of economic or social dislocation." He also specifically ruled out external borrowing, which Butler had tentatively suggested as a remedy. "External borrowing had already been tried and the Irish Government was not prepared to undertake it again; the dollar borrowings from the United States Government aggravated the problem of the Irish balance of payments in as much as heavy dollar interest payments would fall due from the current year

onwards" — a significant endorsement of the policy so frequently urged in vain by Finance officials during the years of inter-party government.[40]

But if MacEntee cavilled at certain of Butler's specific proposals and if he (strongly supported by Lemass's contributions on the undesirable political implications) rejected as impossible Butler's target of a £15 million reduction in the deficit in the second half of 1952, he nevertheless gave an unequivocal assurance "of Ireland's interest in the maintenance of the value of sterling and the improvement of its status as an international medium of exchange because of the pattern of Irish external trade and the extent to which Ireland's external resources are represented by sterling assets" — a statement which was incorporated almost verbatim in the agreed statement issued at the end of the talks. MacEntee also emphasised Irish willingness "to cooperate in measures designed to strengthen sterling and improve the prospects of an eventual restoration of sterling convertibility."

The difference between the two sides, then, was about means and not ends and the pattern of these exchanges during the opening session of the talks remained unbroken during the two remaining sittings. The Irish delegation refused to commit themselves to a specific figure by which they would reduce the deficit but indicated, as an earnest of their determination, their intention of introducing a particularly early budget, while continuing to stress (in a phrase of the Minister for Finance to the Chancellor) "that 'our interest in sterling is second only to your own'." The British seemed satisfied by this, even though they would probably have preferred to be given more detailed Irish proposals; and, while they warned that "the position was . . . so grim that unless targets could be agreed upon and achieved there might be no alternative but to ration supplies of foreign currencies", and to curtail draws on the reserves to the point of controlling capital movements, they did not press the point unduly. This was in line with Butler's stated preference "to regard the sterling area as a club . . . [where] members should agree on measures to safeguard sterling."[41]

But British pressure was soon intensified when, at 6 p.m. on 5 March 1952, the Minister for Finance received a special and secret message from the Chancellor through the British Ambassador in Dublin which said that "in view of the increasing gravity of the situation", he was going to announce in his budget statement on 11 March special new measures by which Britain intended to reduce her deficit and saying that he had asked other members of the sterling area to do

likewise. His message spoke of "considerable additional sacrifices" over those earlier envisaged and specifically proposed

> ... that the Irish Republic should accept as a target for the second half of 1952 a deficit with the non-sterling area at an annual rate of not more than £30 million and, within this, a deficit with the dollar area at an annual rate not exceeding £12 million. I know this will be difficult but I cannot overemphasise the gravity of the position.

The message, finally, asked for an immediate reply (not later than 8 March) which should state whether these terms were acceptable and whether the Irish government would announce publicly its acceptance of such a target and how it intended to achieve it.

Finance informed the government that the cuts that would be required by acceptance of the targets recommended by the British were the reduction of the originally estimated deficits for the second half of 1952 of £11 million (with the dollar area) and £14 million (with other non-sterling countries) to £6 and £9 million respectively. There was "no doubt whatever about the seriousness of the situation", the Minister for Finance told his colleagues; he accordingly sought authorisation to send a reply accepting the British dollar-deficit target and saying that, while he could not give "an unqualified assurance" that the non-dollar target could be achieved, he would do his "utmost" to do so. He sought government authorisation also to meet the British request for a public statement of the Irish government's position.[42]

The government duly authorised both requests when it met on 7 March — McElligott having taken the precaution of sending confidential and personal notes by hand to the secretaries of the three other major departments the previous evening, urging them to advise their ministers that the "line of action proposed by the memorandum, as deemed necessary by the Minister for Finance, is the right one to follow."[43] The Chancellor was informed of the Irish government's decision in a "top secret" message delivered to the British Ambassador at mid-day on 8 March which also suggested that any reference Butler might make to Irish intentions in his budget statement should be broadly agreed with the Irish Ambassador in London. In the event, the Minister for Finance, in consultation with the Taoiseach, effectively rewrote Butler's reference to Irish cooperation. The original British draft ("I have also received a heartening message from the Irish Minister for Finance who, I understand, will be making a state-

ment in the Dáil tomorrow") was deemed unsuitable (essentially because MacEntee did not like the term "heartening") and was rewritten to say that the Irish message was indicative of "the Irish government's appreciation of the gravity of the situation and of their determination to play their part in resolving it."[44]

MacEntee made his Dáil statement[45] on 12 March when he announced that "unless there is a radical alteration in the pattern of our trade, we shall not have the means to pay for non-sterling imports" and that the gravity of the situation necessitated, among other measures, the further reduction of the basic travel allowance to £25 for the next twelve months (a proposal incorporated in the Finance memorandum of March 6 and approved by the government only after some hesitation).[46] MacEntee's public acknowledgement of the gravity of the sterling crisis was significant for the response it provoked from the leader of the opposition, John Costello, who alleged that there were major divisions in the government's financial policy between "the restrictionist policy of the Minister for Finance and the expansionist policy of the Minister for Industry and Commerce" (he made much play with the fact that MacEntee and Lemass had travelled separately to the London talks) and who claimed that MacEntee "was suckled in a creed outworn since the day when Gladstone died". Costello protested that Patrick McGilligan's plans "for the development of this country have been set aside in favour of the Victorian concepts of economy and . . . the officials of the Department of Finance have triumphed over progress."[47]

While it seems doubtful whether the contrast between McGilligan's and MacEntee's tenure of office in Upper Merrion Street was as stark as Costello's remarks suggest (the advice of Finance officials had won widespread acceptance, for example, during the devaluation crisis of 1949),[48] it is indisputable that the government strongly supported the policy advocated by Finance at the height of the 1952 crisis. The government's continued support of that policy, moreover, was well illustrated by its endorsement of Finance's recommendation that the "parallel" talks planned between the British and Irish governments after the conclusion of the Commonwealth Economic Conference of December 1952[49] should take the form of informal discussions at official level.[50]

That the Irish delegation at these talks (held at the Treasury on 16 January 1953) was confined to Finance officials (Hogan and Whitaker) was a further indication of the government's approval of the

Department's policies, although it was to provoke something of a disagreement between MacEntee and Lemass about whether or not a report of the talks should be circulated to ministers as a matter of course. MacEntee took the line that the talks were confidential and proposed merely to report orally to the government in order to obviate the risk of leakages of information; Lemass felt strongly that the report should be made available without delay since it affected his "functions as Minister for Industry and Commerce".[51]

Nor can the success of Finance's policies in arresting the 1950–51 deterioration in the balance of payments be seriously questioned. By July 1953 Whitaker was able to report to a monthly meeting of the sterling area statistical committee that "the £62 million deficit for 1951 was reduced in 1952 to a mere £9 million" — the deficit with the dollar area fell from £23 million to £13 million (only £1 million in excess of the target proposed by Butler in his pre-budget message) and the deficit "with the non-sterling area as a whole . . . from £62½ million to £37½ million" (£7½ million over the Chancellor's target). Whitaker attributed this notable improvement to "better internal balance" due to: "the return of the public to more normal habits of spending and saving because of the lessening of international tension and the reversal of the import price trend; the reduction of the budget deficit; the tightening of import and exchange controls; the stimulus to saving of higher interest rates which . . . put a restraint on borrowing and spending" — factors, in short, similar to those operating elsewhere "under the influence of a general change in economic policy", although, more ominously, Whitaker conceded that Irish unemployment was such that it was already being questioned "whether the disinflationary process has not gone too far".[52]

The Budget of 1952

The principal weapon in the arsenal of the changed economic policy, to which Whitaker here referred, was the budget of 1952, one of such "unusual severity"[53] that it deserves closer attention. Finance's advocacy of such a budget was foreshadowed not merely in the balance of payments and sterling area crises, but in the memoranda on the financial situation which they had submitted to the government in June and September of 1951. A further memorandum, in October, highlighted the following "disquieting trends" which, in addition to the deterioration in the balance of payments, had accelerated in 1951: the "waste of external resources in current consumption" to the point

where "external disinvestment [was] likely to exceed even *total* domestic capital expenditure": "in sum, the nation is consuming rather than increasing its capital and savings in the net sense have disappeared". There were, Finance argued, three main causes of the crisis: the "deficit on 'current' budget"; the "method of financing and character and extent of State capital outlay"; and the "unwarranted increases in money incomes". The first they saw as "completely unjustifiable in conditions of inflation"; the second as "extensive . . . mainly of an unproductive character . . . [and] financed largely by inflationary methods"; and the third as unjustified in the light of rising import prices, which implied "a reduction in national living standards", and of the need "to avert further inflation". On the related, and perennially controversial, question of the repatriation of Ireland's sterling assets, the Finance memorandum had this to say: there was

> . . . no disagreement on [the] policy of repatriating external assets at a reasonable rate for genuine domestic development but a substantial reserve is necessary. The recent rate of realisation is excessive. For every single pound of additional State outlay on capital works in 1950 and 1951 many pounds of external capital had to be realised. A continuance of this waste would deprive us of our creditor status within a few years.

The lessons which Finance argued it was now necessary to draw were:

1. unproductive capital outlay should be financed to a large extent from taxation;
2. a higher proportion of the state capital programme should consist of productive works;
3. the more uneconomic and wasteful elements in the capital programme should be curtailed or abandoned;
4. items of recurring expenditure which tend to encourage extravagant spending, e.g. subsidies, should be reduced;
5. new commitments, whether of a capital or a recurrent nature, should be avoided.[54]

This memorandum of October 1951 served as a blueprint for the 1952 budget, introduced in the Dáil by Seán MacEntee on 2 April — then "the earliest date on which a budget has ever been presented in this State".[55] The budget abolished certain food subsidies (on tea, butter

and sugar) and reduced others (on bread and flour) in addition to imposing heavy extra duties on such staples as tobacco (6d on twenty cigarettes), drink (6d a glass on spirits and 3d a pint on beer) and petrol (4d per gallon).[56] MacEntee justified such unwonted severity in the economic survey with which he opened his speech and in which he echoed, often word for word, the forecasts which had been emanating from his Department since he returned to office the previous June. There is the same preoccupation with the balance of payments deficit; an emphasis on the need to increase production while restraining increases in money incomes; the warning against "excessive increases in consumption . . . mainly . . . in non-productive capital such as houses and hospitals", and against the perils of external disinvestment and of increasing imports. State expenditure, MacEntee emphasised, had "increased faster than national income" largely because of the expansion of the social services — "public finance, in fact, has become predominantly concerned with redistributing the national income", noted MacEntee revealingly in a succinct aside that could have found no place in any of his earlier budget speeches.

But it was to the balance of payments that MacEntee returned in concluding his review of the country's economic position, linking it with the need to cut consumption and increase savings. It could be readily appreciated, he claimed, "how unstable is the economic position and how precarious the livelihood of people who spend more than they earn and are not even maintaining the capital assets on which they rely for their current income except by running down their external assets and incurring indebtedness to foreigners." The only "road back to a healthy economy", he said. was "by way of increased savings, increased home production and, for the time being, reduced imports of consumer goods", and he forecast an accelerated "descent towards economic and social disaster unless (1) every individual who is in a position to do so saves a much higher proportion of his income and (2) the government comes much closer to paying its way". It was also important that the government "should not appropriate to public purposes an excessive proportion of the national income and resources." The state, he concluded, "can be said to play a neutral financial role, causing neither inflation nor deflation, only if it finances its activities out of the existing stream of private purchasing power"[57] — an observation which reveals something of the limitations of budgetary policy as then conceived by the Department of Finance.

The Struggle for Wage Restraint

An anxiety to restrain the rate of increase in wages and salaries had, as we have seen,[58] been a continuing concern of the Department of Finance since the end of the Emergency. During the years of inter-party government, for example, McElligott minuted his minister that the Taoiseach had spoken to him of his anxiety that the Departments of Finance and Industry and Commerce "should prepare the case" against the increases being sought by the Irish Trade Union Congress, indicating that while he was reluctant to intervene personally, "except as a matter of necessity", he would welcome being briefed in the matter.[59] The Finance brief, prepared in consequence of his remarks (one should recall here that the Department of Labour, within whose province such matters would subsequently fall, was not established until 1966) flatly rejected the three contentions upon which the ITUC case for a further round of wage increases was based: namely, a decline in the standard of living of wage earners relative to other sectors of the community since the pre-war period; an alleged increase in workers' productivity and the capacity to grant a wage increase out of excess profits. Furthermore, the Finance brief argued, the ITUC case ignored "the special benefits which wage-earners derive from the government's policy in regard to social services, subsidies and housing." It was acknowledged, however,

> . . . that even when a fall in the national standard of living is inevitable, certain classes in the community may be able to protect their own position or even better it at the expense of other classes. This it may not be possible to avoid by official controls or by taxation of excess profits; indeed it may have to be a feature of public policy to allow, as in the last emergency, a redistribution of the national income in favour of farmers so that essential food supplies may be maintained. In these circumstances, it can only aggravate the existing inflation to allow wages and salaries generally to rise in direct proportion to the cost of living.[60]

Similar considerations underlay the Finance viewpoint when, in the wake of the 1952 budget and its impact upon the cost of living, trade union leaders again began seeking wage increases. Whatever effect the budget might have upon the balance of payments, wrote McElligott to John Leydon at Industry and Commerce, "will be undone if there is a new round of wage increases adding millions to personal expenditure, including expenditure on imports"; the aim of the increases, the maintenance of "former consumption standards", would make it impossible to check inflationary pressures and, moreover, "further

wage increases might be gained only at the cost of a rise in unemployment".[61] Although Leydon, replying to a succession of letters from McElligott on the subject, took the line that, while he was "not arguing for all-round wage increases . . . we must realise what is happening and . . . another round is imminent",[62] McElligott insisted that its inevitability rendered it no "less regrettable from the point of view of our long-term economic interests. Mere passivity is the negation of responsibility; every influence should be brought to bear in favour of restraint and moderation. While no one has advocated a standstill, Ministers of Finance have been of one voice in counselling restraint"; and, in a passage again suggestive of the relative insignificance of changes of government upon the direction of financial policy in the early nineteen fifties, he then went on to compare what McGilligan and MacEntee had said on the matter. The chief villain of the piece, in his view, was "excessive government spending which, financed by the injection of new money into circulation, has created an artificial sense of prosperity and has bolstered up consumption standards at the expense of national capital."[63]

Finance continued strongly to urge the necessity for wage restraint and the restriction of government expenditure during the months ahead. In December 1952, for example, the Department submitted a confidential memorandum to the government which marked the beginning of a campaign to reduce civil service staffs;[64] and, the next month, they submitted a further memorandum on wages policy.[65] One notable illustration of how strongly Finance was pressing for retrenchment was a dispute which arose with the Department of External Affairs about the control of external trade. The dispute began in June 1952 when the Secretary of External Affairs, Seán Nunan, proposed certain reforms in the methods of communication between his department's missions abroad and the major economic departments at home about matters of trade and commerce.[66] Finance's response, in the form of a suggestion by Seán Moynihan, their assistant secretary on the establishment side, endorsed by McElligott, was "a much more drastic step towards rationalisation, namely, the winding up of the Economic Affairs section [of External Affairs] and the withdrawal of the department from the inter-departmental committees concerned with economic affairs"; the disappearance of the European Recovery Programme, Moynihan argued, merited the consideration of such a move.[67]

Although the proposal was not proceeded with (largely because of

Sarsfield Hogan who, through his work on the foreign trade and exchange control committees, had a closer working relationship with External Affairs officials than his senior colleagues in Finance, thought it "too radical a step"),[68] it was indicative, first, of Finance's restrictionist attitude towards External Affairs in the years after the expansionist policies practised by Seán MacBride at Iveagh House and, second, of the more general friction which external trade questions could cause between government departments. John Leydon, for example, responded to the revised procedures suggested by External Affairs in respect of how its missions might henceforth handle economic and commercial matters by indicating that External Affairs was "assuming functions which are the responsibility of this Department [Industry and Commerce], the Department of Agriculture and the Department of Finance"; this, he feared, would lead "to a certain overlapping with duplication of effort and staff."[69] McElligott, predictably, shared Leydon's fears and suggested that the revision of procedures

> . . . might be taken as an opportunity to review the whole position and clear the minds of all concerned. This Department would be anxious to see the maximum economy in staff, time and expenditure, and we would be glad to know whether any further saving in heads of staff at headquarters or abroad is expected to result from the short-circuiting of procedures.[70]

European Dimensions

Although a comprehensive examination of the formulation of Irish external trade policy in the early fifties cannot be undertaken within the confines of the present work, it is desirable to look quickly at two episodes which reflect the variation in attitudes between different departments towards external trade at a time when the movement towards European economic co-operation was gathering momentum. One was the attitude to be adopted by the Irish government towards the European Payments Union [EPU]; the other, the government's attitude to the proposed European organisation for the marketing of agricultural products, the so-called "Green Pool".

The European Payments Union, established in 1950 by the OEEC in conjunction with the Economic Cooperation Administration, posed two questions for Ireland: first, should she join; second, if she should, should she do so as part of the sterling area or as an indepen-

dent participant.[71] The then Minister for Finance, McGilligan, approved Sarsfield Hogan's recommendation that, while Ireland should adhere to the Union, she should "do so as a member of the sterling area and that for the purposes of the scheme our settlements will be conducted through the mechanism of the sterling area."[72] Controversy arose, however, about the terms of the reservation to be attached to the Irish signature of the EPU agreement. Finance took the line that they should sign in terms recalling her signature of the earlier, 1948, Inter-European Payments agreement which stated that "as Ireland has no payments agreements with other countries and is a member of the sterling area", the agreement required "no specific action" on her part and her signature was subject to "the understanding that its operation will not modify the existing arrangements governing payments between her and the other contracting parties." Having recalled this previous reservation, Finance argued that Ireland should do no more than state her adherence to the new agreement "as part of the sterling zone and not as a separate unit".[73] Seán MacBride, however, took a contrary view, proposing that Ireland should in addition retain the right to withdraw her reservation "should she at any time decide to become a direct participant in EPU."[74]

MacBride's proposal provoked strong opposition from Finance. What convertibility arrangements could be made, they asked, against a background of chronic deficits, when Ireland's only surplus was with the sterling area? They described the plan as "unnecessary, because presumably silence on the point at this stage would not prevent this country seeking separate status in the Union later on if that course were found to be expedient." Worse still, Finance felt, was that MacBride's additional phrase invited

> . . . speculation as to Ireland's motive for suggesting that she may at a future date wish to join the Union as a separate unit. It is not in Ireland's interest to encourage doubt in other countries as to her confidence in the sterling area system — . . . words. . . calculated to imply that at some time within the next two years or so Ireland may find it in her interest to abandon her present position in the sterling area and to seek new monetary relationships or arrangements with other countries. The Minister for Finance considers this to be a dangerous implication to encourage except for cogent reasons and in pursuance of a well-settled policy reached by the government, as a whole, after careful consideration of the many issues involved. . . .

may have serious adverse effects on government borrowing. . . [It] may, in incalculable ways, create an unfavourable atmosphere in financial arrangements with the British concerning our access to the sterling area pool and the realisation of sterling assets.[75]

McGilligan saw the matter as of sufficient moment to endeavour to enlist the support of the Governor of the Central Bank, Joseph Brennan, for his submission to the government; this was forthcoming, despite Brennan's doubts that Irish adherence to the former "would be as meaningless as was our signature of the Intra-[*sic*] European Payments agreement."[76] The government postponed a decision pending McGilligan's and MacBride's conferring together on the matter but in the event (as MacBride made no further representations) the Finance formula was accepted and formed the basis for the Irish signature of the agreement on 19 September 1950.[77]

The controversy over Irish membership of the "Green Pool" also involved MacBride who, as Minister for External Affairs, was the recipient of the original invitation at the end of March 1951, from the Secretary General of the Council of Europe.[78] The 1951 change of government had taken place, however, before Finance put on record their opinion that no "useful purpose would be served so far as this country is concerned by the creation of a European organisation for the marketing of certain agricultural products" and recommended that the invitation be declined.[79] But External Affairs urged acceptance of the invitation, while Agriculture took the line that, although they had "no confidence in the future of the plan and no intention of supporting it", their representatives should attend the conference at which it would be further discussed. Finance's objections, as outlined in Whitaker's memorandum, suggested that given "the difficulty of creating a single market for coal and steel in six countries of Europe", "a plan for the unification of the market for a wide range of agricultural products will take a long time to come to fruition"; there were doubts, too, whether, if the plan were to fructify, the Irish agricultural industry was strong enough to participate.[80]

The government finally approved Agriculture's proposal and an Irish delegation, consisting of officials from Agriculture and External Affairs and headed by the Irish Ambassador to France, duly attended the "Green Pool" conference in Paris between 16–20 May 1953. Their

impression, they reported to the government, was that "some kind of European 'Green Pool' organisation will probably emerge eventually, though without the executive powers originally contemplated." However, Finance, by now strongly backed by Agriculture, continued to argue against Irish participation, which External Affairs supported on the grounds of the Irish "commitment to assist the promotion of European unity and cooperation which the government have assumed as members of the Council of Europe and OEEC" — an argument scathingly criticised in a Finance minute as "reducible to a desire that we should have a finger in every pie".[81] But the External Affairs case (which, observed Whitaker, was "inadequately supported; in other words, *no participation*") failed as a result of a government decision of 3 July 1953.[82]

II: 1953 — The Departure of J. J. McElligott

"The end of an era", a phrase too commonly cheapened by overuse, can in full justice be called into service to describe the significance of 31 March 1953 when J. J. McElligott resigned as Secretary of the Department and succeeded Joseph Brennan as Governor of the Central Bank. The longevity of his command of the Department's affairs is, and seems certain to remain, unique: either the first or second in command for more than thirty years, McElligott occupied the office of Secretary for more than a quarter of a century. In the light of such a record, any attempt briefly to assess his contribution to the Department's history seems gratuitous since it would inevitably become a recapitulation of events already recounted in these pages. Thus it was McElligott who launched the first national loan, McElligott who advised the government on the international currency crisis of 1931, McElligott who was responsible for guiding politicians and civil servants alike through the shoals of the first change of government in 1932, McElligott who led the Irish delegation in the financial negotiations of 1938, McElligott who masterminded the special financial arrangements of the Emergency when he was appointed regional commissioner for the Dublin area in the event of an invasion, McElligott who advocated the establishment of a central bank from the late twenties on and who framed much of the legislation under which it was eventually established, McElligott who advised the government on the devaluation crisis of 1949, and so on — even the most cursory list of highlights seems unending. The tribute paid him

by one of his successors, T. K. Whitaker, on the occasion of his death is:

> J. J. McElligott's long tenure of office as Secretary of the Department of Finance was marked by tenacious adherence to the classical principle of curbing public expenditure and taxation. . . . He was more in sympathy with Adam Smith and Gladstone than with Keynes or Dalton. It now seems incredible that there was a reduction in government expenditure during the 1920s, that it was only £25 million in 1930, and we were taken through the Second World War with an aggregate of only £16 million in budget deficits. The formative work done in the early years by men like McElligott did much to establish the respectability and viability of the new State. His talents and influence were devoted unreservedly to the service of that State. . . .
>
> Tenacity of purpose and fearlessness in expressing his views were amongst his great qualities. He had a penetrating mind and a most enviable capacity to present his thoughts in perfect order and with classical precision.[83]

McElligott's readiness to present his political masters with what he knew was unpalatable advice couched in caustic and coruscating prose is, perhaps, the feature of his secretaryship which has left the most abiding impression upon the present writer: one has only to recall what he wrote about the 1937 Constitution and about Marshall Aid, to mention but two of the more memorable examples. That his cast of mind was overwhelmingly conservative is no less indisputable, although Dr Whitaker's treatment of this theme should be tempered by his own acknowledgement of McElligott's receptivity to constructive initiatives taken by the bolder of his more junior colleagues[84] — Whitaker's own rise to power in the Department, indeed, well testifies to this judgment. McElligott's conservatism must be treated, too, in the context of his time and, to this end, it is well to contrast the assessment quoted above with an assessment written some twenty years before (at the moment when he left Finance) which, historically, has the advantage of a perspective undistorted by that vogue of expansionism which was so to characterise the next twenty years. This earlier assessment did something to explain, if it did not gainsay, McElligott's conservatism. "To make ends meet does not come kindly to the Irish character", it suggested, and the fact

> that ends have met so long did not come by kindness, but by unremitting attention to every aspect of expenditure.

> This has left scars far and wide all over the civil service body, and outside it too. The zeal of those who wish to spend other people's money is great and unquenchable, and the taxpayer is not easily defended from it. But, if there were those who tired of defending the pass and withdrew, J. J. McElligott was not one of them. It must have been a weary business for Thermopylae did not last over a quarter of a century; yet, this defender remained active to the end. If integrity in the public service is to know one's job and to do it fearlessly in and out of season, notwithstanding pressure from every quarter, with all one's will and intellect, then here is the model ready made. There are many who, in deploring such single-mindedness, really deplore the cause it served. They might better deplore the lack of such single-mindedness in the service of other causes they would consider more worthy.[85]

Yet, as this same appreciation conceded, McElligott's "long reign, dating from formative years, embodies itself in the institution of the Department of Finance itself, and projects the personality of the Department's head"; and if his qualities — qualities like "orderly organisation, intelligence, analytical powers of a high order, tenacity" — were admirable, they were also essentially negative:

> . . . each of the other Departments has some brave initiative to its credit, something that has contributed to the building of our polity, but Finance that cleaves so singlemindedly to Parsimony, has no such initiative to show, yet Finance is at the heart of the matter and many believe that really dazzling opportunities lie there. The Department filters for itself nearly all the best brains of the civil service. Where better, then, can a brave, new blow be stuck? Even within the gates such thoughts have been entertained.[86]

A perceptive, almost prophetic passage, if one accepts that that "brave new blow" consisted of the publication of *Economic Development* before the end of the decade, but the time for the "brave new blow" was not yet at hand.

The Secretaryship of O. J. Redmond 1953–56

During the brief span between McElligott's protracted period of office and his succession by T. K. Whitaker, O. J. Redmond served as Secretary of the Department of Finance. Redmond himself did not expect that he would occupy that post: he was only ten months younger then McElligott who, in the normal course of events, was not expected to resign until 1955 when he would have reached retirement

age. In fact, Redmond had contemplated resigning himself in 1951, when he was sixty and when he had already spent forty-five years in the public service, and it was his intention to ask McElligott to arrange the procedures for the succession to his post as assistant secretary when making arrangements for his own resignation as Secretary.[87]

But what happened when McElligott moved from Merrion Street to Foster Place was far from the normal course of events, as Maurice Moynihan has demonstrated in his account of the events leading to Brennan's resignation as the Governor of the Central Bank.[88] What he has written need not be recounted here other than to note, first, that Brennan's departure, though long-threatened, was in the last analysis extraordinarily precipitate — he only learned that his resignation had been accepted by the government on the afternoon of the day from which it took effect;[89] and, second, that McElligott's own position (given his close personal friendship with Brennan, which extended over thirty years, and the political controversies surrounding the Central Bank in the early fifties) "was one of unusual delicacy".[90]

In these circumstances, the appointment of McElligott's successor as Secretary of the Department of Finance had to be announced immediately and it fell to Redmond as the most senior of the assistant secretaries. Thus it was that as late as 1953, Owen J. Redmond, who first entered the public service in 1906 as a fifteen-year-old boy clerk in the Office of Public Works, and who was one of the first half-dozen officers transferred from the old, British civil service in Ireland to the new Department of Finance established under the provisional government in 1922, climbed the last rung on the ladder leading to the highest post in the Irish civil service — a truly remarkable testimony to the endurance of the *ancien régime*.

The time when Redmond inherited the Secretaryship was, from a general financial and economic point of view, a most unenviable one: "these were to be the years of stagnation in which the unceasing struggle against inflation displaced economic growth as an attainable object of policy"[91] — when the slough of despond, ushered in by the crisis of 1951–52 and to endure until 1958, reached its nadir. By June 1953 Whitaker was already detecting, against the background of the marked improvement in the balance of payments and in the absence of evidence of inflation in government or private spending,

> . . . indications of the opposite character: high taxation and high interest rates are tending to depress economic activity and unemployment is more

> prevalent than usual. In the circumstances, no net curtailment of State capital works could be economically defensible and, the balance of payments situation being what it is, the banks can rest assured that any finance which they provide for State capital expenditure is extremely unlikely to necessitate any significant realisation on their part of sterling assets. In other countries the cost of the public debt is alleviated by the existence of a constant float of nominal short-term indebtedness to the commercial banks and there is nothing revolutionary in the proposal that the Irish commercial banks, who have so long been spared by fortuitous circumstances from having to make any large continuing loans to the Government, should now begin to follow the example of similar institutions in other countries.[92]

Whitaker expatiated further upon the necessity of exchequer borrowing from the banks to finance the state capital programme, in a memorandum to his minister some weeks later which emphasised that lending by the banks to the government in Ireland had always "been exclusively in the form of Exchequer Bills . . . [and] "strictly short-term — not continuously renewed as in other countries". A mere £$2\frac{1}{2}$ million in bills was then outstanding and "years have passed without any borrowing from the banks" who had not been "asked for a penny for Exchequer purposes" throughout the war — "a surely unique experience" which he contrasted with British, American, Canadian and Australian practice. The banks, Whitaker argued, must now

> . . . recognise the existence of a new situation. They have been spared for years by a chain of circumstances (war, Marshall Aid counterpart funds, successful loan appeals to the public) from having to finance the government other than on infrequent occasions and for relatively small amounts. They may expect to be called upon more often and for larger amounts in the future. They cannot plead any risk to themselves or their depositors so long as the balance of payments remains reasonably stable. They cannot establish that the State capital programme is too large or imposes an undue burden on national resources so long as it is carried out without unduly upsetting the balance of payments. They must realise that no government could cut down capital expenditure while the external balance is satisfactory but unemployment and emigration are relatively high. The days of mere *temporary* accommodation from the banks for State capital purposes are over; accommodation for the Exchequer will in future tend to be of a continuing and cumulative character, whatever its source or form may be.[93]

Whitaker pointed to the increase of £12 million in the banks' net external assets in 1952–53 as a further vindication of his arguments, arguing that "there would be even less justification for a further accumulation of sterling assets this year in view of the continuance of unemployment and emigration at a high level", yet such an outcome seemed probable unless the banks added to their lending in Ireland.

Whitaker's notably "more expansionary attitude" was explicable by his view that expansion became possible only when balance of payments difficulties eased. "Only then could the Keynesian approach (favoured since 1945 by younger officers) be *safely* adopted" and, until then, "foreign borrowing was virtually impossible and exports (still mainly agricultural) were dependent on British price and access policies in an era of constant British trade and payments difficulties and when sterling was largely inconvertible into 'hard' currencies."[94]

The criticism of the banks was not new — their investment policies, and that of the Central Bank in particular, had been sharply criticised by successive Ministers for Finance on different occasions since 1946 and the ensuing controversy had led to Brennan's leaving the Central Bank[95] — but the case against the banks was now given added point by a rapidly deteriorating economy. On 26 June 1953, MacEntee saw McElligott (this time as the Minister for Finance meeting with the Governor of the Central Bank) to urge that the Central Bank do what it could to "facilitate the financing of national development projects" by "monetising . . . Irish Government securities" and, in particular, by admitting them to the Legal Tender Note Fund. Such action, said MacEntee, "would allay the criticism that the banking system was standing aloof because of a preference for sterling investments, and would ease the problem of unemployment." But McElligott was unimpressed by the arguments of his former minister and colleagues (Redmond and Whitaker were also present), taking the line that inflationary forces were still present which made it inappropriate for the Central Bank to take an active part in "a further expansion of the monetary supply", and the meeting became little more than an amiable, if frank, exchange of views.[96]

The Cabinet Committee on the Provision of Employment

The quest for capital for development purposes and, above all, for the relief of unemployment was by now moving rapidly to the fore-front of economic policy priorities. On 25 July 1953 the Taoiseach, Eamon de Valera, issued a statement on unemployment enunciating

the principles of his government's financial policy, which he described as being "designed simply to attain two objectives":

1. to balance current expenditure, and
2. to bring down to reasonable dimensions the alarming deficit of nearly £62 million in our balance of international payments.

At the same time he denied "the suggestion that the government deliberately chose a financial policy designed to bring about unemployment" and the suggestion that they had ever followed "the deflationary policy which the Opposition have been endeavouring to attribute to them". He emphasised, too, his government's concern about high unemployment (the latest live register figure was over 57,000) and its intention of taking urgent measures to remedy it.

The Taoiseach's statement was swiftly followed by the submission of a memorandum to the government by Lemass arguing that "the fundamental cause of the persistence of abnormal unemployment and emigration in Ireland is the continuing low level of capital investment by private enterprise" and maintaining that neither the "expansion of investment in new production to replace imports" nor increased export prospects (which, in respect of manufacturing industry, were "not substantial enough to produce investment on an adequate scale") would solve the problem. In order "to escape from the present situation, and to bring about a rise in population and, with it, scope for an adequate expansion of investment by private enterprise, there appears to be no practical alternative to an enlarged programme of State investment" which envisaged the creation of some 25,000 new jobs. If the economy were to be given "the necessary boost", moreover, the programme "would have to be maintained over a considerable period of time, subject to variations in (1) the general employment position, and (2) the balance of payments position." To this end, it was argued, a special organisation should be established to finance and plan capital works, which would direct new employment to the areas where it was most needed and which, at the outset, might concentrate on "the provision of better highways and similar public amenities" at an annual outlay of about £10 million.[97]

The Industry and Commerce memorandum, initially submitted to the cabinet committee on the provision of employment, drew heavy fire from the Minister for Finance in a countering memorandum which argued that,

> . . . after the efforts of a quarter of a century to promote Irish industry and

develop the country's resources generally, it is a most disheartening doctrine that unemployment can be reduced in this still relatively undeveloped country only by public works — and public works of an amenity rather than a productive character.

It may be questioned whether the Minister for Industry and Commerce believes that our economy is viable. A negative view is indeed possible, especially in the present divided state of the national territory. But it is surely no remedy to set about dissipating our limited resources in providing artificial and unstable employment on works which will yield no continuing increase in production. To use savings, whether past or present, for additional amenity expenditure of which we already have a disproportionate amount) must lead inevitably to a fall in living standards for the population as a whole. It is a counsel of despair. . . .

The memorandum advocates increased State investment of an *unproductive* character in the hope of creating additional employment at the cost of heavier taxation and great risk to the country's financial stability. In its interpretation of existing difficulties it ignores the possible explanation that conventional expectations of incomes, social services etc., corresponding to those of a much richer country, are being satisfied at the cost of high tax rates and inadequate profits and savings, the effect of which is to discourage employment and private capital enterprise and, since emigration is regarded as a national evil, to throw on the State the obligation of large-scale domestic investment at the expense of external disinvestment. This obligation the State is already discharging up to, if not beyond, the limits of its resources. Whatever be the diagnosis, however, it is surely a fundamental responsibility to ensure that national resources are put to the most productive uses and not wasted in the creation of work mainly for work's sake.[98]

Frank Aiken (then Minister for External Affairs, but also, of course, a former Minister for Finance who renewed his acquaintance with the Department on several occasions in 1953 and 1954 because of MacEntee's absence through illness when he stood in as acting Minister for Finance) then joined the debate. He proposed the establishment of a National Development Fund, controlled by the Minister for Finance but financed by the banks on the basis of the Treasury deposits receipts scheme which ran in Britain during World War II. Such a fund, Aiken proposed, "should be drawn on actively for development work when the number of unemployed is abnormally large and when our payments abroad are in reasonable balance" and "very actively" when they were in surplus, and should be primarily devoted

to expanding agricultural production by encouraging farmers greatly to increase fertilisation.[99]

Aiken's proposal was approved by the cabinet committee on the provision of employment when they met to consider the three memoranda on 12 August and decided that the National Development Fund should be set up as soon as possible; that the amount of the fund should be £5 million a year for a period ending no earlier than 31 March 1957; and that the government, "on proposals submitted by the Minister for Finance", should decide how the moneys should be paid into the Fund, a part of which (to be determined by the Taoiseach) "should be set aside . . . solely for the purpose of financing projects designed to improve conditions in Gaeltacht areas" and another part (to be determined by the Minister for Finance after consulting with the Minister for Local Government) should be made over to the Road Fund. The expenditure of the rest of the fund should be decided after all proposals had been submitted to an inter-departmental committee, entitled the national development committee and established and chaired by Finance.[100] The Taoiseach made public these decisions in a speech two days later[101] and the Minister for Finance's subsequent efforts to reopen the matter at the cabinet committee failed. The national development committee was duly established under MacEntee's seal on 3 September and the National Development Fund Bill became law in March 1954.

This marked the first major reversal of the deflationary policy which had been followed since the crisis of 1951–52 — McElligott commented caustically that he found it "difficult to understand why the government having gone to great pains and incurred no little unpopularity to put the financial house in order should now abandon this worthwhile objective and pass bodily over into the inflationary camp"[102] — and it was seen in some quarters as indicative of a government decision "to modify the inflexible rigour of Mr MacEntee's financial strategy" and as evidence of the narrowing gap between the financial policies of government and opposition.[103] A gloomy memorandum circulated by MacEntee to his colleagues on the budgetary position in the autumn of 1953 in the wake of the National Development Fund decision and of the relatively disappointing result of the flotation of a £25 million 4½ per cent national loan that autumn (the public subscribed £16.3 million and the banks, "by arrangement", another £5 million) appears to have had little impact and it was withdrawn from the cabinet agenda at an early date.[104]

One other part of the work of the cabinet committee on the provision of employment deserves attention: proposals introduced by Lemass, and opposed by MacEntee, for tax-free allowances in respect of the capital cost of industrial and commercial buildings. The proposals involved a tax-free allowance of 30 per cent in 1953–54 for capital expenditure "on the building or improvement" of such premises, to be reduced to 20 per cent and then to 10 per cent over the following two years, and "an annual depreciation allowance not exceeding 2 per cent of the initial cost". Finance opposed the scheme for a variety of reasons: it would mean a loss of revenue of £1.8 million over the three years, which "must be met by increasing the tax burden on other classes of the community"; the reliefs would be haphazard and inequitable, even between entrepreneurs — "the more enterprising, who had built or improved premises before the concession was given, would be penalised"; it "would not ensure any permanent increase in production or employment" and the loss of revenue would be "too great . . . to warrant its being considered even as a temporary stimulus to employment in the building trade". It was also felt that it would provoke a succession of demands for other tax exemptions.[105]

The cabinet committee decided to refer this proposal to another, special committee which the Minister for Finance would immediately establish (and which had been foreshadowed in his budget statement of 6 May 1953) to deal with the much broader question of the effect of taxation on industrial production. This, again, had been a brainchild of Lemass who had put up a memorandum to the government in January 1953 on the effects of inflation and the incidence of taxation on industry, which advocated, among other things, initial tax-free allowances for all firms for expenditure on capital equipment and the liberalisation of depreciation provisions. This earlier memorandum had also been opposed by Finance, but the Department was now powerless to prevent the establishment of the Committee of Inquiry into Taxation on Industry, although they did succeed in excluding the specific question of tax-free allowances for the capital cost of industrial and commercial buildings from the committee's terms of reference, on the grounds that to include them would prejudge the more general question. Although the committee (formally appointed on 9 October 1953), which included employers, trade unionists, accountants and economists and which was chaired by Cearbhall Ó Dálaigh, did not produce its report until 1956, its establishment was yet another

indication of the growing attention being paid to problems of capital investment.[106]

III: The Second Inter-Party Government

Early June of 1954 saw yet another change of government and the appointment of a new Minister for Finance. Gerard Sweetman, who, a fortnight after his appointment, submitted a harsh memorandum to the government which, both in form and content, bore a striking similarity to MacEntee's memorandum of the previous autumn. "It has been repeatedly affirmed", asserted the memorandum,

> . . . as a fundamental principle of government policy that current outgoings should be met from current revenue, in other words, that recourse should not be had to borrowing in order to defray current expenditure. A departure from this policy would be unsound and would damage the credit of the State. Even if there were no objections in principle to borrowing for current services, the magnitude of the existing borrowing programme for public expenditure would in itself be a sufficient practical difficulty. Exchequer borrowing requirements were estimated in the budget at a net £37 million — the same as in 1953–54. Actual borrowings last year came to £33 million (net) but even this lower figure was much in excess of the public savings entrusted to the government.[107]

The memorandum included, as an appendix, a confidential circular (1/54) on the cost of public administration, which had been sent to the heads of all departments before the change of government and which ordered "a rigorous review of the services and personnel of all departments":

> Every aspect of expenditure must be critically examined, all procedures carefully scrutinised and any charge on public funds that is not absolutely essential must be eliminated or retrenched; the review should cover economies that would require revision, even drastic revision, of policy to give effect to them. The objective is to secure a substantial easement of the tax burden on the community.

That objective, with its concomitant austerities, was now fully endorsed by Sweetman who asked his colleagues in government "to give their immediate personal attention to this matter so that significant economies will be achieved as soon as possible." He further suggested that the government should review progress as soon as possible

and that, "in the meantime, to prevent any worsening of the situation, a stay be put on all proposals involving increased expenditure", other than those to which the government was already committed.

The government might have changed — although the abstract reference to "a fundamental principle of government policy" did not denote even that; the message emanating from the corridors of Finance clearly had not. The new government were sufficiently persuaded by Sweetman's memorandum to decide that each of the estimates "should be examined forthwith by the Minister immediately concerned and the Minister for Finance in consultation, with a view to reaching agreement on the economies to be effected, both in current items and in voted capital services."[108]

But the results of the economy drive, a later Finance memorandum recorded, were "derisory" — a mere £130,000 of "genuine economies" which came nowhere near balancing the £2 million of additional expenditure necessitated by the increase of the butter subsidy by 5d per pound and by an additional £0.9 million pay award to the public service which would put the budget in deficit. The prospects for 1955–56 were "still less favourable".[109]

But the crisis of 1956 exceeded even the expectations of the Department of Finance. Another marked deterioration in the balance of payments resulted in a deficit of £35 million for 1955, while the net external assets of the banks fell by almost the same amount in the same period. The ensuing debate between the Minister for Finance and the Governor of the Central Bank has been well chronicled by Maurice Moynihan[110] and it suffices here simply to note that the crisis had so worsened by March that the Minister for Finance was constrained to speak of Ireland's being in the grip of a "world-wide inflationary tornado" which had forced the government to decide "that the only reasonable and effective action open to it was to impose on a wide range of less than essential consumer imports a special import levy designed to make those imports dearer so that less of them would be bought." The levy, which was to come into effect from midnight on 13 March and which involved no fewer than sixty-eight new taxes, was imposed under the Emergency Imposition of Duties Act; and, although Sweetman emphasised that its aim was "purely to redress the balance of payments and not to increase still further the protection already enjoyed by Irish industry", his disclaimer did little more than underline the parlous state of the Irish economy.[111] The budget proper, introduced two months later, was in the same mould and brought

about heavy increases in taxation (notably on cigarettes and petrol, as well as in betting and entertainment taxes); the estimates, noted Sweetman, have "been cut to the minimum consistent with the provision of essential services, the maintenance of employment and the development of our resources."[112]

This was the background against which Whitaker, in a paper to the Statistical and Social Inquiry Society of Ireland entitled "Capital Formation, Saving and Economic Progress",[113] attempted to blaze a trail for the radical new departures in policy which characterised the years ahead. Although Whitaker introduced his paper with the conventional disclaimer that the views expressed therein were "purely personal", the fact that he was just on the point of being made Secretary of the Department of Finance gave it an added significance. There was a marked contrast between what Whitaker himself had been saying in 1953 and what he was to say in 1956 and in the future.

He had taken pains in 1953, for example, "not to give an exaggerated impression of the extent of [the Department of Finance's] influence in shaping the course of the economy . . . while we strive not to make adverse trends worse, but rather to correct them, we do not imagine that by financial policy alone the whole face of things can be changed for the better." He had been concerned, too, to emphasise the limitations of planning, arguing that

> . . . even in those countries where the early post-war devotion to *planisme* was greatest, there had been a reconsideration of the effectiveness of the budget as an instrument of economic policy. Its economic and, perhaps what is even more important, its political limitations having been realised, there is now a general tendency to rely more on the ordinary price mechanism for the adjustment of demand and supply. . . . There is now a wide appreciation of the difference between the closed economy in which Keynesian principles could most safely be expected to work and the open economy exposed to world conditions and balance of payments vicissitudes. It was found, in fact, that the savings forced from the community in some countries by high taxation yielding budget surpluses were not net savings but were offset by dissaving in other ways and by inadequate provisions for private capital replacements and extensions. And though there is still, in principle, a lot to be said in favour of budgeting for a surplus in times of inflation and budgeting for a deficit in times of depression, can anyone be confident that such a policy could be consistently operated, at least in countries where governments depend on uncertain popular support?[114]

Whitaker's approach and emphasis in his 1956 paper was much more positive and his "principal conclusions" demand quotation in full:

1. To avoid losing ground in the improvement of real incomes by comparison with other countries, particularly Britain, and, indeed, to maintain present consumption standards without drawing on capital, our national product needs to be enlarged and a greater proportion of it devoted to capital formation. Failure to keep pace with advances in Britain is a stimulus to emigration.
2. The raising of output in agriculture and industry should have a higher priority in the allocation of savings. The utmost use should be made of means of raising output which are sparing of capital so as to make savings go as far as possible and thus relieve the immediate sacrifice in consumption.
3. The building up of national capital and consequently the improvement of national living standards depend (a) on the most productive use of savings and (b) on an increase in current savings. To the extent that our limited supply of savings is applied to objects other than a permanent increase in production, a drag is imposed on material progress and the opportunities for self-sustaining employment are restricted.
4. Saving and production should be encouraged and excessive consumption discouraged. As saving is largely a function of income this means primarily that capital development of a *productive* character should be stimulated. There should be a liberal attitude towards profits to encourage their expansion and use for productive purposes. Assistance to agriculture and industry should be directed specifically towards the development of productive capacity.[115]

One may here detect in embryo many of the ideas that were to be elaborated during the coming months and, particularly, within the pages of *Economic Development*, by Whitaker and his colleagues in the Department of Finance; it is noteworthy, indeed, how frequently the phrase "economic development" (and such synonyms as "economic growth" and "economic progress") recur in the paper which might, perhaps, have been more felicitously entitled *Economic Progress*. Here we are no longer cautioned against believing "that by financial policy alone the whole face of things can be changed for the better": now the tenor of Whitaker's argument is that things not only can, but must, be changed.

In such circumstances it was curiously apt that, on 30 May 1956, Whitaker became Secretary of the Department of Finance upon the retirement of Owen Redmond. Whitaker's elevation, which con-

travened the hitherto sacrosanct principle of seniority, caused a fluttering in the dovecots of Merrion Street, although the man most directly affected, as "successor-in-waiting", Sarsfield Hogan, "accepted Whitaker's promotion with a gentlemanly generosity".[116] Yet Whitaker's whole career in Finance had been exceptional, so much so, indeed, that one is reminded of Sir Henry Robinson's remark (about John Anderson) — "once in a blue moon the open competitive examination for the civil service brings to light a man of his exceptional type who no power on earth can prevent from sprinting like a flash to the top of the ladder."[117] Whitaker had impressed his superiors from the moment he first entered the Department, through competive examinmation, as a junior administrative officer on 1 June 1938 (having first entered the civil service in October 1934 as a clerical officer in the Civil Service Commission) and when it could already be deemed "particularly noteworthy that in each of the four open competitions Mr Whitaker had obtained first place."[118] One of his first assistant principals similarly recognised him as possessing "extraordinary" ability and "a very clear incisive mind."[119] In May 1943, after only five years in the Department, he was promoted as an acting assistant principal at the same time as three other officers with service much longer than his; and, exceptionally, when he was next promoted in 1947 his substantive rank was still only that of an administrative officer.[120] Although Whitaker's final promotion, the formal responsibility of Gerard Sweetman, has been attributed to his being the "one executive in Finance who could talk the Minister's language"[121] (and Whitaker himself has suggested that the fact that he and Sweetman were contemporaries made for an easier relationship between them),[122] the decisive proponent of his appointment was probably another, former Minister for Finance (and the then Attorney General), Patrick McGilligan.[123] Indeed, ever since Whitaker's close relationship with Aiken as Minister for Finance,[124] his position in the Department's finance division had rarely brought him far from the centre of things.[125]

Whitaker's first months as secretary saw a further acceleration of the crisis. The "stark background" has, in general terms, been well portrayed by John A. Murphy as

> . . . a period of unprecedented gloom and depression. No longer could the state of the economy be attributed to colonial misgovernment or wartime restriction. Economic growth was non-existent, inflation was apparently

insoluble, unemployment rife, living standards low, and emigration approaching 50,000 a year, a figure not far below the birth rate. Even some who were securely employed threw up their jobs to seek a new life in countries which held out brighter prospects for the future of their families.[126]

Finance saw matters little differently and, less than two months after Whitaker's appointment, Sweetman, introducing what the opposition not unreasonably chose to describe as his third budget in four months, told the Dáil of "a matter of the gravest national importance", dictated by the continued absence of "a marked increase in saving" and of "any significant increase in output". He proceeded to analyse the crisis "in simple terms": the major problem was that "production does not support the purchasing power yielded by . . . money incomes", too high a proportion of which was being used to satisfy "immediate wants and desires", leaving too little for productive investment. The domestic output of goods and services was too low to satisfy demand, and capital and past savings were being absorbed by the "large volume of goods . . . imported to satisfy our inflated purchasing power." The result, declared Sweetman, was that

> . . . past savings are vanishing and that sufficient current savings are not being made to finance all the capital works needed to develop the economy. Although the level of capital investment is below that of more developed countries, resources which represent the forced saving of two world wars have been largely wasted instead of being used exclusively and carefully to increase our productive capacity and so provide a firm basis for higher living standards.
>
> We must face the unpalatable truth that, without a radical change in the situation, we cannot enjoy much longer the artificial standards to which we have become accustomed, since the external reserves to which we owe these standards are steadily running out. Unless our present purchasing power is upheld by an immediate increase in production, we must accept a temporary reduction in that purchasing power now, or suffer a wholesale and drastic reduction in imports in a very short time, with dire effects on industry, trade and employment.[127]

The measures which Sweetman announced to achieve this end included a £5 million cut in government expenditure and further swingeing increases in import levies. What was at stake, he concluded, was no less than "our economic independence. If we should

lose this, the political independence we have achieved would be a mere façade."[128]

The Capital Investment Advisory Committee

The government's longer-term strategy to end the crisis finally became clear at the beginning of October when the Taoiseach made a major speech on the economy to an inter-party meeting in Dublin. The government's policy, he announced, was based on six basic principles:

1. to favour investment in agriculture over all other forms of investment;
2. to favour and encourage private investment to supplement and relieve the pressure on public investment;
3. to favour home investment rather than foreign investment;
4. to favour high investment in Ireland based on high savings;
5. to encourage all kinds of exports; and
6. to achieve the desired results by cooperation rather than by compulsion.

The decisions which the government had made, and which the Taoiseach now made public, related to almost all aspects of the economy and the majority of them fall outside our terms of reference. Unquestionably the most important from the viewpoint of the Department of Finance was the decision

> . . . to establish a capital investment committee which should be small in numbers and expert in quality to survey, analyse and evaluate by sectors the existing capital structure of the economy, and to consider and — with full regard to the interests of the national economy — advise the government on the volume of public investment from time to time desirable, the general order of priority appropriate for the various investment projects, and the manner in which such projects should be financed.[129]

The Taoiseach's speech was soon endorsed by a speech by the Minister for Finance in which, while he continued to insist that the restriction of imports was "the only immediately effective way of restoring a balance in our external payments and preserving national solvency", he placed a more positive emphasis upon increased production as "the most desirable way of closing the gap and enabling us to pay for all the imports we would wish to have."[130]

The effect of the government's decisions was immediately felt in the Department of Finance when, on 22 October 1956, Sweetman sent

Whitaker a list of the matters arising out of the Taoiseach's speech which he felt demanded the Department's attention. They included — apart from the capital investment committee — tax concessions to encourage coal production, an export tax incentive, new factory building grants, new industrial buildings tax allowances and the creation and issuing of prize bonds by the Minister for Finance[131] — legislative provision for all of which was made under the Finance (Miscellaneous Provisions) Bill which became law in mid-December.

It was Sweetman, too, who took the initiative in respect of the establishment of the capital investment advisory committee. He had decided, he informed Whitaker in a minute of 20 October 1956, after "some discussions" with his government colleagues, to invite John Leydon to chair the committee as a "representative of financial interests"; General M. J. Costello and Kevin McCourt, as representatives of agricultural and industrial interests respectively; Ruaidhri Roberts, the Secretary of the Irish Trade Union Congress; and two economists, Patrick Lynch and Louden Ryan. No fewer than six of the nine appointees to the committee were named in these initial minutes — an "outside" economist (Professor C. F. Carter of Queen's University, Belfast), William Bland (the chairman of the Agricultural Credit Corporation) and C. K. Mill (a director of Arthur Guinness) were also appointed. The committee, therefore, did not include a single representative of the Department of Finance other than one of its joint secretaries, Brendan Menton. This was because it was "an external advisory committee which, in principle, should not include those in Finance who already advised the Minister"[132] — a principle which had not informed the Finance attitude to the composition of the committees and commissions of earlier decades.

The committee's inaugural meeting was held in Government Buildings on 14 December 1956. The Minister for Finance was present and informed the committee that he regarded the deficit in the capital budget anticipated for 1957–58 as the "immediate problem" to which they should turn their attention and it was arranged to make available to the committee on a confidential basis documents relating to the formulation of budgetary decisions.[133] Sweetman hoped to have the committee's opinion in time to assist the government in framing the 1957–58 capital budget.

The committee presented its first report, on 22 January 1957, in just over a month. It concentrated in this report on the capital budget for the coming year without prejudice to its longer-term plan to "con-

sider the desirable volume and composition of public investment and the manner in which that investment should be financed". The report concluded that the government measures to restrict imports in 1956 had been largely effective in reducing the deficit in the balance of payments but emphasised that the present position of the balance of payments was "very precarious" because of

(i) an overall budgetary deficit on capital and current account;
(ii) credit creation by the commercial banks;
(iii) a decline in private saving;
(iv) an appreciable increase in stocks;
(v) an upward movement in money incomes not matched by an increase in the volume of production;
(vi) an adverse movement in the terms of trade.[134]

The report concluded that the deficit on the capital budget should not be tackled by a reduction in the capital programme (which would lead to further unemployment) that the banks would find it difficult to meet further demands for credit creation without reducing the accommodation available to the private sector, and that a surplus on the current budget could not be hoped for. The "sole remaining method of finance", therefore, was to reduce current Exchequer expenditure and this was what the report proposed, notably through the abolition of subsidies on butter, flour and wheatenmeal.[135]

Shortly afterwards there was another change of government and a new Minister for Finance, James Ryan, took office on 20 March 1957. It is impossible for the historian to assess at this juncture, when the political archival material upon which such a judgement might be based is not yet available, whether MacEntee's translation from Finance to the Department of Health reflected a shift in financial policy, but it should be noted that Ryan's previous ministerial experience had been in Agriculture (1932–47) and in Health (1947–48 and 1951–54), two of the larger spending departments. In any event Ryan decided to circulate the committee's first report to the government, which approved his proposal that it should be published.[136] Some weeks later the government agreed that the committee should be invited to proceed with its inquiries and present a second report as soon as possible.[137] But this report was not presented until the end of the year, when the Department of Finance's own revolutionary analysis of the economy, which was to lead in due course to the publication of *Economic Development*, had already been set in motion.

IV: *Economic Development*

Basil Chubb, in the course of a review article entitled "Treasury Control and Economic Planning" published in the autumn of 1956,[138] observed that it was

> . . . high time that we paid conscious attention to the development of our economic planning and coordinated arrangements. When we do, one thing will surely stand out — if here in Ireland the pattern and temper of Department of Finance control resembles that of the British Treasury, the claim of the Department to the same coordinating role in economic planning will be as strongly based as it will be inevitable.

It was not long before Finance was turning its "conscious attention" to just these problems: at a meeting with the assistant secretaries in mid-May 1957, Whitaker "mentioned the need for some thinking being done in this Department about the future economic development of the country." He had, he said,

> . . . already initiated some inquiries on the agriculture front which I hoped would enable us to set down objectively the facts of the present situation and provide some guidance on future economic policy. . . .
>
> As regards possible developments, whether privately or publicly financed, in the field of industry and tourism, it is also desirable that this Department should do some independent thinking and not simply wait for Industry and Commerce or the IDA to produce ideas.
>
> One of the biggest problems is how to reshape and redirect the public capital programme so that, in association with developments in agriculture, industry, etc., it will provide *productive* and *self-sustaining* employment. This is urgent because of the inevitability of a sharp decline over the next few years in employment in social investment — housing, sanitary services, hospitals, etc. It would be quite inimical to national progress if the vacuum were to be filled simply by public works or building projects of an unproductive character.

This meeting agreed to set up a departmental committee of assistant principals to study such matters and to prepare, it was hoped before the following September, "a thorough study (a) of the employment and other implications of the probable decline in social investment and (b) of the possibilities of initiating productive developments, wholly or partly financed by the State, and thus generating a permanent and self-sustaining increase in employment." Whitaker even then had "in mind that the results of this study will be placed before Ministers and,

so far as may be thought proper, be communicated to the Capital Investment Advisory Committee."[139]

Here, then, were the bare bones of *Economic Development* and, in particular, the insistence, first found in Whitaker's paper of the previous year and repeated, almost verbatim, in the introduction to *Economic Development*:

> There is no conflict between what are termed 'socially desirable' and 'economic' objectives. 'Socially desirable' objectives will not be permanently realised merely by increasing 'social' investment. The erection of houses, schools and hospitals — socially desirable in themselves — will, of course, provide employment but the employment ceases once the period of construction is over and the unemployed man is left with facilities which, if he remains unemployed, will contribute but little to his standard of living.[140]

The concern to reduce non-productive capital expenditure, and replace it by productive capital expenditure was paramount and, even before its internal departmental report had been prepared, Finance launched an intensive campaign to that end. "The test to be applied to any head of capital expenditure at the present time", stated a secret Finance memorandum for the government on 8 July 1957, is

> (a) whether it provides a direct return on the capital invested equivalent to the corresponding debt charges, or
> (b) even if it does not provide such a direct return, or only does so in part, whether it will yield an adequate increase in national output and thus be regarded as productive of self-sustaining employment. . . .
>
> It is not enough to show that a project may yield an increase in national output or may produce self-sustaining employment. It must be shown, in addition, that the capital investment involved would not, if directed to alternative projects, yield greater national benefit. The ratio of productivity to capital cost must be as high as can be secured in any other form of investment.
>
> In accordance with these criteria, it was suggested that the immediate emphasis, for example, should be on the improvement and adaptation of existing buildings (in respect both of public buildings and private and public housing) as opposed to new building; "enhancement of public amenities, e.g. sanitary services, roads, etc., should be curtailed . . . in keeping with present national resources" and replacements (of schools, for example) deferred until "absolutely

necessary". The Minister for Finance, in conclusion, urged all his government colleagues to switch "capital outlay from non-productive to strictly productive purposes" and told them he had arranged to have this problem examined in his own Department as well as asking the Capital Investment Advisory Committee to continue with its inquiries; he announced also his intention of seeking the advice and assistance of the International Bank for Reconstruction and Development (World Bank) on this matter[141] — another striking new departure, the implications of which we must now examine.

Irish admission to the IMF and the World Bank did not, as we have already seen,[142] take place until 1957. The process of application for admission had been initiated under Sweetman as Minister but, like the work of the Capital Investment Advisory Committee, continued and completed after Fianna Fáil's return to office; Sweetman, indeed, as Whitaker has observed,[143] was a singularly unfortunate Minister for Finance in as much as his government was overthrown before the "ideas which he implemented could bear fruit". Ryan and Whitaker, together with McElligott as Governor of the Central Bank, attended their first annual meeting of the World Bank in Washington in mid-September 1957. Their visit was an eventful one, since the Bank of England increased its bank rate from 5 per cent to 7 per cent while they were in Washington — a move described by Whitaker as a "bombshell" because of its implications for the terms of the national loan which his Department were about to launch.[144] There followed a flurry of transatlantic communications between Whitaker and his senior colleagues and between Ryan and MacEntee (then the acting Minister for Finance).[145] But the real significance of the Washington visit was the hope it offered for the injection of external capital into the Irish economy.

The presentation of the Irish case fell to the Department of Finance, and its memorandum for the information of the World Bank was yet another of the reviews of the strengths and weaknesses of the Irish economy which were by now beginning to come thick and fast.[146] Unemployment, emigration, the balance of payments deficit and other unhappy characteristics of the economy all figured prominently in the Finance description of the economic background. "The process of transition, which commenced with the establishment of the Irish State, from a predominantly agricultural to a balanced economy is still far from complete", concluded the memorandum; "the acceleration of that process" and the task of "overcoming the sluggish rate of increase

in production in agriculture as compared with other European countries" were supremely important. The provision of "expert technical advice and assistance" in the agricultural sphere was essential. "Further industrial development", on the other hand, was "largely a problem of inducing the necessary import of enterprise, technical competence and capital." Most existing industries had grown up "behind a protective trade barrier" and their potential for development was limited since there was little chance of their developing export markets. It was therefore essential "that the new industries to which further development must be directed should be competitive in export markets and capable of withstanding the challenge presented by the proposals for the European Free Trade Area." The task of reshaping the capital programme, and the steps already taken in that direction, were then outlined.

"The expansion of the Irish economy in the last thirty years", the memorandum concluded,

> has depended on and has been financed in the main by national savings. These savings have not been sufficient to cope with the requirements of an under-developed economy and, at the same time, to meet the arrears of social development needs, mainly housing, which faced the Irish State on its establishment. The rate of progress could be considerably accelerated by an inflow of external capital directed to types of development which would increase the country's productive capacity and which would bring with them new techniques and methods. The Irish government would welcome such investment.
>
> Ireland has the significant advantages of political stability, a plentiful and adaptable labour supply, ample power resources and an extensive transport system. No difficulties are presented from an exchange control point of view where investments are concerned. Dividends, interest and profits on all investments may be freely transferred to the foreign investor's country in the appropriate currency. Capital may be repatriated at any time in the currency in which it was and this right also extends to appreciation of such capital.

This, then, was the kernel of the Irish case as presented by the Minister and Secretary of the Department of Finance to leading officials of the World Bank in Washington on 23 September 1957, when they asked that a World Bank "survey mission" be sent to Ireland in May or June of the following year. The object of such a mission was not so much to provide a general economic survey — "the Irish economy had already been surveyed *ad nauseam*" minuted

Whitaker wearily — as to give "advice and assistance . . . in switching our public investment programme over to more productive lines".[147]

But several crucial developments were to occur before the World Bank mission's visit to Ireland took place. On 4 November 1957 the Capital Investment Advisory Committee presented its second report — or, rather, a majority report on the subject of housing (chosen "because it forms roughly one-third of the whole State capital programme") — which recommended that the Rent Restrictions Acts be "progressively repealed", that new building be reduced "to an economically justifiable level" and that local authorities "apply differential rents to all tenancies"; and a minority report, signed by General Costello and Ruaidhri Roberts, which was strongly critical of their colleagues' views.[148] The reports were presented to the government on 10 December 1957, although the implications of the controversy between the committee's members caused the government to hesitate for six months before finally approving their publication.[149]

It was early in December also that the Minister for Finance wrote personal letters to his cabinet colleagues appealing "for a special effort to economise in every possible way, including costs of administration", in order that a sustained effort might be made to "reduce the heavy burden of taxation". This, wrote Ryan, was "the greatest fillip that could be given to economic development and progress".[150] Later in the same month Ryan sent his colleagues a draft memorandum on non-productive capital expenditure (which included a list of suggestions for reduction in borrowing for non-productive purposes) with an accompanying letter which pointed out "the simple fact is that far too large a proportion of our so-called 'capital' expenditure is making no pretence at paying its way and has merely become a permanent and increasing charge on current revenue." This aggravated budgetary difficulties, argued Ryan, and rendered it almost impossible to reduce taxation and thereby give "the economy that most beneficial shot-in-the-arm. . . . Even if I have to dismiss as an illusion the idea of doing positive good, I must have regard to the fact that if the problem of unproductive borrowing is not tackled immediately positive economic and financial harm will result."[151]

But the prospect of "doing positive good" was enhanced by another, more celebrated event which also occurred in December 1957, for it was on the 12th of that month that Whitaker sent up to

Ryan his seminal and celebrated minute which led directly to *Economic Development.* This minute, unquestionably the most highly publicised in the Department's history, following its publication in the first appendix of *Economic Development,* recorded what Whitaker had already said to Ryan privately "about the desirability of attempting to work out an integrated programme of national development for the next five or ten years", which, he believed, would be critical "for the country's survival as an economic entity". The arguments Whitaker then adduced are too well known to need repetition in full. What is most significant about the minute in the context of this history is, first, its positive, national perspective and, second, the remarkable change of role it explicitly envisaged for the Department of Finance. Concern that "the absence of a comprehensive and integrated programme is tending to deepen the all-too-prevalent mood of despondency about the country's future", concern with "the psychological value of setting up targets of national endeavour" and with the need "to harness the enthusiasm of the young and buttress the faith of the active members of the community" — these were matters at a far remove indeed from the traditional preoccupations of the Department of Finance. Yet, "feeling that the central position of the Department of Finance gives us a special responsibility for studying how economic progress can be promoted", Whitaker looked towards the production of "a coherent and constructive document bound by a realistic appraisal of the resources likely to be available rather than by Departmental allegiances"; otherwise, he admitted, "an official of the Department of Finance would find rather strange the role of advocate rather than critic of new forms of expenditure!"

Not the least revolutionary aspect of *Economic Development* was the speed with which the decisions upon Whitaker's proposal were taken. The original minute to Ryan, dated 12 December, was sent to the government on 16 December and approved by them at a meeting the next day, formal approval being conveyed in a letter from the Taoiseach's Department, dated 18 December. The whole process took less than a week — a tribute to Whitaker's success in persuading his political masters of the urgency of the situation.

On the same day Whitaker wrote personally and confidentially to the heads of the other departments enlisting their support and cooperation for the study and informing them that the government had decided that he should "have free access for information, advice and assistance" to their departments. On 19 December, Whitaker wrote to

the team of assistant principals on the departmental committee who had just completed the report initiated the previous May on the reshaping of the capital programme, arranging for talks on how to integrate their work with the "wider scheme".[152]

The officers responsible for the preparation of the departmental report in 1957 (S. Ó Ciosáin, M. Horgan, D. Ó Loinsigh, J. Dolan and T. Ó Cofaigh) went on to play an important part in the preparation of *Economic Development*, as did Dr Brendan Menton and M. F. Doyle (an administrative officer who for some months was assigned to this task to the exclusion of other duties). But, while recognising Finance's central coordinating role in preparing *Economic Development*, one must also recognise the contribution from other areas of the public service. As early as the dark days of July 1956, for example, Charles Murray, then an assistant secretary in the Taoiseach's Department, asked External Affairs to ask the Ambassador in London to make "discreet enquiries" about the British Economic Planning Board.[153] Murray, coincidentally, entered the civil service on the same day as Whitaker[154] and had collaborated with him in preparing information "relevant to the determination of future policy in the economic sphere" before Whitaker's celebrated submission to the Minister for Finance;[155] he was also Whitaker's principal collaborator in the preparation of *Economic Development*.

Whitaker, moreover, went out of his way to stress the cooperative nature of the venture in his letter enlisting the aid of the secretaries of other departments: "I look upon this work", he wrote, "as an effort by the public service to make a contribution to national development". The replies he received suggest that his appeal had struck a common chord, sometimes in quarters which had all too frequently in the past found themselves at loggerheads with Finance (and would so find themselves again in the future). The Secretary of the Department of External Affairs, Con Cremin, for example, readily acknowledged that Finance had a special and central responsibility in the matter and described the initiative as "both well timed and calculated to meet a real need";[156] a similar spirit of whole-hearted cooperation informed Finance's liaison with other departments throughout the preparation of the survey. This spirit seems to have owed much to the sense of emergency precipitated by the traumatic experiences of the mid fifties and, in particular, by what the 1956 census revealed about the unprecedentedly high level of emigration. The preparation of *Economic Development* was, for the participants, *sui generis*, a response to no

single major issue but rather to the stagnation that seemed ubiquitous.[157]

Such attitudes doubtless go far to explain the extraordinary speed with which the project was completed. By 3 January 1958 Whitaker had already finished a first draft of the first two chapters which set the scene for the report as a whole. By 11 January he was in a position to send a first draft of the third chapter (on financial and monetary policy) to McElligott for his comments — in itself interesting evidence of the continuity between their respective secretaryships. "Nobody else has seen the draft — or will see it — until I hear from you", Whitaker told the man under whom he had served for so many years. Others who played a significant part in the process of consultation were M. D. McCarthy (the head of the Central Statistics Office) and the three economists then serving on the Capital Investment Advisory Committee — Carter, Lynch and Ryan.[158]

By 9 May a proof copy was ready and a printed copy was circulated to the government on 29 May. The government decided at its meeting the next day that the first draft should be examined by all departments and state-sponsored bodies as a matter of urgency and that the Minister for Finance should submit a draft amended in the light of their observations to the government meeting of 1 July.[159]

Finance had, in the meantime, been encouraged by the World Bank's unofficial reaction to the first draft of *Economic Development*. On 30 May 1958 Louis Rasminsky (formerly a colleague of T. J. Coyne's in the League of Nations, who had visited Ireland when Aiken was Minister for Finance, and was now the Canadian executive director of the World Bank and of the IMF who was looking after Irish affairs on the executive boards of both bodies) had discussions in Dublin with Whitaker and McElligott which "centred on the question — how can the World Bank help Ireland?" Whitaker "explained that, unlike many less developed countries, Ireland had power, transport facilities, public services, houses, hospitals and a general infrastructure on a scale which was reasonable by Western European standards and which would support a higher population and intensity of economic activity than at present"; Ireland's need was a "more 'productive-superstructure' to improve standards of living at home, provide more employment and stem emigration." How, he asked, could the World Bank "supplement in any way the possibilities of development" outlined in *Economic Development* (a copy of which Rasminsky had been given in confidence) and, in particular, how could Irish capital resources be supplemented by borrowing from

the World Bank? While Rasminsky, who offered his congratulations on the "completeness and objectivity" of *Economic Development*, emphasised that anything he said represented only his personal opinion, he was generally optimistic about the prospects of an Irish loan application.[160]

Immediately afterwards, between 4 and 13 June, Benjamin King (a senior economist on the World Bank's staff) paid a more elaborate fact-finding visit to Dublin. Following an extensive series of interviews with officials in Industry and Commerce, Agriculture, Lands, the Central Statistics Office and the Central Bank, the ICC and the IDA, as well as with Finance officials and the members of the Capital Investment Advisory Committee (whose third report, on the general effect of investment, had just been presented to the Minister for Finance), King gave it as "his personal view, which he felt would be shared by his colleagues in the Bank . . . that . . . *Economic Development* and the principles set out in the Capital Investment Advisory Committee's report constituted a reasonable approach to the task of improving Ireland's economic position." King also assumed that *Economic Development* would be published and "stressed the desirability" of the government's preparing "a comprehensive, integrated programme or plan, looking five or ten years ahead" which, he felt, would make "for clear public understanding of policy and orderly progress in carrying it out." He said, too, that such a programme would be a necessary prerequisite for the Bank's consideration of any appeal by Ireland for aid "in the event of serious balance of payments deficits emerging unexpectedly as a result of a temporary inadequacy of current savings to finance a general programme of development." King also suggested that such a programme should be submitted to the Bank for examination *before* publication, in order to avoid embarrassment "if the Bank found it necessary to criticise any particular project", although if the programme were flexible this risk might be minimised:

> To obtain financial assistance from the Bank it would probably be necessary to present suitable *specific* projects but this would be purely a procedural matter provided these projects formed part of a national development programme of which the Bank approved. An *explicit* general assurance of aid might not be feasible but it could be taken for granted that any member of the Bank which encountered financial difficulties, through no fault of its own, in carrying out a national development programme which had been examined and accepted as

'reasonable' by the Bank, was entitled to look to the Bank for assistance.

King's final suggestion was that "no time should be lost" in submitting such a programme to the Bank, since slowness in arranging for its examination "could very well mean delay in having access to financial help in carrying it through", a process, he stressed, which would demand the establishment of the kind of body proposed in the last paragraph of *Economic Development* "to study and promote development possibilities"[161] — a proposal which ultimately found expression in the establishment of the National Industrial Economic Council in 1963.

Such an overwhelming endorsement of the thinking underlying *Economic Development* cannot but have made a profound impression upon the government and rendered it in the highest degree unlikely that Finance's new and grand design would be frustrated at cabinet level. Finance, for its part, was clearly going to strike while the iron was hot. Whitaker, who had learnt from Rasminsky of "the unusual extent of the attention" being given by the Bank to Irish problems,[162] told King that he hoped to have further information for the Bank's annual meeting scheduled for October. What Whitaker in fact brought to the meeting, held in New Delhi (an illustration of the rapidly broadening horizons of Finance officials), was a preliminary draft of the First Programme for Economic Expansion. His main objective, he told S. R. Cope (the Bank's director of European operations), was "to obtain independent confirmation of its comprehensiveness and soundness and, consequent on this, a reasonable prospect of sympathetic consideration by the Bank of future Irish applications [for loans] to carry it out." Cope, while naturally inhibited from entering into any definite commitments, applauded the continuing informal contact between the Bank and the representatives of the Irish government.[163]

The *First Programme*, then, was an immediate by-product of *Economic Development*, the government having decided, on 22 July, to set up a cabinet committee paralleled by an inter-departmental committee consisting of the Secretaries of Finance, Industry and Commerce and Agriculture and coordinated by Charles Murray. It "would be a relatively simple matter", noted Whitaker, "to extract the main heads of future development policy" as laid down in *Economic Development* and this was essentially the procedure followed.[164] The shared parentage of the *First Programme* and *Economic Development* was even more explicit

in the first two drafts of the former, which were entitled the "Programme of National Economic Development".[165]

The Minister for Finance duly submitted the draft programme, on behalf of the cabinet committee, on 11 October, together with the recommendation that it should be published first and that publication of *Economic Development* and the third report of the Capital Investment Advisory Committee should follow shortly afterwards.[166] On 28 October Seán Lemass told the Fianna Fáil Ard Fheis that, within the next few days, a "Programme of National Economic Development" would be published as a White Paper: the government had decided, he said, that it was "essential to re-define the objectives of national economic policy".[167] The White Paper, under its revised title, was duly published on 12 November. Ten days later, on Saturday, 22 November 1958, *Economic Development* was published.

The public response was immediate and remarkable. It would be gratuitous to give the long list of economists, journalists, academics and leaders in commerce, industry and other walks of life who wrote to Whitaker congratulating him and his colleagues upon their achievement. But one letter might be mentioned: also dated 22 November and written by a teacher living in Dublin who had never met Whitaker but who had been prompted to buy *Economic Development* when he heard of it on the radio that morning, it contained the following "final word of appreciation":

> I wish that every man, woman and child would take your book and read it, and read it again and again, and use it as their gospel for the next year. Then we should see some improvement in the national outlook of our people.[168]

When a publication of the Department of Finance could inspire such sentiments in even one member of the general public, something had indeed "changed utterly".

CHAPTER TWELVE

Functions and Organisation: The Department of Finance from Within and Without

Any account of the workings and organisation of the Department of Finance must begin with the definition of the Department as laid down in the Ministers and Secretaries Act of 1924, a point of departure also adopted by J. J. McElligott himself when he gave a talk on the subject of the Department.[1] Section 1 (ii) of that act states that

> The Department of Finance . . . shall comprise the administration and business generally of the public finance of Saorstát Eireann, and all powers, duties and functions connected with the same, including in particular the collection and expenditure of the revenues of Saorstát Eireann from whatever source arising (save as may be otherwise provided by law), and the supervision and control of all purchases made for or on behalf of, and all supplies of commodities and goods held by any Department of State and the disposal thereof, and also the business, powers, duties and functions of the branches and officers of the public service specified in the first part of the Schedule to this Act.

The description of these latter branches such as the Revenue Commissioners and the Civil Service Commission (a full list of which may be found in appendix 4) lies outside the compass of this work, just as McElligott declared it to lie outside the terms of reference of his talk, the text of which provides the basis for the following account. But, before proceeding, it is necessary again to quote briefly from the Ministers and Secretaries Act. The act states, first, that

> The terms and conditions of appointment of all officers and servants appointed by any Minister shall be prescribed by the Minister for Finance and there shall be paid out of moneys provided by the Oireachtas, or if there be any fund properly applicable by law to such payment, then out

> of such fund, to such officers and servants such salaries or remunerations as the Minister may from time to time determine. (Section 2 (3))

and, second, that

> The expenses of each of the Departments of State established under this Act, to such amount as may be sanctioned by the Minister for Finance, shall be paid out of moneys provided by the Oireachtas. (Section 2 (4))

These, then, are the three passages which provide us with a statutory description of the matters with which we are primarily concerned in this chapter: first, the organisation and internal administrative arrangements through which the Department carried out its public finance function; second, the Department's unique relationship with all other departments of state, which derived from its being empowered to control the expenses and conditions of appointment in those departments.

I: The Organisation of the Department of Finance

The first organisation chart for the Department of Finance is dated January 1926 (see page 522):

Perhaps the most striking aspect of this hierarchy, at least for the historian writing in the nineteen seventies, is how very few civil servants then controlled the fortunes of Finance: a mere fifteen men held posts at the assistant principal level or above. The major difference between such an organisation and the modern Department of Finance is apparent by a comparison with the figures for 1977, for example, when there were ninety-two such posts in the general service grades alone, taking no account of appointments in the professional and technical classes which have further swollen the numbers of officers in the Department in recent times. Nor does this 1977 statistic take account of the sixty-nine such posts in the new Department of the Public Service which, since 1973, exercises the establishment or personnel function which had earlier rested with Finance. The fifteen men of 1926 were only twenty-one by the 1932 change of government; another slow increase began in 1933 after the Department had been formally reconstituted into three, as opposed to two, divisions when the supply function was withdrawn from the first two divisions and centralised in a third division under a third assistant secretary, Walter Doolin.[2] In November 1939, however, after the Emergency had begun, the number had increased to a total of only twenty-nine[3] and at

DEPARTMENT OF FINANCE

Secretary: J. J. Brennan

Private secretary to Secretary: D. P. Shanagher

Private secretary to Minister: G. P. S. Hogan

	Division I Establishment and Supply		Division II Finance and Supply		
Assistant Secretaries	H. P. Boland		J. J. McElligott		
Principals	W. Doolin	J. Houlihan	A. D. Codling		
Accountant					R. J. Sheridan
Assistant Principals	M. J. Beary J. E. Hanna Seán Ó Broin	P. O'Kelly E. O'Neill	G. P. Fagan J. L. Lynd	T. S. C. Dagg	
Assistant Accountant					F. S. Conway
Establishment Officer	J. E. Twamley				
Junior Administrative Officers	L. M. Fitzgerald		A.W. Bayne L. T. MacCauley	M. Moynihan	
Higher Executive Officers	F. J. Feeney	O. J. Redmond	F. Duff		G. Ladley
Registrar	M. Gately				
Superintendent of Typists	Miss J. Devereux				

Organisation chart: Department of Finance January 1926

the end of the Emergency it was only thirty-one.[4] The two decades after 1926 thus witnessed a slow but steady increase in numbers to the point where there were almost exactly twice as many officers holding the posts in question at the end of the Emergency. A similar pattern emerges over the next twenty years: the thirty-one officers of 1945 were fifty-nine in number in 1964.[5] It was only the events of the nineteen sixties and later which caused the rate of increase to assume the proportions which produced the 1977 total of ninety-two.

The figures setting forth the expenditure of the Department, as revealed by a random inspection of the appropriation accounts, show the same kind of trend, as the following table illustrates:

OFFICE OF THE MINISTER FOR FINANCE

Year ending 31 March (31 December for 1975)

	1928	1937	1943	1950	1957	1966	1975
	£	£	£	£	£	£	£
Salaries, wages and allowances	47,102	56,646	67,844	120,885	138,685	379,119	1,468,614
Travelling expenses	156	77	42	470	655	24,764	126,794
Incidental expenses	76	329	371	760	549		
Telegrams and telephones	535	523	923	1,455	1,654		
Post office services						103,038	299,198
Total	£47,689	£57,575	£69,180	£123,570	£141,543	£506,921	£1,894,606

The above figures illustrate the pattern of growth we have already observed. What does require brief comment, however, is the number of additional items which begin to appear in the appropriation accounts under the vote for the office of the Minister for Finance from the mid-nineteen-sixties onwards. In the case of the years 1928–57 the

items listed above are the *only* items listed under the Finance vote, apart from the expenditure on the Paymaster-General's Office and occasional and small actuarial expenses. But the 1966 account shows a different picture: here we find additional expenditure listed under such headings as the remuneration of banks for the management of government stocks (£116,318), the Institute of Public Administration (£25,400), Comhairle na Gaeilge (£2,116) and grants to county development teams (£8,538). The 1975 account paints this new picture in still more striking colours. Some of the new items listed above are again present — the expenditure on them has substantially increased — and there are others besides: such as the Economic and Social Research Institute (£343,000), the National Savings Committee (£43,301), and a payment to the Regional Development Fund (£150,000). The position which obtained throughout the earlier history of the Department of Finance (when much the greatest proportion of the Finance vote was expended on the salaries, wages and allowances of the Department itself) now no longer held true. Expenditure on salaries, wages and allowances, which by 1967 already amounted to only just above half of a total expenditure of some £767,000, fell to just above a third by 1968. By 1975, after the Department of the Public Service had been established, the salaries bill of £1,468,614 was again about half of the total expenditure of nearly £3 million on the Finance vote.

But in this chapter we are primarily concerned with an account of the work of the Department in the earlier decades of its existence and must now turn to an account of what McElligott (in his talk) described as "the course of financial procedure as seen from the point of view of the Department of Finance". McElligott's own description begins

> . . . on October 1st when the civil service machinery is working away smoothly. As near as possible to that date, a circular letter (known as the estimates circular) is issued by the Department of Finance to all accounting officers, requesting them to prepare and send in not later than the 1st December the estimates of expenditure on their votes during the financial year beginning on the 1st April following. The circular stresses — in what I hope are eloquent and convincing phrases — the need for continued economy . . . The estimates are then examined in the Department of Finance — the establishment and salary scales are checked, the reasonableness of the proposed expenditure on other subheads examined and all unsanctioned proposals rigorously struck out. Considerable correspondence and conferences with the various departments ensue at this stage . . .

While the estimate is an attempt to forecast the probable expenditure in the ensuing financial year, the forecast has to be based on the actual position as at December 1st, and not on the hypothetical position that might arise a year later. As a matter of precaution you may make provision for a new service, but this inclusion in the estimate does not of itself convey sanction for the proposal, just as exclusion from the estimate will not debar a proposal from being considered in the financial year coming. But all departments take a keen delight in rushing their proposals forward at this stage — and the Department of Finance has got to examine them one by one, and say whether they are agreed to and can be included in the estimates or not. This involves continual discussion with the outside department, but finally the estimate is agreed to by the Department of Finance and approved by the Minister. At the same time the Department of Finance prepares the estimates of the votes it manages itself. Finally when all the estimates have been approved individually they are submitted to the Executive Council *en bloc* and after approval the bound volume is presented to the Dáil.

In the meantime, and after the preparation of the supply estimates, Finance was occupied with preparing the estimates for the Central Fund services in order that "the total amount of money likely to be required under all heads in the course of the ensuing year" might be ascertained. These procedures were timed to ensure that the Dáil would receive the estimates by 1 March when it would "discuss them generally on the Central Fund Bill". This Bill was introduced annually at this time and had to be enacted before 1 April since its purpose was "to grant to the Minister for Finance for the use of the Departments a bulk sum — roughly one-third of the year's supply — which they may have to go on with while their estimates are being considered in detail" — a process which began only in mid-May. When the Dáil had discussed and approved the individual estimates, an Appropriation Bill was introduced which "grants to the Minister for Finance the balance of the sum required for supply services in the year, and appropriates the entire sum, . . . stating the maximum that may be spent on each." The process was completed about 1 August and began all over again two months later when Finance issued a new estimates circular.

McElligott then turned to a description of "the revenue side of the process" which began in the March of each year when the Department prepared revenue estimates concurrently with Central Fund estimates.

> The Revenue Commissioners send in their estimates of the amount likely to come in during the next financial year under the heads of income tax, super tax, customs and excise, stamps etc; the Department of Posts and Telegraphs will give the probable postal receipts, the Department of Local Government the probable receipts from motor taxation, . . . and so on. When all the figures have been collected, they are as required by the Constitution presented to the Oireachtas on or before 31st March in a white paper, which also contains the figures for the Supply estimates and the Central Fund estimates and other Exchequer issues . . . On the 1st April the Minister is in possession of the information that will enable him to prepare his budget — on the one side he has the probable Exchequer incomings from all sources and on the other the probable Exchequer outgoings under all heads . . . If true expenditure exceeds true revenue, more taxation is required — expenditure cannot be reduced, for *a priori* it has already been cut to the bone by the Department of Finance . . . If on the other hand the Minister for Finance is in the happy position of having a considerable surplus, he can cast round to find the best possible manner of disposing of it. He will not be at a loss for suggestions, but care has to be taken that the surplus is not a chance event and can be looked forward to with equal certainty in the following year. Budget making is an art rather than an exact science, and as such is hardly a topic for discussion here. Let us suppose that the Minister has arrived at a decision and secured the approval of his colleagues. His proposals for covering his deficit, or disposing of his surplus as the case may be, are conveyed to the Dáil by the budget speech and submitted for its approval in a series of resolutions . . . [which] are afterwards embodied in the Finance Bill and passed into law usually by the middle of June.
>
> With the passing of the Finance Act saying where the money is to come from and the Appropriation Act saying what the expenditure is to be, the Oireachtas passes somewhat into the background so far as the course of financial procedure is concerned. Not so the Department of Finance which is the guardian of the Exchequer, keeping watch to see that revenue fulfils expectations and that expenditure is kept within the prescribed limits.

In McElligott's view, the key to these continuous processes were the weekly statements of collected revenue, which were forwarded to Finance by the Revenue Commissioners, and the fact that the Paymaster General's Supply account was "controlled and fed by the Department of Finance".

The Appropriation Bill is the final item which annually demands legislative initiative on the part of Finance. "During the eight months from 1st April", McElligott wrote,

> Departments make up their Appropriation Accounts for the financial year that has just closed. If it is found that there has been an excess on any sub-head of a vote, then no matter how small the excess may be, the sanction of the Minister for Finance must be obtained . . . or the Appropriation Account will not be passed by the Comptroller and Auditor General . . . During the preparation of the Appropriation Accounts too, many posers about questions of charge are submitted to the Department of Finance for decision, and the Department is often called on to adjudicate between two other Departments in the matter of transfers between Votes.

The final stages of the process are the audit by the Comptroller and Auditor General and the review by the Committee of Public Accounts. The meetings of this committee are attended by Finance representatives who "put forward the Finance point of view in any case where there has been a difference of opinion between the department concerned and the Comptroller and Auditor General." Then, when the committee has reported to the Dáil, McElligott concluded,

> . . . the Minister for Finance issues a minute setting out for the benefit — it is hoped — of the Committee and of the departments his considered opinion on the topics that have been under discussion. This is the end of the long course of the financial process in the typical year under review. The period that elapses between the issue of the Finance estimates circular at one end of the process and the issue of the Finance minute at the other end is almost exactly three years. At every stage — in the preparation of the estimates, on the day to day expenditure, in the preparation of the Appropriation Accounts, in their audit and review — the Department of Finance is present supervising and controlling.

These functions of supervision and control, at least until the nineteen fifties, almost exclusively absorbed the energies of Finance and formed one of the main constituent parts of the framework conditioning the Department's relationship with other government departments. The other such part was Finance's statutory responsibility for the regulation and control of the civil service and the view, expressed for example by Patrick Lynch, that Finance "has pursued its duty of control . . . at the expense . . . of the duty of regulation"[6] does much to explain the problems inherent in that relationship which are discussed in the second part of this chapter.

The three major legislative measures outlined above — the Central Fund Bill, the Finance Bill and the Appropriations Bill — form the core of Finance's annual legislative responsibility for much the greater part of the period with which we are concerned. The burden of spon-

soring additional legislation varied considerably from year to year. In 1927, for example, apart from the Expiring Laws Continuance Act (another annual responsibility of Finance), the Minister for Finance promoted the Barrow Drainage Act, the Telephone Capital Act, the Currency Act and an Agricultural Credit Act. In 1928 his additional legislative responsibility consisted of only an Agricultural Credit Act and a Betting Act; two similar acts were again passed in 1929 when the Minister for Finance also sponsored the University College Galway Act, a Superannuation and Pensions Act and the Civil Service (Transferred Officers) Compensation Act.[7] A survey of the legislation promoted by Finance in the mid-thirties shows similar variations. Nineteen thirty-three — an exceptional year because of the many major policy changes initiated by the new government — saw the Minister for Finance sponsoring the Land (Purchase Annuities Fund) Act, the Dáil Éireann Loans and Funds (Amendment) Act, the Imposition of Duties (Confirmation of Orders) Act, the Industrial Credit Act, another Barrow Drainage Act, the Sugar Manufacture Act, the Land Bond Act, the Approved Investments Act, the Damage to Property (Compensation) (Amendment) Act, the Public Services (Temporary Economies) Act and the Oireachtas (Payment of Members) Act. In 1934, however, the only such legislation sponsored by the Minister for Finance was another Land Bond Act and an act providing for an additional grant to University College, Dublin. In 1935, the Local Loans Fund Act, the Approved Investments (Amendment) Act and the National Loan (Conversion) Act fell into this category.[8] But although, as McElligott observed, "the number of bills dealing with financial topics exclusively is small",[9] it fell to the Department of Finance to scrutinise all bills "no matter in what department they originate or with what subject they deal."

The Establishment Division

It now remains for us to look in turn at the role played by each of the three divisions into which Finance was divided for much of its history. The first, the establishment division, had the major responsibility of controlling the appointment and conditions of service of civil servants from the first days of the new state until the setting-up of the Department of the Public Service on 1 November 1973. The establishment division's "own definition" of what McElligott described as "its widespread and — to some minds — sinister activities" declared

that:

> The establishment division exercises general control over the staffing arrangements of all government departments and deals with all questions regarding the classification, remuneration, overtime, leave, sick leave, hours of attendance and other conditions and terms of service of employees of the State, all recruitment of new staff and all questions regarding promotions, transfers and pensions.[10]

Although the recruitment of staff is the function of the Civil Service Commission, all appointments must be consented to by the Minister for Finance. The establishment division advised whether consent should be given or withheld and also was responsible for the allocation of successful candidates chosen by the Civil Service Commission to vacant posts among the different departments in which vacancies occurred. It was the division's task, too, "to ensure that the staff of a department is adequate and no more than adequate for the work it has to do" and to consider "questions of general policy in regard to the existing staff of the service and future recruitments to it." Such questions, necessitating decisions, said McElligott,

> . . . involving the efficiency of the whole government machine and the welfare of the entire civil service, cannot be made lightly. There are no text-books on these matters, and the experience of other governments or of the commercial world is a very uncertain guide even where it is available. Correspondence and conferences with the heads of outside departments takes place at every stage and a decision is only taken after the most exhaustive enquiry into every aspect of the particular problem. . .
>
> The establishment division does not work to any financial year — its work goes on day by day continuously. Bills are submitted by outside departments and must be scrutinised to see that in matters of staff the State is committed only to essential obligations; proposals are put forward for the regrading of a group of officers engaged on a special class of work; requests are made by an outside department for additional staff to cope with increased activity. But when the annual estimates are submitted, the division is in a position to review its year's work, for the first subheads, setting out the numbers and remuneration of the staff of the department, must be examined and agreed to by the division before the estimate can be approved.

Given such extensive powers, not merely in respect of all other government departments but also over individual civil servants in those departments, it is hardly surprising that resentment at establishment attitudes and decisions was often at the root of the antagonisms and antipathies directed at the Department of Finance by other depart-

ments and outside bodies. But a fuller discussion of this aspect of the history of Finance must be reserved for the final part of this chapter.

The Finance Division

McElligott found that it was "difficult to classify [the finance division's] functions or define them compactly", although he stressed that it "does not spend all its time in high financial problems or in discussing the principles of taxation", but could rather be called upon to deal with "anything from tariffs to triplets, from rewarding winners of the King's Plates to the flotation of a loan, or from the Shannon Scheme to the mode of collecting dog licences." In more serious vein, however, he pointed out that

> . . . the finance division manages the votes for which the Department of Finance is the accounting department and is the machinery which enables the accounting officer to carry out his duties with regard to these votes. The division decided on the form of the estimates and is primarily responsible for the provision made . . . it directs payments, watches the expenditure and is responsible for the Appropriation Accounts; finally it disposes of audit queries and the comments of the Public Accounts Committee on the Accounts.

The finance division had to cooperate closely with the accounts side of the Department (although it was not a part of the division) in all of these matters: the Department's accountant, assistant accountant and their staff worked to the assistant secretary in charge of the finance division, as is shown by the organisation chart at the beginning of this chapter.

Another major responsibility of the finance division was the preparation and examination of bills: preparation, in the case of the financial legislation which the Minister for Finance was obliged to promote and which we have already discussed; examination, in the case of all bills emanating from outside the Department, in order "to ensure correctness in the financial procedure" adopted in all such bills — whether

> . . . in the winding up of a fund, the imposition and collection of fees, the disposal of receipts or in the preparation and rendering of accounts. The very best intentions will not prevent an experienced department from going astray on these points. An analogous duty is the preparation of financial rules and regulations; cases of this type are numerous, most acts containing a clause empowering the Minister for Finance to issue regulations establishing the financial procedure to be followed . . . published as

Statutory Rules and Orders and . . . of general application, but the finance division is also the law-giver on particular technical problems that may be submitted by the other divisions or other departments.

The finance division was also the supervising body for the expenses of outside departments, where those expenses were borne on a special fund rather than on voted moneys and where the sums were large and the fund in need of regular replenishment; the Shannon Fund, the Land Commission's reliance upon the Land Bond Fund, the Road Fund and the National Health Insurance Fund were cited by McElligott as among the most important examples of this kind. Other responsibilities of the finance division arose from what McElligott called "the abnormal situation following the establishment of the Saorstát": such matters as assessing and paying compensation for injuries to persons and property and "disentangling the finances of the Saorstát from those of Great Britain and Northern Ireland" fell to the lot of the finance division; so too did the responsibility for flotation of the national loans and, more generally, the exercise of the state's borrowing power.

But, as McElligott acknowledged, it was "difficult" in the case of the finance division "to classify its functions or define them compactly". While he asserted that the division did not "spend all its time in high financial problems or in discussing the principles of taxation", this very assertion constituted a recognition of the fact that the officials of the finance division were more frequently concerned with matters of high policy than their colleagues in the other divisions. The vital areas of budgetary policy and the imposition of taxation, which dictated the framework within which Departmental policy in its broadest sense was laid down, were major responsibilities of the finance division. But McElligott's observation that budget making was an art rather than an exact science should be borne in mind. The remarkable absence of documentary evidence to the contrary in the first three decades of the Department's history suggests that it was an art not much discussed within the Department; throughout his tenure of office as Secretary, McElligott seems almost to have reserved unto himself the practice of the art (at least in respect of the basic composition first sketched on the canvas).

The Supply Division

The supply division was the third division of the Department of Finance and, again, McElligott's is a succinct description:

> The supply division deals with all proposals involving expenditure emanating from outside departments other than those affecting staff only which are a matter for the establishment division. . . . In the division itself the work is further sub-divided, a department or group of related departments with the attendant votes being watched over by an officer or a number of officers working together. In this way the officer makes himself familiar with the work that is done in the department that has been made his particular case; he can appreciate difficulties in its administration and because he watches the work from outside he may be able to suggest changes for greater economy or efficiency. When any point regarding the work of that department comes up for consideration he is called upon to advise on it. But he is not an expert, in the sense in which that term is usually understood, and may never have had first hand personal experience of the work performed in the department he looks after. He works as an officer with a sense of proportion and of the value of money, competent to appraise at its true value any proposal that is submitted to him in plain terms.

McElligott's summary of the qualities demanded of an official in the supply division during his tenure as Secretary of the Department reveals a climate of opinion in which "experts" were more to be distrusted than revered — a time when there was neither a development division nor an economic service in the Department, a time when the notion that an economist might be employed by the Department *qua* economist was inconceivable.

Another major duty of the supply division was to advise the Minister on his responsibility for sanctioning legislative proposals initiated by other ministers or other departments. This task brought the division "into very close and continued contact with another department in the administration of an act". McElligott illustrated the highly disparate nature of the supply division's responsibilities by quoting from a random list of the titles of its files although, as he admitted, and as the present writer, who has spent long hours searching through files whose titles have flattered only to deceive, will wholeheartedly endorse, such titles "are not always the best guide to the contents". The list reads:

> Introduction of Cadet system into the Army
> Repair of Army boots
> Purchase of aeroplanes
> Scales of diet for Army hospitals
> Gas Meter Bill
> Regulations as to Patents, Designs and Trade Marks

Salvage of timber from wreck off Cork coast
One-man separating stations
Forestry programme for 1928
Insurance of boilers and steam plant in government departments
Phoenix Park public golf course
Leasing of College of Science to University College
Veterinary Research Laboratory — accommodation for guinea pigs
Accommodation for Department of External Affairs.

* * *

This account of the work of the supply division completes our review of the Department's divisional arrangements as they endured until 1 April 1961, but a dictum current in the Department during the years of tripartite divisional arrangement might be quoted by way of a footnote. In so far as it was the primary function of the Department of Finance, the maxim ran, to oversee the state's revenue and expenditure, the finance division looked after the pounds, supply the shillings, and establishment the pence.[11]

The Senior Officials of the Department of Finance 1922–33

An account of the Department's organisation in its early years would seem strangely incomplete if nothing were said of the men who ran it. Enough has already been said of the men at the very top of the 1926 organisation chart reproduced at the start of this chapter (the Secretary and assistant secretaries — Brennan, McElligott and Boland) and something has also been said of Arthur Codling, the principal in the finance division. The two other principals in 1926 were Walter Doolin and John Houlihan. Both men, like almost all of their high-ranking colleagues in the Department of 1926, had held positions in the civil service under the British administration and both of them had educational backgrounds in the liberal arts. In 1933, when the Department was divided into three divisions, Doolin was appointed as the assistant secretary in the supply division. As early as 1927 an establishment minute, "looking to the ultimate future", thought it "more than likely that the work of the Department will fully justify three assistant secretaries",[12] but the innate reluctance of the establishment division to create new posts or otherwise to expand caused a delay of six years before such an arrangement was inaugurated. This reluctance was such, indeed, that when Doolin was finally made an assistant secretary in 1933, it was only in an acting

capacity — his appointment was not made substantive until 1935. Doolin, a son-in-law of Sir James MacMahon (joint under-secretary with Sir John Anderson at the head of the Dublin Castle administration of 1920–22), was very highly thought of in the Department, particularly by the younger men, recruited as junior administrative officers, who found him more constructive, approachable and outward-going than some of his fellows. He was also a close personal friend of McElligott, to whom Doolin's early death in 1939 came as an even more severe shock than to the rest of the Department.[13] The other principal of 1926, Houlihan, made less of a mark upon the Department: originally attached to the National Health Insurance Commission under the British administration, he returned there in January 1927.[14]

All but one of the eight assistant principals, the four higher executive officers, as well as Brennan's private secretary (D. P. Shanagher) had also held posts in the British, pre-Treaty civil service, although some of them (Fagan, Almond, Shanagher and Hanna, for instance) had temporarily relinquished their posts to enlist in the British Army in World War I. The exception was Patrick O'Kelly, another Arts graduate, who had been attached to the Dáil civil service before joining the Department of Finance. O'Neill (a friend of Patrick Pearse) and Sheridan had been with Houlihan in the National Health Insurance Commission; Shanagher and Duff with the Land Commission (Duff retired in 1934 to devote his time to the Legion of Mary which he had founded); Dagg with the Congested Districts Board; Codling and Redmond with the Local Government Board; and Hanna and Seán Ó Broin with the Department of Agriculture and Technical Instruction. Specific mention should also be made of two assistant principals, C. S. Almond and John Leydon, whose names do not appear on the 1926 organisation chart, although they had served in the Department since 1923: Almond was an Englishman from Lancashire who worked under Dagg on the supply side. Leydon, who was destined to become Secretary of the Department of Industry and Commerce in 1932, was born in 1895 and entered the civil service as a second division clerk in the War Office in 1915, having taken first place in the Customs and Excise examination the previous year. He served in the Ministry of Pensions in London from 1917 to 1923 when he was appointed, first, as a higher executive officer and, later that year, as an assistant principal in the compensation section of the Department of Finance. His talents were recognised

in 1927 when he was appointed a principal; indeed there was talk at the time of his becoming an assistant secretary.[15]

An inspection of the Department's organisation chart for December 1933[16] (the first showing the new arrangement of three divisions) reveals a similar pattern. Then, every single one of the ten senior officers in the Department — the secretary, three assistant secretaries and six principals (Redmond, Lynd, Hanna, Dagg, Seán Ó Broin and W. F. Nally) — were men who had seen service in the old British civil service. Another point of note, again demonstrating the continuity with the days of the British administration, was that no fewer than three of the ten (Codling, Lynd and Dagg) were Protestants and a fourth (Hanna) was born a Protestant but later became a convert to Catholicism — a far higher proportion, inevitably, than has ever subsequently obtained in the highest echelons of Finance. W. F. Nally submitted a memorandum of evidence to the Brennan Commission in 1934 and this account of his earlier career serves as an interesting example of the strength of the ties of continuity between the two administrations. "I entered the civil service", Nally begins,

> through open competition, as a learner, in the General Post Office, Dublin, in 1905, and became established in the grade of sorting clerk and telegraphist in 1907. In 1920, I succeeded, through competition, in obtaining an appointment as supplementary clerk in the Post Office and was assigned to the North Wales district of the engineering department, where I remained for about two years. In 1922 I was transferred to the engineer-in-chief's office of the Irish Free State Department of Posts and Telegraphs and in the following year I was transferred to the secretariat of that department. For about two months in 1923 I was permitted, in arrangement with the British authorities, to study in the Secretary's Office, London, the headquarters' aspects of questions appertaining to telegraph and telephone arrangements. On my return to Dublin, and up to January 1928, I performed the duties of inspector of telegraph and telephone traffic with the substantive rank of higher executive officer.
>
> On the 1st February, 1928, I was appointed to the Land Commission as establishment officer and was promoted to be chief clerk and establishment officer in that office on the 1st June, 1931.
>
> I was appointed to my present post of principal in the Department of Finance on the 1st October, 1932.[17]

Although Nally thus entered Finance later than the other principals of 1933, his pre-1922 career differed from theirs in detail and not in kind. One further example is Owen J. Redmond, who succeeded

McElligott as secretary in 1953–56. Redmond's first appointment, in 1906 when he was fifteen years old, was as a boy clerk in the Office of Public Works. In 1910 he won a place as a second division clerk, after competitive examination, and was appointed to the Local Government Board where he was made a junior executive officer in 1920. In April 1922 (having been interviewed by E. P. McCarron, the Local Government Secretary, and Cornelius Gregg) he was chosen to go to Finance — at first on loan. He was subsequently appointed as a higher executive officer in 1923, assistant principal in 1926, principal in 1932 and assistant secretary in 1944.[18] The celebrated claim of the Brennan Report for the uninterrupted continuity of the civil service,[19] the political revolution notwithstanding, is thus abundantly confirmed by the example of the Department of Finance.

The delay in appointing a third assistant secretary is only the most obvious example of how slowly the Department expanded, although the three principals of 1926 were increased to four in 1927 and to five in 1931. Boland's minute to Blythe recommending this latter step and, in addition, the creation of an extra post of assistant principal, explains why he, as head of the establishment division preferred to hasten slowly. Ever since the Department had been set up, wrote Boland,

> . . . the work has been more or less beyond the staff. The difficulty in remedying this during the past seven years lay in finding sufficiently mature personnel for the higher posts. Time has to an extent helped us here. The staff is now in quality and numbers stronger than at any time in the past. But the work also has grown in volume and complexity. The work of a department such as Finance cannot be measured by numbers of letters. With the passing of time the work tends more and more to be done by personal contact. Almost every public statute passed required reference in its operation to the Minister for Finance. As time goes on the considerations to which the Department has to have regard are added to. A subject which would have been represented by a single file seven years ago may now be represented by a dozen. The Department now has to provide representatives on committees and commissions in much larger numbers than was necessary in the past. For instance in 1925, only 6 members of the Department were so acting on 8 bodies. Now 19 officials are acting on 17 bodies. . . Officials of the higher organisation are all overpressed. They can only keep their work going by frequently and in some cases constantly taking it home at night. They have no time outside their day-to-day work to do any of the reading or research that should be possible in the interests of the Department. A considerable part of the work required in the interests of economy is work that should be initiated

within the Department if officials had time, but many of these fields of enquiry continue and must continue to lie fallow because of pressing needs of current work.[20]

The Junior Administrative Officers — an "Administrative Élite"?

Already, in 1926, however, there was one group in Finance's "higher organisation" which was an exception to the rule that the Department's senior officials were drawn from the pre-Treaty civil service — the junior administrative officers. The genesis of this special administrative class in 1924–25 has been discussed in an earlier chapter,[21] but it is now necessary to discuss two further aspects of their history: first, their special relationship as a class with the Department of Finance; and, second, the extent to which they constituted an administrative élite from which the most senior appointments would be made.

The origins of both these developments may be seen in the memorandum from Cornelius Gregg to Blythe which led to the first junior administrative examination in 1925.[22] Three of the six successful candidates in that examination (Bayne, Fitzgerald and Maurice Moynihan) were immediately assigned to Finance and a fourth (Leon Ó Broin who had won first place in the examination) was transferred to Finance before the end of the twenties, having first been assigned to Education. Of the next eight appointments made to this grade, after comparable examinations in 1926, 1927 and 1928, five were assigned to Finance; and a 1930 survey of the whereabouts of junior administrative officers in the public service showed that thirteen of the nineteen officers were in the Department of Finance. In 1935, ten years after the first examination, Finance's near-monopoly of the services of this class was as strong as ever: of a grand total of thirty-five then in the public service, twenty-two (nineteen men and three women) were attached to Finance. For the rest, Local Government and Public Health had five; Justice four; and Education, Industry and Commerce, the Oireachtas and the Revenue Commissioners one each.[23]

Mention should be made, too, of the three appointments made to this grade *before* the first examination in 1925: Sarsfield Hogan, Leo MacCauley and Tommy Coyne. In 1922–23 Joseph Brennan, perturbed at what he had described as the lack of "fully skilled assistance" at an administrative level (so few first division men had been inherited by the provisional government), decided to approach the Provost of Trinity College and the President of University College,

Dublin with a proposal for recruiting directly some of the best of their graduates. In the case of Trinity, the results were numerically disappointing although A. W. Bayne, the only Trinity graduate to be recruited to Finance in the early years, was recognised as exceptionally able. University College, however, produced Hogan, MacCauley and Coyne, after conversations in which Dr Coffey (the President), Michael Hayes and, possibly, Kevin O'Higgins, were involved. Neither MacCauley (who was Brennan's first private secretary) nor Coyne (who was assigned to the Secretary of the Department of Justice) played much part in the subsequent history of Finance. In 1929 Joe Walshe, the Secretary of the department of External Affairs, prevailed upon all three to enter for the first appointments at third secretary level being made by his Department — in Paris, Rome and Berlin; MacCauley and Coyne accepted but Hogan changed his mind at the last moment and decided to remain in Finance.[24] His decision was not, perhaps, surprising since he had already been very much in the centre of Finance's activities in the crucial formative years. He served first as Brennan's private secretary (from March 1923 to April 1925) and then as Blythe's until January 1927 when he was appointed as parliamentary and estimates clerk. Nor was he ever far from the centre of things thereafter: in 1932, as an assistant principal, he was secretary to the Committee on Economy in Public Service Salaries, and he played a major part in the preparations for the Emergency when on loan to the Taoiseach's Department in 1938–39, after which he was made an acting principal. He became an assistant secretary in 1948 and, shortly afterwards, was deeply concerned with the devaluation crisis of 1949.

The British reorganisation of the civil service in Ireland in 1920, notes the Devlin Report,

> . . . reshaped the general service to provide for an administrative class to deal with policy and the general management of the civil service, and a clerical class to deal with the routine clerical work. In between, they created an executive class to deal with 'the higher work of supply and accounting departments and of other executive or specialised branches of the civil service'. This structure was more or less taken over by the new Irish civil service except that no serious attempt seems to have been made to distinguish between the work of administrative staff and executive staff above the levels of administrative officer/higher executive officer.[25]

The exception, generally recognised "as one of the few major de-

viations from the British pattern",[26] is of particular importance for the Department of Finance because of its unique position among Irish government departments and because it led to the decision to recruit "the best material available . . . material of the type best fitted for administrative control."[27]

One obvious barrier to the imposition of such a firm distinction as obtained in the British system was the attitude of the higher executive officers within Finance who, as early as July 1927, formally protested to Brennan about the appointment of an assistant principal from outside the Department. They submitted "that the recognised practice of promotion within a department should not be departed from save in the most exceptional circumstances" which, they contended, did not exist in Finance. This was swiftly followed by a protest by Finance's junior executive officers who sought assurances about their promotional prospects within the Department. Despite another similar protest by the higher executive officers in January 1927, Boland took the view that, with one exception, they could not be given "an unqualified recommendation" for promotion to the rank of assistant principal and advised the Minister that applications for such an appointment in Finance should be invited from other departments. This, Boland argued, would "not be without advantage . . . for the work of the Department of Finance, and indeed in justice to other departments who have to submit to financial control from here, the officials we have should grade for grade be the best that can be procured . . . [this would] strengthen the influence of the Department of Finance in their dealings with other ministries."[28]

The inherent difficulties of the problem were outlined by Brennan in a memorandum to the Minister in August 1927. The attempt to introduce an administrative élite into the Department had brought up "in a somewhat acute form the question of the junior executive officers serving in the Department", he wrote.

> Owing to the numerical weakness of the staff of the Department and to the fact that the newly recruited junior administrative officers are and must be for some considerable time lacking in the experience of government administration which is essential in a department having the control of the activities in general of the government machine, it is imperative that experienced JEOs . . . be retained in the Department. The position of the JEOs is, shortly, that they would normally look for promotion to higher executive posts, that at least two such posts have already been suppressed and they are, in effect, debarred, in this Department at any rate,

from any prospect of the promotion which they would reach in ordinary circumstances.

Brennan therefore proposed that two of the JEOs who had entered the civil service through the old second division open competitive examination (T. J. Morris and D. P. Shanagher) should be promoted as junior administrative officers. This would, he felt, have no repercussions since "the circumstances of the establishment of this department are exceptional and can hardly be compared with those of other Departments. The promotions would not mean any immediate increase in remuneration for the officers concerned."[29] What it did mean, however, was a clear breach of the principles enunciated by Gregg at the time when recruitment of junior administrative officers began; and, in 1929, for the first time since 1925, no examination enabling university graduates to enter Finance as junior administrative officers was held.

It was in 1929 also that Finance abandoned the system of written competitive examination for entry at this level, in favour of a selection board, set up by the Civil Service Commission, which would interview eligible candidates to evaluate "their experience, general knowledge and personality". The main reason for the change, Boland informed the Minister, was the conviction "that there has been a decline in the quality of the competitors at the examinations"; it was hoped that the new system, which increased the upper-age limit from twenty-four to twenty-six and which made provision for additional increments for older, successful candidates, would lead to "better competition, in that candidates who might be deterred by the prospect of a written examination will enter", as well as "persons who might have the added advantage of postgraduate experience".[30] Blythe, answering a question on the change in the Dáil, spoke of the junior administrative officers as the class ultimately "expected to undertake the highest administrative duties necessary in the civil service . . . from which the secretaryships of departments and other higher posts in the service will normally be filled by promotion."[31]

In 1930, however, Finance again resorted to the device of promoting junior executive officers to junior administrative level. Boland explained why they had adopted this course rather than drawing further from the list of successful candidates at the last junior administrative competition from which two appointments had already been made.

Of the 12 junior administrative officers at present in this Department 6 are still on probation. The remainder have service varying from two to five years only. As a team, therefore, the class is at present in the early training stage and, although their value will increase with every day's experience, the recruitment now of two further inexperienced persons would increase the disadvantages arising from the present abnormal proportion of personnel inexperienced in office work. In the circumstances it would be expedient to offer the two vacancies for competition at a selection board between the best of the junior executive officers who have had more than two years' experience in that grade. . . We would be looking for something in the way of experience, but we should also expect that the appointees should be sufficiently young and adaptable to benefit by the promotion. . . The total number of junior executive officers in the service exceeds 400, but heads of departments would be asked to recommend in order of merit those candidates who apply.

It is a curious fact bearing on this proposal that, although the last open competition on the new lines for junior administrative [*sic*] permitted junior executive officers to enter, only five of that class applied. . . Only four of the sixty-six junior executive officers who came in by open competition since 1924 offered themselves. . . . This state of things is difficult to understand when one remembers the conditions that obtained here, say, 25 or 30 years ago, when a similar opportunity would have been jumped at by probably all the persons eligible in a lower grade. It suggests some strange kind of inertia in the present generation. . . . It is a counterpart of what we find outside amongst the university graduates, who fail to come forward for the open competition. What the reason may be for this want of interest on the part of both classes we have yet to discover. The cause does not certainly lie in the salary scale. Dr Coffey tells me that since the change of government not a single graduate of the National University, so far as he knows, has competed for the administrative class in the British civil service.[32]

Boland's proposal, "put forward as an exceptional measure for this occasion only", was approved by Blythe, subject to the candidates' having to take an Irish test, and it was recorded that "the quality of the greater number of the forty-four candidates interviewed was very high": both successful candidates (J. C. B. MacCarthy and P. S. Ó Muireadaigh) had entered the civil service through the junior executive competitive examination (in 1927 and 1925 respectively) and both subsequently became secretaries of government departments.

But Finance had not finally relinquished the concept of distinguishing between the administrative and executive classes. An establishment notice issued in April 1932 on the certification of civil servants

declared that the Civil Service Commissioners had "agreed that promotion from the junior executive to the junior administrative grade cannot be regarded as in the customary course" but that promotion of junior administrative officers "to higher administrative posts" should be so regarded.[33] A few months later Boland again informed the Minister of the serious difficulties the Department was encountering with recruitment at junior administrative level. "For the last six years", he wrote, "we have been gravely concerned about the difficulty in getting sufficient people of the right type to compete"; and he feared that the reduction in salary levels which was then being contemplated would add to the candidates' problems and further depress the Department's "hopes of getting into the civil service by adequate competition the small number of first class men and women we require in the administrative grade." In the case of a competition held the previous year for appointments in External Affairs, he pointed out, "not one of the candidates was regarded as sufficiently qualified and we failed to fill the two vacancies offered."[34] The same complaint was made in 1934 when forty-three of the fifty-five candidates interviewed for junior administrative examination "failed to qualify in one or more parts of the competition."[35]

Boland put on record his view of the problem during his evidence to the Brennan Commission when he explicitly stated of the junior administrative officer class that

> . . . the original intention was not to resort to promotion at all to that grade. It was practically non-existent when the State started; and we had to begin by outside recruitment. . .
>
> The junior executive officer under the terms of his recruitment has no right to claim or expect promotion to the junior administrative officer grade. Where he has been allowed the opportunity of competing before a selection board for vacancies in the administrative class it has been entirely an act of grace on the part of the Minister for Finance, which was due merely to the fact that the number of people available for appointment from examination . . . were not available from the outside examination.[36]

But Boland's concept of the junior administrative officers as a *corps d'élite* — which found expression in private dinner parties which he held for them in the Gresham Hotel[37] — was shattered by the promotions from the executive stream to the assistant principal grade; this contrasted with the British practice.

How this happened is well illustrated by a 1934 minute, drawn up

by the three assistant secretaries in Finance, which referred to the difficulty of finding "sufficiently experienced personnel" to appoint to the grade of assistant principal. Promotions, the minute claimed, had "been very rapid" and it argued that "promotion of officials who entered only five or six years ago, involving a jump in scale from £180–£500 to one of £550–£700 (married) must be accounted extraordinarily rapid, even in the administrative class, and, if repeated, liable to create unrest and jealousy in the service", especially if the administrative experience of those promoted was limited to one section of the Department of Finance. This consideration, plus the view that "the present junior administrative officers in this office are, as a whole, not mature enough . . . for immediate promotion", caused the assistant secretaries to advise against such a course of action[38] and a subsequent recommendation of Boland's to appoint a higher executive officer from Posts and Telegraphs as an assistant principal in Finance was approved.[39]

Yet Boland was still anxious to retain the concept of the administrative class as an élite. McElligott was not so sure: "we should normally look to the junior administrative officer line for the recruitment of assistant principals", he wrote, "but we cannot, as you agree, apply that rule unwaveringly and it has been broken in the past."[40] A month later, Boland sent McElligott a formal note, "from the general establishment viewpoint", saying why he thought that line of recruitment desirable.

> Many promotions to administrative posts of persons of other than administrative origin have, of course, taken place in this department and elsewhere in the service. Such promotions have been more remarkable here because ours is, of all in the service, the Department where, from the outset, it has been recognised that the work, except in registry and record and accounting matters, is all administrative. But those promotions were a case of 'needs must'. We had none of what might be called the normal administrative material to promote from. Now things are different. Nearly all the junior administrative posts here are filled by individuals who have been admitted to the grade by special competition (open or limited). That position has been attained with some difficulty. It has been the work of nine years, during which recruitment — not always as good as it should have been — has been encouraged by every possible inducement. Recruitment in no class in the service is, in my view, of the same importance as that of junior administrative officers, and in turn the training of these officers after entry, and their promotion later on, as bearing on recruitment, are equally important. . . Such opportunity as presents

itself should be taken to make clear that it is not the intention, in the future, to go on promoting from outside the administrative class itself to the highest posts in the class. For officials in the civil service who are not of administrative origin practically the whole service *outside this Department is a field for promotion to higher posts, and there should be no need, even as a matter of recognising past service or individual merit to include the higher administrative amongst the posts to which these officials can look for promotion.* [41](Author's italics).

Boland's note — in particular, the italicised passage — is a clear expression of how strongly he at least was still committed to the British model, under changed circumstances in which the officers in the junior administrative grade in Finance were sufficiently experienced to be deemed ripe for promotion. Frequently, as we have seen, decisions on such matters would have been left to him — much of his additional authority as assistant secretary in charge of establishments was due to the fact that McElligott found establishment work uncongenial. But, in this case which he obviously regarded as being of the first importance, Boland did not get his way. Following discussions with the Minister, Seán MacEntee, McElligott recommended the promotion of a higher executive officer, P. J. Ó Ceallaigh (then the staff clerk in the Department) to one of the assistant principal posts. The second vacancy, after a deferment of some six months and again on McElligott's recommendation, was also filled by one of Finance's higher executive officers, F. T. McHenry. Although McElligott minuted that the recommendations were "in accordance with the views of the assistant secretaries and the principals", that Boland was uneasy about the failure to make the appointment from the ranks of the junior administrative officers was manifest.

By 1935, then, the promotional route in the Department of Finance from higher executive officer to assistant principal had been firmly established: four of the six higher executive officers on the 1926 organisation chart (Feeney, Redmond, Duff and Shanagher), together with the only other two higher executive officers appointed since 1926 (Ó Ceallaigh and McHenry), had been so promoted.

The other development in Finance which undermined the British principle of separation of administrative and executive classes was the admission of junior executive officers to the junior administrative grade. We have already noted the first example of this trend in 1927 and Boland commented upon it more generally in a memorandum to the Secretary and Minister in April 1936. Boland began with the

regulations for the junior administrative competition which prescribed that "candidates must possess an honours university degree or its equivalent or, in the case of candidates who are established civil servants, educational qualifications of the standard of the secondary school Leaving Certificate." He pointed out that when these regulations were drawn up — he was a member of the Civil Service Commission at the time — the established civil servants in question "were expected to be junior executive officers" but that

> . . . at that time the understanding was that future recruitment to the junior administrative grade would be confined to the open competition. The Commission had not in mind the likelihood that in years to come there would, on occasions, be a limited competition to get the best of the serving junior executives into the higher grade. The impression, in other words, was that the only chance a good junior executive had to become junior administrative was to pass the open examination.

Boland pointed out that only five of the fifteen candidates who had qualified in the 1936 examination (and only two of the first nine) had taken an honours university course. Such a result, he said, "was never anticipated" and he went on to consider the relative merits of university and non-university candidates, in a passage which eloquently illustrates the nature of the problems experienced by Finance in its efforts to recruit an administrative élite from the universities. Boland thought it was

> . . . easy to understand why, in a competition in which over 55 per cent of the marks are allocated to interview, a candidate for this examination who has had a first-class university course and has obtained his degree with honours should not come out so successfully as a junior executive officer who has had some years grinding in a civil service office. The latter, with his greater knowledge of 'outside' life and more time to read about and discuss current public affairs, will at an interview coming at the time of this examination, seem to be a better candidate than a man with a first class university brain, the whole of whose time has been taken up in his study reading hard [*sic*] purely academic subjects for his degree. If a true comparison between the two classes of candidate had to be obtained, it would be necessary to give the university man first a run of office experience of the same, or less, duration than the junior executive has had. I think the judgement might then be different. We have had to point out frequently how the administrative class differs from all others in that what we look for is a man who, so far as can be judged at the examination stage, has in him the possibilities of *ultimate* development and attainment necessary to meet the calls of the *highest* administrative work of the

service. One can only speak here in generalities but it is, I think, a reasonable view that a junior executive officer, who at a time in the early life of candidates is placed higher than an honours university graduate, would ultimately in the service fall behind the better educated man. If university education means anything, one must recognise that the one man has something of value which the other has not.[42]

But the prospect of honours university graduates filling the highest administrative posts in Finance (or, *a fortiori,* in other government departments) was by now remote. The failure to attract such graduates in sufficiently large numbers was one reason; the reluctance to promote them in advance of higher executive officers senior to them in years and experience was another.

Once more, Boland's evidence to the Brennan Commission is of interest. The universities, when questioned about the careers followed by their best students suggested that there was "a very strong flow to professional appointments in Ireland" and that "the field of recruitment for this very important branch of the public service, after all these people are taken out, is a very small one"; Boland mentioned, too, "the limitation due to the requirement that Irish is compulsory".[43] But not all officials in the Department of Finance attached the same importance to recruitment from the universities as Boland. W. F. Nally, for example, from whose written evidence to the Brennan Commission we have already quoted and who had been appointed as a principal in Finance after following the executive officer promotional route, told the Commission in the course of his oral evidence that he disputed the notion that a university education was essential for administrative appointees to the public service. "A man may be a genius and a nuisance at the same time", he said, and he related his experiences in "a certain department" when "a few disgruntled people came to see him" because they wanted "to have their academic qualifications recorded on their files and taken into consideration for promotion purposes." Nally rejected their request and replied "that if they wanted to go back to the heads of their sections and obtain from them certificates of their zeal, punctuality, efficiency and good conduct, I would file such documents. I mention this to exemplify my attitude in these matters. In fact, the particular officials I have in my mind were hopeless as officials."[44]

The relative lack of experience of the junior administrative officer class, when the appointment of principals was under consideration, was crucial and may be demonstrated by a brief analysis of the eight

principals serving in Finance in 1936. Three of the eight (Lynd, Hanna and Dagg) were former higher executive officers who appear as assistant principals on the 1926 organisation chart, but it was the promotion of the other five — every one of whom had also served as a higher executive officer — which was more significant. Four of these five were higher or junior executive officers in 1926 and all of them had been promoted *in advance* of the junior administrative officers then serving in the Department. Their experience must be contrasted with a situation in which no one who entered Finance as a junior administrative officer was made a principal until 1939, when Sarsfield Hogan was so promoted — sixteen years after he first entered the Department; and it was not until 1941 that the first of the officers who entered through the 1925 junior administrative examination (Leon Ó Broin) was made a principal on a substantive basis.

The experience of A. W. Bayne, the only Trinity graduate recruited to Finance in these years, is particularly instructive. Bayne, who came in through the first examination in 1925, became Brennan's private secretary shortly before Brennan resigned from Finance. He then served as McElligott's private secretary from 1927 to 1931 and McElligott formed a very high opinion of him[45] which resulted in his being made an assistant principal in December 1931 — the first of the 1925 intake to be so promoted. Throughout the thirties he again worked closely with McElligott, who made him effectively responsible for much of the financial work arising out of the economic war. The next six years saw the five promotions to principal referred to above, all of which, as we have seen, went to officers drawn from the executive rather than from the administrative class. All these promotions were effectively decided on grounds of seniority and this procedure gave the older and longer-serving former higher executive officers, who were promoted as assistant principals before their junior administrative colleagues, a decided edge; the last such promotion of an acting principal on 1 January 1938 had gone to an officer appointed an assistant principal *after* the first of the junior administrative officers (Hogan) had been so appointed and in the same year as Bayne was appointed to the rank. This was the last straw for Bayne and, thoroughly disillusioned with his promotional prospects and with the prospects of administrative officers as a group, he resigned from the Department in November 1938.[46]

That Finance's reluctance more rapidly to promote the early junior administrative recruits over the heads of older and more senior col-

leagues was the crucial factor preventing the emergence of a university-educated administrative élite on the British model seems indisputable. Two meetings of the Department's assistant secretaries and principals, called to discuss promotions to a principalship and to two assistants principalships vacant in 1936, for example, recorded that six years' service as a junior administrative officer "might be regarded in normal circumstances as too short an apprenticeship for promotion".[47] McElligott certainly thought so: "we are now getting down in this Department, as in others", he wrote to the Minister, "to very immature material for promotion and this is an occasion of great concern to those of us here who make ourselves directly responsible for recommendations for promotion."[48]

Boland, as assistant secretary for establishments, was much the most perturbed of Finance's senior officers at the Department's failure to attract more administrative talent from the universities, and his retirement from the Department in 1937 seems to have brought debate on this issue to an end, at least temporarily.[49]

The Finance Differential

One important consequence of the decision taken in the early years of the new state to introduce an administrative élite, based on the British model, in the Department of Finance was the parallel introduction of salary differentials between the Department of Finance and all other departments. The differentials originated with the creation of the Finance assistant principal scale in 1923, which "was never a scale which belonged to the administrative class: it was a scale, picked from the executive class, which was interposed between the entry grade and the first promotion grade of the administrative class." Under the British system, the administrative class began with the assistant principal grade which, in 1914, carried a basic salary of £200–£500; the principal grade (which the British conceived of as "the first promotion grade of the administrative class") then carried a salary of £700–£900, while the next grade up the ladder on the then separate executive line carried the scale of £550–£700.[50] But from 1923 onwards officials of the Department of Finance who held the title of assistant principals were moved on to this latter scale. On 13 September 1923, for example, W. T. Cosgrave and C. J. Gregg initialled a minute stating that John Leydon was "to be promoted" to this scale.[51] Assistant principal posts in outside departments on the other hand

(other than in the Office of the Revenue Commissioners) were assigned on a £500–£600 Scale from 1927 onwards. Comparable financial benefits also accrued to officials serving in the Department of Finance at a higher level — namely principal, assistant secretary and secretary.

The possibility of eliminating the anomalies inherent in the finance differential does not seem to have been formally considered until 1936, when the provision in the 1936–37 estimates for a newly created acting assistant principal post occasioned a review of the differential within the Department. But, as McElligott minuted after discussing the matter with the assistant secretaries (Boland, Codling and Doolin), "it was unanimously agreed that no change should be made, for the present at any rate."

The next comparable discussion of the differential did not take place until 1959 when the Association of Higher Civil Servants entered a claim for parity between the pay scales of principals in other departments and the pay scale of principals in the Department of Finance. A comprehensive review of the differential was undertaken within the Department over the next twelve months and it was only after "prolonged consideration" that a meeting of the secretary and assistant secretaries on 23 April 1960 once more decided "That the existing system should be continued".[52]

The arguments adduced in defence of the continuation of the system were principally based on the special role that the Department had to play in relation to other departments. It was pointed out, for instance, that "Department of Finance staff spend a great deal of their time examining proposals from other departments" and it was argued that this work demanded skills of a higher order than was called for in other departments. The examination of other departments' proposals, it was suggested, could only be carried out by officials "with a wide overview of financial, economic and social necessities and priorities [and] it follows that, grade for grade, the work in Finance is of higher quality than outside." This special relationship between Finance and other departments was illustrated with reference to the fact that, "in practice, assistant principals in the Department of Finance make many of their contacts at principal level outside while Finance principals are frequently in touch with assistant secretaries in other departments." An additional argument was that, "unlike outside departments, Finance draws all (or practically all) its material from the administrative officer grade (of which it employs about 70 per cent, at any

one time) and that, consequently, it is not illogical that its grade structure in the promotion levels should be different from that of outside departments."[53]

The survival of the Finance differential is, then, a striking example of the strength of endurance of decisions taken when the administrative institutions of the state were first established and, in this context, it is instructive to compare what the man most responsible for those early decisions, C. J. Gregg, wrote in 1923 with the arguments of his successors in the latter-day Department. "All the Irish Departments, with the exception of the Castle, were treated as departments of the executive type in which the administrative grade should not be employed, with the exception of the Chief Secretary's Office, which . . . had special administrative responsibilities", wrote Gregg of the civil service system under British rule. It was his opinion that "we must leave alone for the present any question of introducing the administrative class into the general departments of the Free State. It is felt, however, that in the Finance Ministry, which is a new Ministry and has, in particular, the control of expenditure of all other departments, we should introduce the administrative recruit" — a point of view uncannily echoing the defence of the Finance differential put forward nearly forty years on.

Staffing in the Emergency

Seán Moynihan succeeded Boland as assistant secretary in charge of the establishment division on 1 March 1937, having been transferred from the Department of the President of the Executive Council. His appointment was not followed by any changes in the promotional patterns described above — it was over his name in fact that the office notices showing the critical promotions of 1937–38 were circulated. Soon, however, problems of recruitment and promotion were pushed aside because of the outbreak of World War II and the major crisis which the Emergency posed for the establishment division. Just what that crisis meant to Finance as regards its staffing and internal organisation is revealed by a table prepared by the Department showing the number of officers on loan from one department to another at the "peak-point" of the Emergency, 1 January 1943, when twenty officers from Finance were on loan to other government departments — nine to the new Department of Supplies, four to Defence, three to Justice and one each to Industry and Commerce, External Affairs, the

Paymaster General's Office and the Taoiseach's Department. No fewer than twenty-seven officers, on the other hand, were then on loan to Finance from other departments — eight from the Revenue Commissioners, six from Industry and Commerce, five from Posts and Telegraphs, three from the Land Commission and one each from the Taoiseach's Department, the Oireachtas, the Office of Public Works, Justice and the Valuation Office.[54]

Finance's higher-ranking officers, moreover, were most in demand: the organisation chart of the Department in August 1942 shows that a principal, an assistant principal and six junior administrative officers were then on loan to the Department of Supplies and that an assistant principal, a junior administrative officer and a higher executive officer were on loan to Defence, apart from four other higher executive officers and two junior administrative officers on loan to other departments. As a result of some of these changes, certain officers who began their public service careers in Finance achieved major promotions in outside departments. D. P. Shanagher and J. C. B. MacCarthy, for example, sent on loan to the Department of Supplies, went to Industry and Commerce on permanent transfer in 1945 and both subsequently served as secretaries of that department. Leon Ó Broin and J. A. Scannell were similarly transferred to Posts and Telegraphs and both succeeded to the secretaryship of that department in due course. T. J. Morris moved from Finance to become Commissioner of Public Works and, in 1946, P. S. Ó Muireadhaigh transferred to Local Government and Public Health and was eventually made secretary of the Department of Health.[55]

Although these developments naturally enhanced promotional opportunities within Finance, the Emergency saw few major changes at the highest levels of the Department. J. E. Hanna, who came originally from the executive side, had been made assistant secretary in charge of the supply division when Walter Doolin died in 1939, but the next such promotion did not take place until 1944 when Arthur Codling retired and was succeeded as assistant secretary of the Finance division by O. J. Redmond, who also came from the executive side and whose appointment was strictly in accordance with the principle of seniority.

Post-War Reorganisation

But more radical organisational changes, marking the beginning of the emergence of the contemporary Department, began only in the

post-war years and it was November 1947 before discussions between minister, secretary and assistant secretaries concerning the reorganisation of the finance division were brought to a conclusion. The objects of the reorganisation, minuted Seán Moynihan were:

> (a) to enable the division to cope with the increase in the volume and difficulty of the work of the foreign exchange section arising from the growth in the demand for foreign currencies, on the one hand, and the need for more rigorous restriction of Irish claims on the pool of dollars and "hard" currencies generally, on the other; (b) to provide for attendance at international conferences on financial and economic questions and for the work arising out of such conferences.[56]

The reorganisation necessitated the creation of two additional posts: a substantive deputy assistant secretaryship (filled by Sarsfield Hogan) and an acting principalship (filled by Seán Ó Muireadhaigh). It was also at this time that T. K. Whitaker was promoted to acting principal.

But the additional appointments did not meet the exigencies of the post-war world and, less than a year later, Moynihan noted that

> . . . the demands of the USA are so detailed in connection with the European Recovery Programme service that it is impossible for the exchange control [section] in its present form to cope with them. Involving as they do programming and documentation on a massive scale, they give rise to a series of administrative problems which can be dealt with only by experienced higher staff.[57]

The appointment of an additional principal and two additional assistant principals was accordingly approved. In the following year, 1949, the rest of the Department witnessed comparable expansion when additional principalships in the establishment and supply divisions were approved.

It was not until 1950, however, that the momentum for more sweeping changes in departmental organisation seems to have become irresistible. A special memorandum from T. K Whitaker to the Secretary, McElligott (at the latter's request) is illustrative both of the genesis of that transition and of Whitaker's remarkable and growing influence within the Department, and it merits extensive quotation on both counts. "When stressing recently the need for an improved organisation of the Department, and, in particular, for a sort of general staff", Whitaker began,

I referred to the fact that in the future, as never before, we shall have to rely on our powers of exposition and persuasion if we are to have any real influence on financial policy because normal checks, such as the difficulty of raising finance for current and capital outlay will be in abeyance so long as counterpart millions and boom conditions last. I referred to the enormous development in capital expenditure, marked this year by the innovation of a capital budget for £34 million, which has outpaced our administrative capacity to give it its due attention. I pointed out that it was a new category of public expenditure, as important as the cost of administration, yet, while we had a division attending to establishment matters, we hadn't a single officer concentrating whole-time on capital expenditure. There is evidence that if we don't move in time, this important sector of public finance will be removed from our immediate jurisdiction and become the province of a cabinet sub-committee. I said that we must equip ourselves to pursue consistently a coherent and enlightened policy, based on reliable and well-sifted statistics and on a convincing analysis of the economic and financial situation in the terms now understood i.e. in terms of national output, savings, investment . . . and the inflationary (or deflationary) gap. The budget speech represented a first attempt to present the situation in these terms. The risks were those indicated. This must be followed up by continuous review and we must be able to take the initiative in directing the government's attention to the emergence of any undesirable consequences of its policy.

I had in mind the establishment of a secretariat to look after the following matters:

(i) General economic, financial and monetary policy;
(ii) Financial business, including preparation of Minister's speeches on Votes on Account, budget and other financial measures and problems;
(iii) Capital budget, including examination and approval of 'below the line' capital expenditure;
(iv) Financing of all capital expenditure, including 'above the line' capital services; flotation and redemption of national loans, negotiations with banks, guarantees, etc.;
(v) Settlement of lending terms;
(vi) Small savings;
(vii) Reports on monetary and financial topics and supply, collation and study of economic and statistical information;
(viii) Matters relating to banking, currency, trustee investments, insurance, stock exchange, etc.[58]

Whitaker went on to say that McElligott had already "expressed a reluctance to set up any new division or secretariat" and had asked

him rather to consider "how these proposals could best be integrated with the functions of the existing divisions". But Whitaker reiterated his preference for the more radical change by emphasising that "the idea of a secretariat, or general staff, was inspired by the consideration that it would be concerned with matters of central Departmental interest and policy and would have to survey the field of battle as a whole." He also conceded, however, that such functions were "the true essence of finance division work" which could be effectively discharged by a strengthened and reorganised finance division along lines he proceeded to sketch out.

Whitaker's minute was considered at "several meetings" between McElligott and the assistant secretaries and "after prolonged consideration" it was decided

> that the adoption by the government of a programme of capital expenditure far bigger than anything . . . contemplated in the past, the resultant large-scale borrowing, the need for better provision for the examination of monetary and economic problems generally and the demands on the Department in connection with international conferences on economic and financial questions made a reorganisation on the lines suggested . . . a matter of necessity.[59]

It was consequently agreed that a deputy assistant secretaryship should be created in the finance division and that Whitaker should be promoted to fill it. But Finance still seemed reluctant fully to accept that the kind of developments which necessitated such a change would prove a permanent feature of the post-war era: the post was a temporary one and Whitaker's appointment was "in an acting capacity and subject to the condition that it will not affect Mr Whitaker's position on the seniority list and, in particular, will not give him seniority over the existing substantive principals." A similar attitude had been evident in 1948 when Sarsfield Hogan had been promoted from the rank of deputy assistant secretary to an additional assistant secretaryship only on the understanding, as McElligott minuted, that it "would be on an acting basis and would disappear at the time Marshall aid came to an end, if not sooner."[60]

But, whatever the strength of conviction behind such declarations, Whitaker's new appointment afforded him a unique opportunity to direct the development of Finance in the nineteen fifties. That such was the intention of the appointment, moreover, is evident from his own assessment of his future role as expressed in his seminal minute to

McElligott. The details of his plan of reorganisation would, he wrote, relieve him "of a considerable amount of day-to-day work" and allow him to "give . . . more time to attend to broader questions of finance and to those quasi-personal duties which cling to me however much I try to shake them into someone else's tray." Whitaker could thus "become, in a sense, the 'spare rib' " that McElligott had said he "was intended to be". Whitaker had suggested that

> . . . the new section should be as compact and self-contained as possible. I suggest — with some modest reluctance — that my experience and capacity could be used with greater all-round benefit . . . if — subject to Mr Redmond — I were given charge of a general section . . . and the general duty of assisting the head of the division [Redmond] and yourself in any problems you might set me.
>
> What I suggest entails merely the creation of *one* new senior post in the finance division, yet I am confident that it would meet, in large measure, the need for a stronger organisation which I stressed when putting forward the idea of a secretariat. It would be an integral part of the finance division and should afford sufficient relief to the higher personnel to enable the division to cope with the greatly enlarged duties imposed upon it by the government's investment and financial policy. It would give me time and resources to tackle more effectively the many important economic and monetary problems that arise and to prepare (rather than scamp) the drafts of ministerial speeches on the budget, etc.[61]

Whitaker's special section included a principal, two assistant principals and two administrative officers. The principal was John O'Donovan, formerly Whitaker's assistant principal, and for whom the latter had specifically asked because of his "outstanding economic qualifications". O'Donovan's promotion, too, was in breach of the seniority principle but McElligott and the assistant secretaries conceded "that no redistribution of posts would make it possible, consistently with the interests of the Department, to avoid the proposed departure from the order of seniority." The officer then appointed assistant principal in O'Donovan's place must also be mentioned — Dr B. P. Menton, then an acting assistant principal at the Central Statistics Office. The minute of McElligott and the assistant secretaries concluded that Menton possessed "in a special degree the experience and qualifications required" and reference was made to his membership of "the inter-departmental ERP committee and . . . the foreign trade committee" as well as to the fact that, with Whitaker (whom he had already "assisted . . . in the investigation of national income"), he

had "been a member of working parties appointed by these committees". Such reasons for appointment would have been inconceivable in the pre-war Department of Finance and the very language in which they are framed is indicative of the changing climate of opinion within the Department. Menton's appointment symbolises the new priorities of the post-war world and, in as much as it is the first occasion when the Department decided in effect to appoint an economist *qua* economist, it is something of a landmark, more particularly as Menton became in due course the director of the economic service in the Department.

The Whitaker reorganisation of 1950 was arguably the most important change of direction of its kind since the Department's foundation — certainly the most significant such change to occur in McElligott's long tenure of office as Secretary, and the latter's role in encouraging and supporting such a new departure should not be forgotten. It laid the groundwork for the changes of the fifties which culminated in the 1961 reorganisation of the Department into four divisions.

The 1961 Reorganisation

The 1961 reorganisation, the relevant office notice to the officers of the Department declared,[62] inaugurated an organisation of four divisions: finance, development, supply and establishment and so redistributed the work of the old finance and supply divisions "as to bring together under the new development division not only economic promotion generally but also the normal work coming to the Department of Finance from the principal departments promoting economic activities", viz., Agriculture, Industry and Commerce, Transport and Power and Lands. The reorganisation was intended to draw together "so far as is practicable work of a similar nature" and abolished the old distinction "between 'finance work' and 'supply work' on a given item": it was laid down, for example, that "State aid by way of loan will, where practicable, be dealt with by the section which deals with State grants for the same or similar purposes". The following was the "brief" description of the work of the new divisions:

(1) *The Finance Division,* which includes the accounts branch, deals with a) the raising and provision of money for State purposes by way of taxation and borrowing, including the annual budget and finance legislation; b) international trade and payments; c) banking and credit generally; and d) the study of economic trends.

(2) *The Development Division* a) seeks out ways and means of advancing economic growth and develops ideas and projects to the point at which they can be placed with the appropriate department or agency; b) controls the expenditure of the departments mainly concerned with economic activities; and c) deals with certain State-sponsored bodies whose work is important to economic development.

(3) *The Supply Division* deals with a) the control of the expenditures of the departments not dealt with by the development division except that the pay of personnel other than teachers, Army and Garda is controlled by the establishments division; b) State-sponsored bodies associated with these departments; c) the Local Loans Fund, the Social Insurance Fund and the Road Fund; and d) superannuation and pensions.

(4) *The Establishments Division* a) controls the numbers of staff employed and their remuneration and conditions of service; b) controls recruitment to the civil service; c) operates the machinery of conciliation and arbitration for the civil service, including the general council and departmental councils; and d) concentrates on the improvement of departmental organisation and methods by way of inspection, training schemes and work studies.[63]

Under the new arrangements, the economic development branch, set up in September 1959 after the publication of *Economic Development* under C. H. Murray (to whom Dr Louden Ryan of Trinity College worked directly as economic consultant) was integrated in the development division now established under Murray's assistant secretaryship — this was the team responsible for the preparation of the Second Programme for Economic Expansion in 1963–64. The general aim of the reorganisation, the office notice in question concluded, was to continue the process of delegating authority to other departments while leaving Finance officials "free to devote more attention to proposals involving sizeable expenditures, to the promotion of economic development and to the study of the operation of existing schemes with a view to securing economies."

Another, less important reorganisation took place in 1966. This time the Department's divisional structure remained fundamentally unaltered; what was at issue was little more than a rationalisation and rearrangement of work loads of no great significance other than to the officials directly affected. It was now, however, that the Department's establishment division was retitled the "personnel division". The Department's personnel function was the subject of increasing debate in the following years and the matter lay at the centre of the next major organisational changes which occurred in the early seventies.

The Post-Devlin Reorganisation

The impact of the publication of the Devlin Report in 1969 upon the Department of Finance will be examined in the epilogue to this history. Here we are concerned only with how these changes affected the Department's organisation which, when surveyed by the Devlin group, was based on the quadripartite structure of finance, development, supply and personnel divisions inaugurated in 1961, to which had been added, in November 1968, an economic service, headed by Dr Brendan Menton, which was responsible for short-term economic forecasting and analysis and which worked directly to the Department's Secretary — this work had been carried on in the Department for some time and the 1968 change merely represented an organisational change.[64]

The Devlin Report recommended two basic changes in this structure: first, "that the personnel function aspects of the establishment function should be separated from the Department of Finance" and placed instead in a new Department of the Public Service; and, second, that Finance's "organisation structure" should henceforth be based on "three operating units set up in such a way as to group all cognate functions together" — namely, a development division, a budget division and a monetary management division.[65]

The "wider aspects" of the Department's organisation in the light of the proposed establishment of the Public Service Department formed the subject of a memorandum from the Secretary to the Minister for Finance on 9 October 1970. The memorandum argued for a change in the title and responsibilities of the development division:

> . . . a more satisfactory arrangement would be for the division (a) to shed its 'executive' functions, (b) to concentrate on economic planning but (c) to incorporate the Economic Service . . . which at present operates as an autonomous unit. The division should be restyled the economic policy division and should be responsible for *all* economic planning, analysis and forecasting, including the initiation of the Third Programme reviews and bringing out the Fourth Programme. . .
>
> Apart from EEC activities, the remainder of development division's work should be transferred to supply division which might be renamed the public expenditure division.

These proposals formed the basis for the new structure of the Department of Finance established in the following year, 1971. The

reallocation of responsibility for public expenditure was, perhaps, the most striking example of what this reorganisation meant in practice. Before 1971 this responsibility had been shared by the different divisions. Hence the finance division was responsible for expenditure from the Central Fund, the development division for the expenditure of government departments and state bodies whose role was seen as developmental, the personnel division for civil service pay and the supply division for everything else. Now, after 1971 (although the finance division retained control of Central Fund expenditure and the personnel division for civil service pay and for other expenditure later assigned to the Department of the Public Service), all other public expenditure incurred by departments and bodies financed by the Exchequer was made the responsibility of an enlarged public expenditure division.

The post-Devlin reorganisation led to the establishment on 1 November 1973 of the Department of the Public Service when the "ministerial functions and departmental administration in relation to organisation and personnel matters" previously discharged by the Minister for, and the Department of, Finance, were transferred to the Minister for, and the Department of, the Public Service. What this meant in effect was that the Minister for the Public Service replaced the Minister for Finance — although both offices were to be held by the one man (in the first instance, Richie Ryan) — in regard to

(i) the terms and conditions (including superannuation) and numbers of civil servants
(ii) automatic data processing in the public service
(iii) the pay and allowances (other than emoluments in kind) of members of the defence forces
(iv) the terms and conditions of the Garda Síochána
(v) the terms and conditions of teachers, civilian employees and industrial employees
(vi) fees and remuneration generally, e.g., for consultants and members of the boards of state-sponsored bodies
(vii) questions of organisation or personnel generally which were formerly subject to approval by the Minister for Finance; the Department of the Public Service should also be consulted in advance where departments are contemplating proposals with repercussions on organisation, structures or personnel in the public service.[66]

This last category was sufficiently sensitive to demand a separate

office notice distinguishing between the responsibilities of the public expenditure division of the Department of Finance (which was given the right to "initiate or process matters involving organisational change within the public service so long as . . . the end-product being achieved and the *raison d'être* for the action are financial or budgetary in nature and the organisational change is a by-product of this") and the responsibilities of the new organisation division of the Department of the Public Service in all other organisational matters affecting the public service.[67]

The establishment of the Department of the Public Service is arguably the most important single landmark in the *organisational* history of the then fifty-year-old Department of Finance, if only because it reduced by almost 30 per cent the functions and numbers of the "old" Department. The authorised number of officials serving in the general service grades of Finance fell from 541 in 1973 to 371 in 1974 when the personnel division was transferred to form the nucleus of the 252 strong staff of the new department. Nor did the change merely reflect the intention to create a fully-fledged department out of what had formerly been a division; it also reflected an awareness of the significant increase which had taken place in the responsibilities of the *old department* and the manifold duties of the *new department*.

The Budgetary Function

In the popular mind, what has traditionally excited most attention about the activities of the Department of Finance is its responsibility for the budget, and a chapter of this history on the Department's functions and organisation which made no specific reference to the budgetary function would seem strangely defective. Yet the history of budgetary policy since the foundation of the state is so large and complex a subject that it could justify a book to itself if it were to be treated comprehensively. All that will be attempted here, therefore, is to outline the major changes in budgetary policy during the period with which this history is concerned.

For over two decades, from the early twenties to the late forties, there was no change of any significance in budgetary policy. Indeed, an assiduous reader of the budget speeches of successive Ministers for Finance in these years might be forgiven for suspecting that there lay in the innermost sanctuary of the Department of Finance a single transferable speech which they were called upon to proclaim as holy writ at annual intervals. The first tenet of the orthodox creed of

public finance which informed these speeches was that the budget must be balanced; the second, that this balance must be struck at the lowest possible level and, by way of corollary, that state expenditure should be kept to a minimum and the expansion of the state's activities resolutely resisted.

"It is certainly time for us to consider whether the welfare of the country does not demand that we should now set a limit to the extension of governmental activities, which otherwise threatens to continue indefinitely", the Minister for Finance (Seán T. O'Kelly) told the Dáil in a budget speech delivered as late as 1945 when he deprecated the growth, in numbers and cost, of the civil service:

> . . . it is the expansion of state activity itself rather than the growth of the civil service that causes me the greater concern. I look upon the restless activity of the state as the disease and the growth of the civil service, however distressing, as merely one of the symptoms. . .
>
> Government policy has raised the tempo of activity in every department of state but, as deputies know, the rise had until 1939 been greatest in the departments concerned with economic affairs and the administration of social services. . .
>
> We cannot have more state services without more state servants. To think otherwise is a pure delusion, and those who . . . [are] in favour of additional measures of social security, guaranteed markets, guaranteed prices, minimum wages, further land division, extended afforestation and regulation of a hundred and one activities are all, in effect, advocates of a larger and more costly civil service, of what in other moods some of them would call a bigger bureaucracy.
>
> There are, I admit, spheres in which the extension of governmental activity was and is inevitable, in which the results aimed at are in the public interest and can be achieved only by the government, or can be much more effectively achieved by it than by any other agency. But are we sufficiently critical in judging whether this condition is fulfilled in each particular case? I am convinced that we are not, that, on the contrary, most of us — and this is true of all parties in Dáil and Seanad — whatever theories we may profess, show in practice a bias in favour of governmental action and against leaving desirable reforms to the initiative of persons and organisations outside the charmed circle formed by the Oireachtas and the government. . .
>
> We cannot continuously increase the power of the central government without restricting the freedom and undermining the morale and the self-reliance of the citizen. Those most hostile to totalitarianism are often the warmest and most persistent advocates of direct state activity in many spheres. State control carried far enough is totalitarianism.[68]

Hence the obstacles to new departures in budgetary policy which necessitated more state intervention in, and management of, the economy were plainly formidable. Yet the war years, as we have seen in our account of the Department of Finance in the forties, afforded Finance officials an opportunity to absorb the implications for Ireland of Keynesian economics. Political attitudes, too, were changing. In May 1948, for example, we find Seán Lemass, speaking in reply to the first budget introduced by the inter-party government, telling the Dáil that a budget "is something more than a mere adjustment of the national finances, an arrangement for securing revenue to meet the estimated cost of state services. A budget is in modern times the most effective instrument in the hands of the government for the implementation of its economic and social policies."[69]

But the decisive change came in 1950. The budget that year was a milestone in the Department's history. Here we need only briefly reiterate what has already been said in our earlier discussion of its origins and significance: that it was *then* that the concept of the capital budget was introduced separately and *then* that Keynesian economics received formal acceptance in a budget speech. It was the first occasion, too, when a wide-ranging "economic survey" was incorporated as a separate and major section of the budget speech — the 1951 budget saw the promotion of the "economic survey" from last to first place in the speech. The days were at an end when the budget was essentially an exercise in national housekeeping, an opportunity for the Minister for Finance to render an account of what had happened in the past, and what he expected to happen in the next, financial year. But the commitment to Keynes was not yet complete. The 1952 budget — again, an event significant enough already to have been discussed in this work — reflected an austere return to pre-Keynesian conservatism — but the budget speech a year later of the same Minister for Finance, Seán MacEntee, reaffirmed the commitment to Keynes when he argued that

> . . . so far as the budget is expected to exert a positive influence on the level of economic activity and on employment, it is desirable that it should do so in a direct and useful way, through a large and balanced programme of state capital works, rather than by diverting capital resources to serve consumption needs whether public or private.
>
> That is my answer to the charge that in fiscal matters the government have been pursuing an out-moded and ultra-conservative policy.

This was a budget, concluded MacEntee, designed to "look for-

ward with assurance to the continuance of a well-ordered and sound programme of productive capital investment . . . a budget which is designed to achieve stability of prices and money values, to foster increased productive effort and to afford a firm basis for continued economic and social progress."[70]

That same budget speech of 1953 also contained a passage which is of interest in the context of the other major change in budgetary policy: the emergence of deficit financing in the early seventies. "The simple rule of health — that current expenses should be met out of current revenue — retains all its old validity", declared MacEntee, and was "all the more binding because of the size of our capital programme and the strain it will put upon current and past savings."[71] This was the conventional wisdom for the best part of the next two decades until George Colley, the Minister for Finance who introduced the supplementary budget of 28 October 1970, admitted the possibility of change when he told the Dáil that,

> . . . up to now, budgetary policy has aimed at balancing current expenditure and current revenue rather than deliberately producing a surplus or a deficit. Over most of the last decade, a deliberate policy of deficit budgeting would have been contrary to the requirements of our general economic situation, but some economists would argue that, in certain years, it would have been justifiable to aim at a surplus. To the extent that this could be achieved only by increasing taxation, however, it would be necessary to guard against the danger that the tax burden might discourage enterprise and retard the satisfactory rate of economic growth attained in the sixties. But the intense and growing inflation of recent years, and the extent to which money incomes have been racing ahead of national output, may make it necessary to reconsider our former attitude. While . . . a surplus could not now be achieved in 1970–71 without severely disrupting the economy, this does not rule out the possibility that we shall in future aim at a surplus on current account in conditions of inflation or at a deficit when economic activity is depressed.[72]

Depression was the hallmark of the years which followed, and deficit budgeting, admitted as a possibility in 1970, became an established fact with the budget speech presented to the Dáil (again by George Colley) on 18 May 1972. Having first referred to what he had said in October 1970 and having pointed out that economic circumstances were characterised by high price increases, a weak balance of payments position and severe inflation (especially in labour costs), he acknowledged

> . . . that the budget should be directed at containing inflationary pressures or, at least, not adding to them.
>
> On the other hand, the economy is, for the third year in succession, running at well below capacity. Unemployment is high. We lack the economic buoyancy required to tackle quickly and effectively the adaptation which membership of the EEC will demand. If priority were given to these factors, budgetary policy should be primarily directed at improving the growth performance of the economy. Faced with these competing requirements, the government have opted for growth rather than stability. The level of government expenditure this year will, therefore, be determined by reference to our economic requirements and will not be cut back to the estimated yield of revenue. There will not be any increase in taxation, and the resultant deficit in the current budget will be financed mainly by borrowing.[73]

Growth rather than stability, deficits in the current budget to be financed by borrowing — it is instructive to compare the sentiments voiced in these budget speeches of the early seventies with what Hilton Young had to say on the subject in the work that served for so long as the bible of Finance officials. He was writing about what he called the "elementary principles" of national finance:

> that revenue and expenditure should balance year by year is the golden rule of economy. It is even an absolute essential of solvency. Bankruptcy is the port towards which a state steers that allows its debts to accumulate. To obscure the fact that they are being allowed to accumulate by raising loans to pay them off temporarily can only prolong the journey.[74]

The times, indeed, had changed.

II: The "Finance Attitude"

Its Opponents and the Brennan Commission

What, asked Dr Whitaker in a 1953 address entitled "The Finance Attitude", can a Finance official say about "the obstructionism of Finance, its inverted Micawberism, its slowness to see the merits of a case, its maddening questions, its dilatoriness, its blind devotion to precedent, the 'dead hand' with which it stifles every initiative?"[75] The question is no less relevant for the historian of Finance, more particularly when the relationship between Finance and other government departments is being scrutinised. "That the effective responsibility for the general organisation and regulation of the Civil Service is vested in the Minister for Finance" (in the words of the Brennan Commis-

sion Report)[76] was the key factor governing that relationship. Finance's unique powers *vis-à vis* other departments — powers conferred by the Ministers and Secretaries Act in the first instance — enabled it to control in large measure the expenditure of, and appointments in, other departments. No other government department has ever enjoyed a remotely comparable right of intervention in the affairs of its fellow departments; it is consequently hardly surprising that no other department has inspired so much hostility and resentment. Finance's role, other departments have frequently maintained, has been to play "Big Brother" and a niggling Big Brother at that.

The kind of animus inspired by Finance is well-illustrated by Luke Duffy's Brennan Commission minority report, which was based on the premise that the government should resist the enlargement of Finance's powers over the civil service — a move favoured by a majority of the Commission. In Britain, Duffy wrote,

> . . . the Treasury stands over the civil service administration as a watch-dog and there is in this country a desire, even a resolve, to place the Department of Finance in a position corresponding to that of the Treasury in Great Britain. There are those who seem to visualise the Department of Finance or, more correctly, the establishment branch of that department, as an inspired guardian of public administration with power to direct the energies and curtail the activities of every department of state and of the ministers in charge of departments. To accept this view of the functions of the Department of Finance is to elevate into an oligarchy a particular section of the administrative machine. . .
>
> Unhappily wherever 'Finance' has secured for itself the power to determine the destiny of mankind, in the banking system, in the state, or in the community it has developed a stranglehold on initiative and on liberty. 'Regarding experiments with suspicion it stands for the *status quo*. The Treasury is not an originating mind, it can state the case against innovations with force and clarity, and starting from the basis that certain truths are fundamental it rejects whatever involves additional expenditure without adverting to ultimate gain; it is slow and cumbersome and hates taking decisions which involve the alteration of a rule or the expenditure of a penny.' It has . . . all the qualities needed by a good administrator except flexibility and imagination. These attributes are not peculiar to our Department of Finance; they are international in character and eternal in their persistence. Finance officials everywhere develop a technique of their own which expresses itself in maximising safeguards against the inroads of an enterprising government on the established traditions of the service. Colloquially this technique has come to be known as 'red tape'.[77]

For these and other reasons, Duffy questioned the wisdom of "entrusting unlimited power to the department of state which is traditionally the most reactionary" or of "conferring on that department the sole responsibility for the control of the civil service", and drew attention to the evidence submitted to the Commission which attested to the rest of the public service's discontent with Finance.

Finance officials were always sensible of the hostility provoked by their function of regulation and control and none more so than H. P. Boland who, as assistant secretary in charge of the Department's establishment division, bore the brunt of such hostility for much of the twenties and thirties and whose office made him the most important witness to be called to give evidence to the Brennan Commission. In the course of his evidence under cross-examination, Boland argued that the Minister for Finance was

> . . . in a position different from that of other Ministers. The Minister for Agriculture is dealing with agriculture, the Minister for Education with education and so on. No other minister interferes with him or disputes whether or not a thing proposed to be done is good. But the Minister for Finance has to intervene in what every other minister is doing if it costs money. He has every other minister, so to speak, against him. Every minister or his department is looking for something which, at one time or another, the Minister for Finance or his Department must suggest ought not to be agreed to. In that way a constant contention is set up and is in existence all the year round and every year between the Minister for Finance and other ministers.[78]

Boland had made the same point in a rather different form when giving evidence to the Commission a year before, when he described Finance as "a general service department", very different from other departments and so defended the existence in the Department of no fewer than nineteen different grades of officer. Finance, he pointed out, received "every day from every department of state, proposals that affect every sort of activity of the government" — proposals which related "not to one thing but everything" and which had to be examined by the Department's officers "in the light of decisions given previously by the Minister, indicating his policy or his views upon them." [79] The significance of the distinction was acknowledged by a former Secretary of Industry and Commerce, Lord Glenavy, who observed that "if you call the Department of Finance an administrative department the others would be primarily executive departments; that is a broad distinction between their functions. . .

The Department of Finance is very largely concerned with reviewing the executive intentions of other departments."[80]

The gulf dividing Boland's from Duffy's view was most starkly revealed in an exchange between them on 3 February 1933 when Boland metaphorically likened the role of the Minister for Finance to that of "the man on the sluice gate of a canal" where "many waters are coming down". It was the Minister for Finance's job, argued Boland, "to cut the country's coat according to the cloth available. It all comes into a pool but, in the process of coming in, there is review" and that, in Boland's opinion, "is what the Department of Finance very largely exists for — detailed review to see whether the cost can be reasonably reduced in the case of things put forward as urgent or necessary." When pressed on whether Finance should not allow for a certain permanent and annual expenditure — "rivers will have to be drained and lands will have to be planted" expostulated Duffy — Boland simply retorted that "we cannot go on for ever doing that continuously. The civil service goes on for ever."[81]

The same philosophy is apparent in Boland's discussion of criticisms which had been directed at heads of other departments for their alleged weakness in dealing with Finance on establishment matters; he described such cavils as "one of the ways officials whose self-esteem is above their merit have of explaining to themselves their own failures." In one respect he saw such criticisms as "amusing, because they suggest that the relations between a secretary and Finance are a mere trial of force and not of reason and argument" and he felt that "the part of a staff that gives tongue in this way is the rotten and generally the incompetent part." Boland evidently saw such obloquy as an inevitable concomitant of his position as the head of Finance's establishment division. "When I took up my job", he wrote,

> I was often told by individuals what a harsh and unconscionable rogue my predecessor [Gregg] was. When they began to find me out the tune changed and he was quoted against me. It will be so all over again when, as the statutes have it, I 'die, resign or am removed for misconduct or incapacity'. These attempts to damn superiors trying to do their duties according to their lights must be ignored. Looked at personally or officially, they never lost me a moment's sleep.[82]

Although the Brennan Commission served as a major occasion for airing grievances with Finance's powers of control and regulation, its proceedings induced no change of heart in the Department. Reference

has been made in an earlier chapter to the more general context within which the setting up of the Commission must be considered and, in particular, to the significance of Brennan's appointment as chairman. We then saw how, for Finance, the key issue was the maintenance of financial control. An exchange between Brennan and Boland before the Commission on 24 November 1933 revealed the heart of the matter. "To put the matter in an extreme form," said Brennan,

> if an attempt were made to constitute, let us say, a separate Minister for the Civil Service, would the position not be that either the Minister for Finance would have to alienate to that minister the power of financial sanction as regards employment in the civil service, or if, on the other hand, the Minister for Finance were to retain to a material degree the power of sanction, it would be necessary for the exercise of it, as well as maintaining a Minister for the Civil Service with his own staff to do his own work, to have still in the Department of Finance an establishments division to deal with the Minister for Finance's end of the applications for financial sanction?

Boland endorsed Brennan's view and argued that, wherever the ministerial function for the civil service rested, "the minister responsible there will still have to come to our Minister for financial sanction." Brennan then asked "whether the regulation of the civil service is of itself considered sufficiently important to justify the appointment of a minister separate and distinct from the Minister for Finance. The position at the moment is that the exercise of control over the civil service is itself one of the big elements in the sphere of the jurisdiction of the Minister for Finance." That, Boland concurred, was "undoubtedly . . . the problem" and he saw no advantage in moving the control of the service elsewhere, especially because of the "high ratio that salaries in the civil service bear to the other items of national expenditure."[83] The conclusions were duly incorporated in the Commission's majority report.[84]

One other element of existing procedure which came under attack at the Brennan Commission's sittings, and which Finance was especially anxious to preserve, merits brief mention: the arbitration of disputes between the Minister for Finance and any of the civil service staffs. The nature of the staff's complaint was summed up in the evidence of Archie Heron, the honorary secretary of the Civil Service Joint Committee, who spoke of the anomaly whereby the Minister for Finance "actually determines the conditions of employment in the

service and if the service has a grievance in regard to conditions of employment and if they have no appeal beyond the Minister, it means they have to appeal to the authority responsible for the imposition of conditions to which they object."[85] But the Brennan Commission recommended against Heron, and McElligott strongly urged upon his Minister that this recommendation "be accepted and insisted on. Members of the Executive Council who may think otherwise should, in this matter, surely defer to the opinions of the Minister who is not only in charge of the civil service but has to find the money to pay them."[86]

Although the Brennan Commission's findings resulted in no diminution of financial control, the pressure for such a change was sufficiently intense for Boland to observe in 1937 "how difficult in the past fourteen years it has been for Finance to maintain its status and authority — during times when the attitude of those even in the highest places was indicated by the interrogation 'What is the need for a Department of Finance at all?' "[87] The Brennan Report was not a year old — it was presented to the Oireachtas on 5 May 1936 — when the preparations for the new constitution of 1937 posed afresh the dangers, especially to financial control, of such questionings.

The 1937 Constitution and Financial Control

Since the Finance response to the more general questions posed by the 1937 constitution have already been examined,[88] it remains only to look at how the new constitution affected financial control or otherwise impinged upon Finance's relations with other departments. Finance was swift to seize the occasion of constitutional change to try to reinforce its primacy among government departments and, in its commentary upon the first draft of the constitution, the Department "urged that the Minister for Finance should in all cases hold the office of Tánaiste, in which event he would be *ex officio* a member of the Council of State. Alternatively, the Minister for Finance should in his own right be a member of the Council of State in view of the importance of his special functions and of his general supervisory powers over state expenditure of all kinds."[89] Finance's proposal necessitated replacing the Comptroller and Auditor-General (who was included among the *ex officio* members in this first draft) with their own Minister, whose inclusion, Finance suggested,

> . . . would increase his prestige and his effectiveness as Minister and . . .

> would bring to the Council a fuller and more general knowledge of the work of administration and of the financial and economic affairs of the State than any of the [other] ex-officio members . . . with the exception of the Taoiseach, could possess. His special experience of the conduct of parliamentary business and especially of money bills make him a more suitable ex-officio member of the Council of State than the Comptroller and Auditor-General.[90]

Finance's representations merely had the effect of causing the Comptroller and Auditor-General to be removed from the list of *ex officio* members; the suggestions that the Minister for Finance should be Tánaiste or, failing that, that he should be entitled to a place on the Council of State in his own right were not accepted. But Finance again pressed both suggestions when they considered the revised draft of the constitution, arguing that all other members of the government, except the Taoiseach,

> . . . can have only a very incomplete and, therefore, unbalanced knowledge of the work of government departments as a whole and [are], therefore, essentially less fitted to act as deputy for the Taoiseach; whereas the Minister for Finance has, by virtue of his office, to obtain a general knowledge of the work of every department of state and, in particular, a full acquaintance with the work of the central Department.[91]

But this plea, too, was in vain.

The articles of the new constitution which dealt with the repeal of the 1922 constitution and with the continuance of laws, also caused Finance especial concern and led them to propose that "the powers, functions, rights and prerogatives of ministers" in the Saorstát government should be "declared to belong to the corresponding ministers comprising the Government of Éire". They felt this was "highly desirable" for all ministers but

> . . . particularly so in the case of the Department of Finance in relation to the many matters in which the powers and functions it has exercised since 1922 have been derived traditionally from Treasury practice through the channel of the Transfer of Functions Order of 31st March 1922.[92] . . . Many regulations in full force and observance in the service departments have their origins in old decisions of the Treasury whose accepted successor is the Department of Finance. The draft constitution should, in some express way if possible, provide support for the continuance of all this Treasury practice and tradition.[93]

In the event no such express declaration was forthcoming although, here too, Finance reiterated its objections.[94]

Another article about which Finance was particularly apprehensive was that relating to "the organisation of, and distribution of business amongst, departments of state" which, it was proposed, "shall be regulated in accordance with law". Finance feared that this article (Art. 28, 12 as enacted) would "involve the re-enactment of some measure corresponding to the existing Ministers and Secretaries Acts" and doubted whether this would be, "on general principles, desirable, as it may involve the upsetting of inter-departmental relations which are at present, on the whole, working smoothly."[95] Yet again Finance was unable to obtain any substantive change in the article in question. McElligott, however, regarded this particular issue as of such moment that he raised it in discussion with MacEntee. His minute of their talk says that he urged on his minister "the necessity for making as little change as possible in the *status quo*. Ministries were numerous enough and the existing division of functions had worked reasonably well." McElligott accordingly "expressed the hope that no substantial alteration was intended, particularly anything affecting the financial control exercisable by the Department of Finance." His minute records that MacEntee reassured him and "said he was not aware of any such proposal being contemplated."[96]

Nor, in the event, were any alterations of the kind feared by McElligott implemented. On balance, then, the 1937 constitution did nothing to undermine financial control, or otherwise to diminish Finance's prestige *vis-à-vis* other government departments, even if it did not afford them the opportunity which they sought further to increase that prestige. Perhaps the clearest indication of how successfully the *status quo* was upheld may be gained from a comparative inspection of the financial articles of the 1922 and 1937 constitutions. The 1937 articles — Arts. 17 (1 and 2), 28 (4, 3), 11 and 33 — for the most part followed almost verbatim the corresponding 1922 articles — (Arts. 36, 37, 54, 61 and 62). Such changes as were made, moreover, were carried out at the instance of Finance who took the opportunity to propose amendments "on some points of detail" since they recognised "that in matters of phraseology some of the [1922] Articles are not in every respect consistent with one another and that their meaning is occasionally doubtful or obscure."[97]

Collective Responsibility and the Department of Finance

Both the 1922 constitution (in Article 54) and the 1937 constitution (in Article 28, 4, 2) incorporate the doctrine of collective responsi-

bility: "the government shall meet and act as a collective authority", proclaims the latter, "and shall be collectively responsible for the departments of state administered by the members of the government." The doctrine is, therefore, at the very centre of inter-departmental relations in the Irish (as in the British) system of government and it is of particular significance in Finance's relations with other departments in so far as it commonly falls to the Minister for Finance to introduce more legislative measures of an unpopular and austere nature than any of his colleagues in government. The onus for defending such measures, arising from the necessity for collective responsibility in financial as in all other matters, posed major and sensitive questions about Finance's dealings with other government departments, so it is hardly surprising that such questions should have provoked a trenchant debate within the Department in the late twenties.

The debate began in 1928 when John Leydon (then a principal officer in Finance) suggested that a draft circular should be sent to all departments reminding them of the doctrine of collective responsibility and pointing out that the Minister for Finance

> . . . has observed with growing concern a disposition which manifests itself on the part of certain other departments to dissociate themselves from decisions of the Minister for Finance on proposals involving expenditure from public funds. It has frequently been brought to the Minister's notice that an individual or body interested in or affected by a proposal which the Minister finds himself unable to sanction was informed that the proposal had been submitted to the Minister for Finance and that the latter was responsible for its rejection. Cases have even occurred in which interested parties have been referred to this Department with the suggestion that representations should be made to the Minister for Finance with a view to securing a modification or reversal of the decision. . .
>
> When the Minister for Finance arrives at a final decision on any proposal submitted to him he does so after full consideration of all relevant circumstances known to him, including in particular the revenue position and the commitments of the Exchequer, and his decision must be regarded as the reflection of the financial policy of the Executive Council. It therefore appears that the Executive Council is collectively responsible for that decision and that it is the duty of each member of the Council to defend it. The Minister regards it as being contrary to the spirit (if not to the letter) of Article 54 of the Constitution that the department of another minister or any officer of such a department should indicate disagreement with the application of the government's financial policy in a particular

instance. Such decisions must . . . be defended where necessary by any department of state concerned in the same manner as decisions of the government or of the minister from whose department the proposal emanates. . .

Instances have also arisen in which departments inform parties interested in particular proposals that [they] had been . . . submitted to the Minister for Finance and the parties concerned were accordingly referred to this Department. It has in fact on several occasions occurred that interested parties. . . have been encouraged to make representations to this Department before the proposal in question was received. . .

The Minister . . . has instructed all officers of this Department to decline in future to discuss with any member of the public proposals submitted by a department of state and to refer any interested party who may make inquiries to the administrative department concerned.[98]

Leydon's draft circular, he pointed out in a covering minute, should be brought to the attention of ministers as well as departmental officials, since ministers, he felt, had also "frequently shown that they are ready and anxious to use the Department of Finance as 'whipping boy'."

Such a proposal, suggesting (in the words of another Finance official) that "the civil service ought to issue a circular which has an implied application to the action of ministers" was clearly controversial and, whether any such directive should be issued and, if so, in what form and through which channel, were questions which were comprehensively discussed in Finance during the next eighteen months. Some Finance officials felt that such a directive might do more harm than good. "We are not altogether popular with some departments", minuted J. L. Lynd,

> and it is possible that these departments might avail of the opportunity of rubbing in our sins of omission and commission. They might also take the line that we were asking them to defend decisions of this Department which they considered indefensible and which we are not able to defend ourselves on any reasonable grounds.
>
> No Department of Finance will ever be popular with outside departments, if it does its duty. Our Department does not claim to be perfect, though, even if it were perfect, it could not please everyone. . . .
>
> The best way to abolish existing abuses is to cultivate better relations with outside departments. This . . . can be done by closer personal relationships, by giving of prompt decisions and by giving, whenever possible, the reasons actuating us in refusing to approve of the proposals of other departments.[99]

Leydon, however, pointed out that such close personal relationships "with responsible officers" in other departments had "the disadvantage that adverse decisions of the Department of Finance are less likely to be accepted where such relationships exist and a great deal of time is likely to be wasted in fruitless discussions" a comment which assumes an added interest in the light of his apponintment as Secretary of Industry and Commerce in 1932.[100]

The debate continued for a year, after which the main issues were summarised in a memorandum of 24 October 1929 which stressed the need for a circular to be issued on the subject: "we are constantly coming up against cases in which departments do not bother to supply any reason for refusing to accede to applications involving expenditure other than that the Department of Finance stands in the way." The memorandum doubted, however, "the extent to which we can prohibit the disclosure by heads of departments of the fact that an adverse decision has been given by the Minister for Finance" on the grounds that "under the British administration certain Irish departments had developed the habit of explaining their inability to do things for which there was public demand by telling people that the Treasury would not agree."[101]

H. P. Boland doubted "whether an official or even semi-official letter was the right means for getting our views to departments. It would be much better in the first instance anyhow, to communicate personally with heads of departments at a meeting. Misunderstandings will be less liable to arise: and our viewpoint can really be better conveyed in this way." His suggestion had the added advantage that the Minister for Finance was going to attend the next such meeting — on 24 March 1930. In fact the Minister did not attend the meeting but McElligott informed him that he was going to report Finance's views at the meeting (which he duly did) and the Minister "promised to bring the matter to the notice of his colleagues on the Executive Council."[102] McElligott made his statement at the end of the meeting when, as he explained to the Minister, he "was unable to allow any time for its discussion";[103] nor was the matter discussed at the next meeting of heads of departments on 22 May 1930, when McElligott told his colleagues "that he was not at present prepared to resume this subject, not having had an opportunity of ascertaining how far the Minister for Finance had taken the matter up with his colleagues on the Executive Council."[104]

McElligott's handling of the issue reflects Finance's caution and

hesitancy in broaching so delicate a subject and, some months later, McElligott decided that they need do nothing further until such time as they had accumulated additional evidence of instances when the doctrine of collective responsibility had been breached.[105] Although Finance officials occasionally recorded such evidence in the course of the next four years, the debate was effectively at an end — the 1932 change of government made it still less opportune for Finance to contemplate issuing a further directive on the subject. One last Finance minute deserves attention, however, in so far as it well illustrates the air of philosophic resignation with which the Department sometimes viewed the odium which attaches to it. The minute argues that

> . . . it is inevitable, and in fact useful enough from the public point of view, that departments should to some extent shelter behind this Department. They are closer to the public than we are and have to, or should, aim at keeping up friendly relations in that quarter. To keep up the latter and repeatedly refuse requests is impossible, so that it is necessary that somebody or something be set up to take the blame. It is really well that one department should be established as a scapegoat if thereby the departments are enabled to avoid alienating the public and hence to function more smoothly. . .
>
> Forcing, by circular or otherwise, of this and all the other departments into a Quatre Bras square, which would unitedly keep up towards the public that Treasury attitude which is so necessary but which has incidentally made *us* so unpopular with the public and Departments, would be a great mistake.[106]

The Problem of Staffing

The Minister for Finance's powers of regulation and control over the civil service nowhere more markedly influenced the nature of the relationship between his Department and the other departments of state than in respect of his powers of appointment and promotion of staff throughout the Irish civil service — the powers contained within what the Devlin Report has described as "the personnel function aspects of the establishment function" of the Department of Finance.[107] "It is not wrong", however, T. K. Whitaker has publicly argued, that the attitude of the Department of Finance to proposals for new expenditure should be predominantly negative. In the division of governmental functions, it is the job of other departments to formulate proposals for carrying out the functions entrusted to them, and in this to be realistic and constructive, and it is the job of the Department of Finance to give a

dispassionate hearing to the proposals of the others, criticising them patiently and intelligently. It is all part of a system of checks and balances, the layman examining the expert, the enthusiast being confronted by the cynic, the man who thinks he has seen the light being exposed to a greater illumination.[108]

Although Dr Whitaker specifically rejected the implication that "this piece of rhetoric" implied "any attitude of superiority or any exclusive preoccupation with criticism in the Department of Finance", he readily conceded that "the kind of questions" asked by Finance officials, together with the way they were asked "and the comment that sounds like pontification, have often caused exasperation."[109]

"Exasperation", the outside observer might feel, is too mild a word to do justice to the reactions of officials in other departments whose initiatives have been thwarted by the "Finance attitude". Such initiatives, and the proper exercise of what spending departments would regard (and Dr Whitaker would acknowledge) as their rightful, constructive role, usually required promotions within, and new appointments to, the staff needed to implement them, and would, no less frequently, break down if Finance denied the required sanction. It is hardly surprising, then, that the powers which Finance has exercised over matters so critical to the operation of all government departments, have so frequently been resented and resisted. The opposing, "anti-Finance attitude" has been principally nourished by two considerations: first, the *individual* awareness of every Irish civil servant, whatever his department and however humble or exalted his rank, of Finance's potential power critically to determine his own career; and, second, the *collective* awareness of all other departments that they were not masters in their own houses in as much as their considered opinion of how they might best manage their own affairs (in regard, for example, to matters as important as the organisation, numbers and grading of their staff) was subject to the sanction of Finance. The disputes which inevitably ensued have been as varied as they have been numerous: they ranged from the mild irritation of a department which sought marginally to improve the quality of its internal postal arrangements, only to be frustrated by Finance's denying sanction for the appointment of an additional messenger; to the more serious concern of, say, the Department of Agriculture if it were constrained to abandon a campaign against crop diseases because Finance refused to authorise the employment of expert advisers; to the dismay of the Department of External Affairs if it felt the national interest

had been irreparably damaged by Finance's successful opposition to a proposal to establish an Irish embassy in a state where no such mission had hitherto existed.

These few instances alone suffice to indicate the scale and complexity of the subject. But, while it cannot be treated in the depth it deserves, it is a matter so fundamental to an understanding of what we have called the "anti-Finance attitude" and therefore to the nature of the relationship between Finance and the other departments, that to say no more about it would be to run the risk of serious distortion. It is hoped that such a risk will be avoided by the following brief survey of how controversies about staffing caused conflict between Finance and other departments. One general and two particular examples have been selected at random. The first deals with Finance's mounting concern in the thirties and afterwards with the increase in cost and numbers of the public service as a whole; the second is a dispute between Finance and the Department of Posts and Telegraphs in the twenties, and the third a similar dispute with the Department of Health at the end of the forties.

Finance's concern at the expansion of the civil service first became apparent some months after the 1932 change of government when H. P. Boland, in a memorandum to his Minister, observed that

> . . . the numbers and cost of the service have been growing rapidly during the last few months and further considerable demands for increases are in sight. You are already aware of the difficulty there is in bringing about any economies in reducing staffs already created. The only real possibilities of economy at the moment are in preventing the growth of staffs. Our efforts in this direction departmentally will meet with very little success because of the attitude of heads of departments which in ordinary course determines the attitude of their ministers, and unless something is done at once to bring before ministers generally what is happening in their departments, I fear that nothing effective can be done to control these demands for additions which are always represented as being of the most vital urgency. It is axiomatic in civil service establishment practice that permanent staff once created, can never be reduced and it is not realised that the creation of one additional clerk fastens on the taxpayer a charge in perpetuity represented by the means of that clerk's salary.[110]

Boland's remarks are characteristic of the apprehension which normally marks the Finance official's response to the growth of the service. Twenty years later, one of the most notable of the next

generation of Finance officials, T. K. Whitaker, wrote in very similar terms:

> Once a new service is undertaken it is practically impossible to get rid of it whether it continues to be necessary or not. It is strange how unfashionable, almost outmoded, is the idea of retrenchment. Part, at least, of the failure of past economy drives must be ascribed to a belief that room was merely being made for other and, perhaps, less useful forms of expenditure. Not only is expenditure irreversible but the impossibility of putting a standstill on departmental activities inevitably forces it upwards. Who shall say how many ingenious ideas are born merely of a subconscious desire to justify a department's existence?[111]

Boland's earlier, more specific variation on the same theme caused MacEntee to agree that Finance should send a memorandum to the Executive Council on the subject, and it was subsequently decided, "with a view to keeping appointments of additional staffs at a minimum, that ministers should communicate to the Minister for Finance the names of junior officers in their departments who are qualified for transfer."[112] But this was not much more than a sop to the Finance viewpoint and did little to reduce the dimensions of the problem which the Department raised again in a further memorandum "for the information of the Executive Council" on 15 July 1935. This noted that between March 1932 and the end of May 1935 a net total of 2,345 additional posts had been created, representing "an increase of over 10 per cent to the civil service as a whole"; this had led to an increased annual cost of £576,000 exclusive of pension liability. What particularly concerned Finance was that if the increase was related only to those departments whose numbers had risen, "it is found that the staffs of these departments have increased by almost 21 per cent in a period of a little over two years." This striking discrepancy was accounted for by the fact that, of the total civil service staffs of 23,396 persons in 1932, approximately half were employed in the Department of Posts and Telegraphs and there had since been a net *decrease* of fifty posts in that department.[113]

It must be remembered, moreover, that no comparable growth in numbers occurred in the nineteen twenties. The staffs employed on 1 April 1922, when the provisional government took over the administrative functions of the state, numbered 21,035. Finance's claim — in its general memorandum on the civil service, submitted in evidence to the Brennan Commission — that "considering the fluctuations and

developments in work of the service there has been little variation in the total strength for a number of years" is abundantly borne out by the figures: 22,708 in 1927, increasing slowly to the 1932 total of 23,396; in two successive years, indeed, 1930 and 1931, the total actually fell slightly.[114]

In 1936 the Minister for Finance wrote to the President of the Executive Council and again remarked on the continued expansion of numbers which had taken place in the previous twelve months. He compared it with the increase in numbers in the British civil service for the same period and noted that in Britain "most of the additions were in industrial and unestablished grades, with the result that when occasion arises they can be dismissed, whereas in the case of our increases practically all the officers concerned are taken on in an established and permanent capacity with the possibility of serious reactions at a later stage if there is any substantial shrinkage or reduction of service."[115]

But the Sisyphean nature of Finance's efforts to restrict the growth of civil service numbers at a time of increased governmental activity emerges less clearly from their formal representations to the Executive Council than from the discussions of the leading Departmental officials (McElligott and Boland) with the heads of the other departments. A meeting of heads of departments held on 15 March 1935 discussed in some detail the "subject of possible reductions in serving staffs" and provides an interesting illustration in microcosm of the tension between the Finance and "anti-Finance" attitudes, consequent upon staffing problems. McElligott, as chairman, opened the meeting by saying that the estimated annual cost of the additional posts created since March 1932 was over £600,000 and, while he admitted "that this big expansion is largely attributable to new orientations in government policy and follows inevitably, in fact, from it", he declared that "the government itself is becoming apprehensive at the abnormal expansions that have taken place" and had decided "that ministers should take counsel with the secretaries of their respective departments . . . with a view to seeing what economies can be effected in the coming financial year." This in effect meant "that ministers will be consulting the secretaries of their departments as to . . . economies . . . in the matter of staff."[116]

McElligott's appeal struck no responsive chord in his colleagues. The Secretary of Posts and Telegraphs, P. S. O'Hegarty, was the first vigorously to oppose him. McElligott's remarks, he said, were

> . . . enough to make any head of a department despair. I think it is most disquieting and most unfair to think that after every civil service department has been struggling on year after year, since 1922, with insufficient staff, forcing its members to work at top pitch, that there should now be a suggestion made in 1935 to reduce staff. . . There is really no force in my opinion in the suggestion that the rank and file of the civil service here can be reduced unless the government reduces its services. Every new legislation demands new civil servants to administer it. I think the best way to keep your civil service down is to keep your government's energy down; there is no other way of doing it; you can't have your cake and eat it.

The representatives of the Exchequer and Audit Office and of the Irish Land Commission echoed O'Hegarty's sentiments with specific references, under McElligott's cross-examination, to the work of their respective departments. J. P. Walshe, on the other hand, as Secretary of External Affairs, found it "really difficult to discuss (his) department at all under the heading of increased staff" since his greatest problem was "finding men". External Affairs, he argued, was "still in a state of slow evolution" and would have to increase its staff "gradually" and "carefully" for the next few years. Indeed, when McElligott suggested that External Affairs seemed "to be pursuing a policy of nationalism and internationalism" which he described as "somewhat contradictory" and asked whether some economies in staff might not be effected, Walshe retorted that such a step might only be possible after "fifteen or twenty years".

When the head of the Valuation Office, and the Chairman of the Revenue Commissioners, William O'Brien, also argued that their staffs' workload had been increased because of new government policies — "if you go into the Castle Yard any night you will see the top row — the Customs place — in full swing", testified O'Brien — McElligott acknowledged that there appeared to be

> . . . complete unanimity that the existing staffs are insufficient to discharge the work they are engaged on. They are all working hard — many too hard — and there will have to be further increases in staff in some offices and my own conclusion is that increases in staff are largely the result of government policy and the further increases spoken of are foreshadowed because of further instalments of government policy and that, unless government policy changes, there is no hope of effecting economies.

McElligott's opinion was powerfully reinforced by the Secretary of the Department of Agriculture, Daniel Twomey, who anticipated

"being obliged to make demands for more and more staff" and who gave specific examples of how government policy had caused staffing problems in his department: staff increases to date, he said, were mainly due to three causes:

> (1) intensification of the ordinary work of the department (. . . the agricultural educational and agricultural development work);
> (2) work arising out of the economic war in connection with the operation of the quota regulations with the British authorities and also the payment of bounties — all that involved a good deal of extra staff; and
> (3) . . . the new legislation which has been passed in the last two years. We have had a regular spate of it and got something like fourteen or fifteen bills through in the last two years and practically every one . . . meant additions to our staff. The most disquieting thing . . . is that the seasoned staff are now so diluted that it is next to impossible to get work done and . . . work is being done in rather a perfunctory way that would make old civil servants turn in their graves. All over the place we have clerical officers doing work that is really junior executive grade and junior executives doing higher executive work and so on right up to the top. . . . Then, too, the quality of our staff, of course, is not nearly as good as it was. We have a very huge increase in the writing assistant grade, for example, but I would not mind if they were experienced writing assistants for the particular work they have to do; but if you stand in the hall at half past nine in the morning you would think you had wandered by mistake into Loreto College on Stephen's Green. . . The danger really is that at the present time work is being done in connection with the ordinary work of the department as well as the administration of acts in such a way as is bound to bring discredit on the department and the government and that is really our constant fear.

Nor did Twomey accept McElligott's suggestion that matters might be improved if an order of priorities were drawn up — McElligott felt much of what Twomey described as his department's "old work" had been "conditioned largely by having a very large export trade in agricultural products and cattle" and he asked whether "activities in these old directions" might not be suspended since this was no longer "the 'be all and end all' of Irish agriculture". Twomey countered this by arguing that "even the diminished export market is still of great importance", notwithstanding McElligott's suggestion that his department was "pursuing two divergent policies at the same time".

The testimony of the head of the other major spending department,

John Leydon of Industry and Commerce, was "substantially the same as that of other heads of departments. We are in the hands of the government; new services mean additional staff and I have had to have a very considerable increase in staff on account of additional functions imposed on my department", so much so that he already found himself in what he described as "the humiliating position" of putting up proposals for additional staff to Finance and then having to seek still more staff even before the first proposals had been sanctioned. Leydon also said that he had discussed the matter with his minister and had mentioned some "five or six possibilities to him (some of them meant big savings, some small) but the minister was not prepared to entertain them" and, without "economy in services", he saw no point "in asking heads of departments to economise in staff".

Finance were clearly unable to enforce reductions of staff in such circumstances and information they obtained some days after the meeting, about the probability of a surplus on the 1935–36 budget, made this still more apparent. Yet "the meeting on the subject was in one respect perhaps not a waste of time", Boland minuted to McElligott: "it showed that the attitude of departments is what it has always been in the past and is likely to be in the future — even if a real need for economy arises. Looking to the unanimity of view expressed it is clear that only increased and increasing expenditure . . . and not a glimmer of reduction is what lies before us."[117] McElligott concurred, although he did urge his minister carefully to study the report of the meeting since "it shows how completely government policy determines expansion or contraction of expenditure"; moreover, he added, whatever good results Finance's "exhortations to economy might produce will be neutralised by the rosy glow of optimism shed by recent ministerial utterances on the financial position."[118]

Political exigencies and the marked lack of success in reversing the growth in civil service numbers in 1934–35 seem to have deterred Finance from taking the matter up again until 1939 when they sent a further memorandum to the government. This memorandum showed "that between January 1932 and January 1939 the number of staff serving in government offices increased by 4,982 while the annual cost increased by £1,245,210", excluding pension liability, overtime and other miscellaneous expenses. Increases were heaviest in the Departments of Industry and Commerce, Posts and Telegraphs, Agriculture,

Lands and the Office of the Revenue Commissioners. The memorandum, for which McElligott had obtained the approval of the Taoiseach as well as of his own minister, stated that the increases "cannot be viewed otherwise than with grave concern, having regard particularly to present economic and financial conditions" and that the Minister for Finance felt the gravity of the situation was not "sufficiently appreciated". The Minister desired, the memorandum concluded, "to urge strongly that the time has come to effect a reduction of the present swollen establishments and with a view to securing some effective measures in this direction he suggests that each minister should instruct the secretary of his department to examine the existing departmental establishment with a view to the elimination of unnecessary posts". In fact, however, this last proposal, while more stringent than its 1934–35 precursors, had been substantially amended by the Taoiseach, who felt that McElligott's original draft was too draconian in its wish to impose a total ban on all new schemes requiring governmental expenditure.[119]

But the coming of war in Europe greatly strengthened Finance's hand in establishment matters and the same government meeting of 5 September 1939, which approved the Minister for Finance's proposal that all departmental establishments should be scrutinised, also gave the head of the establishment division in Finance control of the transfer of civil servants to the new Emergency services. But further Finance memoranda to the government in July 1940 and January 1942 bore witness both to the continued expansion of civil service staffs and to Finance's renewed efforts to stem the tide.[120]

The matter was again discussed at a meeting of heads of departments on 18 February 1944 when the Minister for Finance voiced "considerable anxiety" in a preliminary note to the meeting's participants. The Finance note recognised that "this growth is due to Emergency conditions and to the creation of new or the expansion of old services"; in an effort to counteract these factors "by economies in the use of staff", it suggested that all heads of departments and offices "should arrange for frequent and regular inspections of their staff with a view to the elimination of unnecessary work, the improvement of methods and the achievement of the maximum output per officer." The note also urged the "removal of any elements of rigidity in organisation" and "the removal of staff from one section to another according to the requirements of the work". But Finance's most controversial proposal was the arrangement of "more frequent visits to

departments by inspecting officers from the Department of Finance" in addition to the internal inspections carried out by the departments themselves. It was envisaged that the Finance officials would "confine themselves in the main to 'spot' inspections and to discussion with the establishment officers or other higher officials of the departments visited of matters which come to their notice during such inspections, or which may be raised as a result of the internal inspections."[121]

McElligott elaborated upon why Finance considered such procedures necessary when, as chairman, he opened the discussion at the meeting of the heads of departments. Although he began by suggesting that the government was largely responsible for the growth of the civil service, he went on to say that

> . . . when one sees the multitude of civil servants, it is difficult to imagine, with the limited size of the country, that they all can be really busy and putting in a full and hard day's work. The number of civil servants has grown alarmingly. In 1943 the number employed was 29,081 showing an increase of 33½ per cent since 1932. The annual cost has gone up from £4,000,000 in 1932 to £6,865,000 in 1943 i.e. an increase of 55 per cent. . . . Allowing for the additional work thrown on departments of state by reason of legislation and emergency services, I think it is possible that there may be a certain amount of slackness in various government departments. It is difficult to imagine that all these thousands of civil servants that one sees pouring out of government offices every day are all fully occupied. . . . In the [civil] service, we tend to stick to old fashioned methods of doing business and to ignore modern methods, for example, in substituting the telephone for the elaborate writing of minutes . . . you very often find people addressing minutes to a man sitting next door or, possibly, in the same room.[122]

Although Leydon, who was, of course, an ex-Finance official himself, agreed with most of what McElligott said, the great majority of the other heads of departments present were markedly less receptive. They particularly resented McElligott's revelation — made at a later stage of the meeting — that his original idea had been to

> . . . send out, from Finance, inspectors who would have power to go into any section of any office and sit down alongside any officer and say to that officer 'What have you done today?' Make him go through his day's work. It might be a clerical officer, it might be a writing assistant, a shorthand typist or a superintending officer. It would be a surprise inspection; it would be made towards the end of the day and the office might be selected at random.

Twomey of Agriculture immediately voiced his strong objection to McElligott's remarks, as did Connolly, the head of the Office of Public Works, who suggested that they demonstrated a lack of trust in the officers in charge of other departments. Others, such as Lieutenant General MacMahon of Defence, emphasised that they were "not against inspection from Finance . . . provided it is the usual type of inspection" but argued that such radical innovations in the form of inspections as McElligott had put forward "would result in a big increase in staff" because the apprehensions induced by the prospect of such inspections would reduce the effectiveness and productivity of many of the staff. MacMahon made the point that "young enthusiastic" civil servants were not thinking of how they were spending their time but were "simply getting through the work as it comes along"; if such a civil servant, he argued, "believes this inspector is going to come along and say 'What are you doing all day?', he would take at least half an hour before he could think what he did." Another head of department, Hurson of Local Government and Public Health, welcomed the prospect of "more adequate inspection" from Finance since it would help him to get the extra staff he required, which, as Seán Moynihan drily replied, was not what Finance were looking for!

The chairman's summing-up was inconclusive and illustrated the gulf dividing the Finance approach from that of their senior colleagues in other departments. The "general view", observed McElligott, was that

> . . . the departments are pretty well discharging their responsibilities in this matter by frequent inspection of their staff. I think there is something to be said all the same for putting more drive into these inspections and carrying them out more frequently and more thoroughly; not necessarily at regular intervals but irregular intervals. There seems also to be a general welcome of the idea of Finance inspection. Mr Moynihan has asked me to say that there is no intention of reflecting on departments, or suggesting that they were lax in performing their duties, or that the civil service as a whole is growing to be lazy. . . . The larger an organisation grows the more sluggish it tends to become and the closer the supervision has to be. I do think there is a good deal of slackness in the civil service amongst what I might describe as middle-aged people, people who have little or no prospect of promotion, people who try to get by with as little work as possible.

And there the matter rested. The discussion serves as an interesting

testament both to Finance's perennial anxiety to exhort other departments to reduce the number of their staff and their ultimate incapacity to implement their own exhortations in the absence of a firm political consensus within the government that they should do so. The dilemma was no nearer solution ten years later as the following extracts from a special note prepared by Whitaker for McElligott, which form a fitting conclusion for this present discussion of the subject, well illustrate. Whitaker began by suggesting that "a request for discovery of redundancies, indication of unnecessary activities, suggestions for greater efficiency in working methods would bear fruit if those who had to answer it, many of them holding only acting appointments, were guaranteed that they personally would suffer no loss in salary or status as a result." He also argued that "the goodwill of heads of departments is essential" in such circumstances since "they, in general, carry almost undue influence with their immediate subordinates. Individual ministers would have to satisfy themselves that all suggestions emanating from the less senior officers as well as from senior officers had received full weight and that the heads of departments had shown no propensity to empire-building or empire-holding." Whitaker believed that

> . . . the *immediate* aim should be the stabilisation of staffs at their present numbers. A lot will have been achieved if further expansion is prevented, granted the tendency for the State to interfere more and more with private activities. If the growth is halted, that in itself will tend towards a more deliberate and critical attitude on the part of the civil service, and indirectly of ministers, towards the undertaking of new services.
>
> For these reasons, I would not rule out the arbitrary cut idea, provided it were expressed as a somewhat longer-term objective, the immediate objective being a stabilisation. If we were working towards a 25 per cent cut, say, in three years time, we might have a better chance of keeping the numbers to their present level at most. . .
>
> It is, I think, important that every entrant to the civil service, no matter how junior, should be given plenty to do from the start. There is nothing more demoralising than any attempt, however well-intentioned, to 'temper the wind to the shorn lamb.' Once you have enjoyed an easy time for a while, you feel aggrieved at being expected to do a decent day's work.[123]

This 1953 discussion of the problem reveals another important limitation upon Finance's power to control developments in this area: the natural reluctance of their own minister to incur the displeasure of his

fellow-ministers. The then Minister, MacEntee, reacted strongly to a long draft memorandum prepared for the government. Such a memorandum, minuted MacEntee to the Secretary, "if it is to be effective with the government, should be more concise and should avoid the appearance of telling other ministers how to run their departments"; much of it, he wrote, would come better from the Secretary in addressing the heads of departments than from himself to his colleagues in government; and "phrases such as 'The Minister for Finance is satisfied that if ministers encourage . . .' should be omitted."[124] But, as we have already seen, Finance officials' difficulty about such a procedure was that heads of departments were unlikely to respond favourably to their appeals unless their own ministers *were* prepared to accept the contingent restriction upon the expansion of departmental services.

It now remains to look at the two random examples of specific disputes between Finance and other departments about the control of staffing. The dispute with Posts and Telegraphs began towards the end of 1926 when H. P. Boland wrote to the Secretary of Posts and Telegraphs, P. S. O'Hegarty, drawing his attention to a Finance circular of 1922 (No. E 7) on Finance sanctions for promotions. The key section of the circular laid down the need for "sanction from this ministry for new or increased charges on public funds and particularly for any appointments, promotions or alterations of status or remuneration of any officer in the Irish public service." Boland's first letter on the matter was semi-official; it pointed out that the circular had been intended to apply to all departments "but in practice for some reason . . . has not been observed in the case of your department", and sought O'Hegarty's views on the matter before official action was taken.[125] O'Hegarty took the line that, when the circular was issued in 1922, he had written to Gregg (who was then in charge of establishments) saying that he assumed "that what the Treasury [*sic*] desire to be consulted about is as to whether it is necessary to fill a vacancy and that it does not expect to be consulted about personnel" and that, since then, his department had acted accordingly. O'Hegarty further argued that the circular did not apply to personnel, as he understood Boland (from his letter and in conversation) was suggesting, and he put forward

> . . . the strongest objection to any suggestion that if the Minister [for Posts and Telegraphs] has a vacancy, say, for a higher executive officer and regards A. B., a junior executive officer, as the deserving man, he should

> go to the Minister for Finance and ask for permission to promote A. B. You are entitled to be consulted as to whether the vacant post can be retrenched, but not as to the particular officer to be promoted to it when the need for its continuance has been admitted.[126]

Boland's reply, which followed further conversation on the subject between himself and O'Hegarty, was unyielding and listed the following reasons why the circular "should apply to the promotion of personnel" in his department.

> The wording of the circular requires sanction for promotions, etc., '*of any officer* in the Irish public service'.
>
> The circular is being applied to and observed in that sense by all departments except the Post Office and one other[127] which we expect will now fall in with the general practice.
>
> We anticipate that as the service now stands officers of the general service grades in some departments may be faced by a complete block of promotions, while men who are their juniors, and possibly considerably their juniors, in other departments may be obtaining promotion. . .
>
> We know that promotions in the service of poor personnel have been made which should not have been made.
>
> The State has instituted machinery for ensuring in the closest possible manner that justice will be done as between one man and another in regard to appointments in the service. In the face of that policy a system, which would give the entire control of every civil servant's fate after appointment into the hands of practically one individual, would be difficult to defend.[128]

Boland also declared, notwithstanding the fullness of this statement which was designed to enable Posts and Telegraphs "to help out in this matter", that it was clear "that the onus is not on us to show why the requirement should be applied to your department but on you to show why it should not." But O'Hegarty remained unpersuaded and promised "a considered reply" since he regarded "the implications raised by this question to be fundamental and vital, and not to be disposed of in the slender way" in which, he said, Boland had presented them.[129] Just as Boland's letter stands as a classic expression of a particular Finance attitude, so O'Hegarty's reply may be seen as a classic expression of the opponents of that attitude.

He began by saying that the onus was not on him to show why "a non-existing regulation" should be applied to his department, but on Boland to "shew cause why a new and reactionary and totally unjustifiable Mussolini-like regulation should be introduced into the ser-

vice". After recapitulating his earlier arguments, O'Hegarty asserted "that Gregg, who drafted the circular, never meant it to apply to personnel", that "William O'Brien, who signed it, and who was then Secretary to Finance, was of the same opinion" and that promotions made since then in his department had been made "without any reference to Finance save as regards the propriety of filling the vacant *post*." The Comptroller and Auditor-General, moreover, O'Hegarty stressed, had "never raised the slightest question about the propriety of the procedure (he may do so now, of course, after you have given him a nod or a wink, but he cannot do so with propriety)." O'Hegarty also referred to the particular circumstances of the time when the circular in question had been issued:

> Here was a government in power, two months after a revolution, uncertain what organisation it would adopt for its civil service, but aware that the existing organisation was not ideal and that many changes and alterations would be needed. . . It was obviously necessary to prevent promotions on the existing authorised establishments being made without their relation to the general policy being considered, and the only thing to do was to provide that before a post was filled the facts should be represented and special authority sought. . . What was in the minds of Finance at the time was expenditure and not personnel, and the circular cannot reasonably be interpreted as applying to personnel.

O'Hegarty was no less emphatic in his rejection of Boland's argument about the inequity of promoting younger men in some departments, at a time when their seniors might be blocked from promotion in others. Such a circumstance, he argued, was

> . . . partly the fortunes of war and partly the survival of the fittest. . . It is in the best interests of the service, and of the men themselves, that promotion should be assured to no man, but that he should prove himself fit for it by work and effort and forethought. If he gets into a department in which the prospects of promotion are small, and lies on his oar somnolently for years as so many do, I would object very strongly to a benevolent Department of Finance rousing him out of his sleep and dumping him down in some department where he would be expected to work and cutting out another officer who had not been asleep but who had the misfortune to be born a little later than Rip Van Winkle. . . I deny that the State is bound to find employment for anybody, or to find food for anybody. I deny even more emphatically that it is bound to find promotion for anybody. What you propose to do is to put a premium on somnolence, indifference, lack of forethought and lack of enterprise.

O'Hegarty also rejected the implication "that heads of departments are not fit to make promotions" and argued that Boland's proposals, much more than the previous practice in Posts and Telegraphs, "would give the entire control of every civil servant's fate after appointment into the hands of practically one individual." Under Boland's system that individual would not vary from department to department and he was strongly of the opinion that nobody could know "whether a particular officer in any department but your own is pulling his weight or not." Boland's system "would actually place the whole machinery of promotion in the hands of the establishment officer of the Department of Finance" who could not be as well informed as the head of the department in question, "who could not possibly determine the comparative efficiency, apart from mechanical seniority, of civil servants, and who is, and is likely to be, at the very least as fallible as any head of a department, and is completely without supervision of any sort in establishment matters." Such a system would, moreover, abolish all safeguards and raised the question of *quis custodiet ipsos custodes?*

But O'Hegarty's principal objection to Boland's system stemmed from his conviction that it was but part of what he saw as Finance's imperial ambitions to increase and consolidate their predominance over all other government departments; and his statement of that case well illustrates the kind of charges which have been levelled at Finance's exercise of its establishment function by its more trenchant critics over the years. The "attempted interference with promotions", wrote O'Hegarty, was

> . . . a point of a general concerted policy, a policy which looks upon heads of departments as hostile persons, whose powers must be pared away, whose control over departments must be weakened, whose every proposal must be examined through a microscope with a squint. The whole energies of Finance are bent upon obtaining, in the guise of control of expenditure, a control of departmental policy. Every circular Finance issues is a weakening or a cutting away of some power hitherto entrusted to heads of departments. That policy is wrong and mischievous. If you cripple the power and responsibility of the heads of departments you cripple and enfeeble the whole civil service. You cannot run the whole civil service from Finance, and you should not try to, and the effect of the constant worry and attack to which departmental responsibilities are being subjected will inevitably be the weakening of the will to work in heads of departments. The time of officers of the Finance Department is

disproportionately occupied in considering matters of which they know nothing and which ought to be decided departmentally, and the reservation of which to Finance does not increase Finance supervision over expenditure. The policy can only be justified on the assumption that heads of departments are either incompetent or untrustworthy, either lacking in ability or in public spirit. Maybe they are. But if they are the remedy is to shift them and get others, not to scrap the whole principle of placing the responsibility for staff efficiency upon the person who has to see that the work is done. . .

The establishment officer in the Department of Finance has already far too much power and is not, in my opinion, using it wisely. . . He is in complete and unfettered control over the civil service establishment. He is also, for all practical purposes, the Civil Service Commission and the Comptroller and Auditor-General. As establishment officer he writes to a department and says that the Civil Service Commissioners will require to be satisfied about this that and the other. Then, as Civil Service Commissioner he decides this, that or the other — because on establishment matters what he says goes — and causes a letter to be written back to himself, or to the departmental head, announcing that the Civil Service Commissioners "are unable . . . etc." Similarly he says that the Comptroller and Auditor-General will probably question the propriety of this, that or the other, and the Comptroller and Auditor-General duly does so, having received a nod or a wink to do so. You propose to add to all this the unrestricted power to make any promotions he likes in any department. It is a monstrous and indefensible proposal . . . and I am not prepared to entertain it. . . .

You will not of course forget that although I have spoken of the departmental heads, their authority is only such as is devolved upon them by the ministers, and your proposal is really an attempt to curtail the prerogative of ministers. You may take it that my minister will not accept it.[130]

O'Hegarty's stance is all the more noteworthy since, in many other respects, he was regarded as being sympathetic to the Finance viewpoint.[131] His stout defence of C. J. Gregg's key role in the Department of Finance under the provisional government and afterward is, perhaps, the most striking example of this.[132] He also shared Finance's high regard for the British civil service as the best model on which to base the Irish service. Indeed his philippic, from which we have just quoted at length, also contains a passage critical of Boland for explicitly disregarding British practice on the issue in question and argues that "we could not do better than take the British experience and tradition and adapt them to our own special circumstances. They have evolved, after all, the best civil service that exists."[133] O'Hegarty also

evinced sympathy for Finance's concern to eliminate bias or prejudice from civil service recommendations for promotion in the difficult and sensitive political circumstances pertaining in the first decades after independence, as we can see from a letter he wrote Boland on this subject in the mid-thirties:

> Circumstances here have lifted out men from the rank and file and placed them in positions of authority and responsibility which in the ordinary way they could never have reached, and for which, according to British standards, they in the ordinary way would never have been regarded as qualified. When they have to pass judgement on men, as they have, with whom over a long stretch of years they have worked and played, and whom they left behind because we had a revolution here, they find it difficult wholly to divest themselves of their human feelings, which a civil servant considering a promotion must do if he is to do his duty. And it is very desirable that there should be vested in the civil service head [of department] the power to make his own choice, even though that choice should not coincide with a majority opinion of his senior officers.[134]

O'Hegarty, in short, is of special interest as a man who, while generally sympathetic to Finance, vehemently opposed what he saw as the abuse of the establishment function.

Our last example of the kind of controversy which could spring from staffing disputes took place in the Department of Health in 1948–49. Health had only become a department in its own right, independent of Local Government, in 1947 and the dispute in question arose from the radical and expansionist policies of its new Minister, Dr Noel Browne, under the first inter-party government. In October 1948 the new services based upon these policies caused Browne to look for, what was by previous standards, an enormous increase in the higher establishment of his department: namely, one principal and one assistant principal; four higher executive officers; three junior executive officers and two clerical officers. Finance was sceptical of the need for any such increase, as Seán Moynihan made clear. The Minister for Health, he wrote,

> . . . is very dissatisfied at the rate of progress of the various schemes which he has on hands [*sic*] and in prospect. . . He is disposed to attribute what he regards as the slowness of pace to shortage of staff. In my view the true cause is rather the effort which the Minister's department is making to press forward with too many projects, and some of them over-ambitious projects; and, at a time when the construction of new hospitals etc. or the reconstruction of old ones is involved, there are difficulties created by

shortages of materials, of labour and of professional skill, and by the fact that there are a great many other projects, such as the building of houses and schools competing for the same resources, material and personnel. If the Minister for Health had the entire civil service at his disposal, he could not overcome these difficulties; in fact he might easily add to them the confusion resulting from still more schemes hatched in a larger number of brains.[135]

Finance replied that they were only prepared to sanction the appointment of a temporary principal and a temporary assistant principal.

Browne refused to accept this decision and referred the matter to the government, requesting that it be reversed and that his additional staff "be sanctioned in full and on a permanent basis";[136] and he expressed his own view of the matter in two memoranda to the government, both dated 16 February 1949. "The present Minister for Health", the key passage began,

> . . . did not enter public life because of his interest in politics. He did so because he was satisfied that our health services were scandalously inadequate and during the course of the general election he strongly criticised the late government for their failure to improve these services. In these circumstances, he would not agree to, or be responsible for, the acceptance or implementation of a policy which was determined solely or mainly by financial considerations or which was in effect no more than a moderate advance on that of the late government.
>
> On economic grounds alone the case for the provision of adequate health services is overwhelming. Incalculable loss has been suffered by the community in the past through the neglect of effective measures to prevent and control disease.[137]

The other memorandum was longer and more extreme: it described, for example, the counter-memorandum in which Finance had formally presented its case to the government[138] as "an irresponsible and thoroughly objectionable effusion" and denounced the "quite abnormal, totally insensitive and extra-human approach to the health and sickness problems of our people which has dominated the outlook and actions of the Department of Finance's officialdom in the last twenty-five years and which has borne the fruits we now see around us."[139]

Finance reacted strongly to these attacks. If Browne's description of the Finance memorandum to the government "as 'aggressive', 'facetious', 'impertinent', 'misleading' and 'thoroughly objectionable' "

was accepted, Moynihan minuted to his Minister, Patrick McGilligan, the "logical consequence" should be his own [Moynihan's] dismissal; he was confident, however, that "any impartial and competent judge would find that the Minister's description is as unwarranted as it is intemperate." The issue, wrote Moynihan, raised

> . . . a grave question of principle: what in future is to be the role of a civil servant in this state when advising his minister? Is he to say what he believes to be true or what he thinks his Minister, or another interested minister, would like to hear? If, as has hitherto been the tradition of our service, he pursues the former course, is he in constant danger of being held up to odium before the government as a person guilty of discreditable conduct? The example set by the Minister for Health, if followed by other ministers, would certainly in time make the civil service (in its higher grades at least) a place for trimmers; honest men would shun it and the high standards which it has maintained till now would quickly disappear. It is not too much to say that the interests of national freedom, as well as those of good administration, require that nothing should be done to discourage civil servants from preaching frankness and honesty in advising their ministers.[140]

It was not the first time that a Finance official had posed such a question for his minister,[141] but McGilligan seemed in little doubt of the kind of answer demanded of him. "I should like it to be understood quite clearly", he minuted, "that . . . I do not accept any of the censorious adjectives used by the Minister for Health — they are unjustified in their entirety"; and, having expressed the "hope the officials responsible for the impugned minute will continue to advise with the frankness and honesty which mark that minute", he concluded by saying that, while he could not "insure staff against intemperate comment", he could insure "that such comment will not have any prejudicial effect."[142]

The dispute followed less turbulent channels thereafter and the cabinet committee on estimates (where it had been referred by a government decision of 18 February) decided to grant the additional staff sought by Health "on the understanding that the staff will be provided by means of transfers from other departments, any consequential vacancies to remain unfilled".[143] Browne's subsequent representations that he had made it clear that he had wanted the appointments in question made from within his own department was rejected by McGilligan because of the general principle involved. The compromise enabled both sides to salvage something from a remarkably

heated dispute: Health got the additional staff it had originally sought, while Finance escaped the necessity of being compelled to add to the permanent, higher establishment of the civil service, by being permitted to rob Peter to pay Paul.

These three examples of staffing problems demonstrate the kind of friction which Finance's powers to promote and appoint staffs throughout the public service could cause in its relations with other departments. For the most part, however, Finance officials seem to have traditionally treated the opprobrium they have thus incurred in a spirit of resignation rather than resentment. It may not be without significance, for example, that a study, undertaken early in the sixties, of the attitude of the Irish civil service to its public relations revealed that while some nine government departments plus the Revenue Commissioners spent a grand total of about £140,000 on special information services, the Department of Finance was not among them.[144]* A fine disregard for the Department's image, a willingness to court unpopularity — these are among the hallmarks of the Department of Finance and we can hardly improve, in ending our discussion of Finance's relations with other departments, upon that quotation from an ex-Secretary of the Treasury with which Dr Whitaker concluded his study of "The Finance Attitude": "if at any moment it should become popular the fact itself would be conclusive proof that it was not properly fulfilling the purpose for which it exists."[145]

*More recently, however, since 1970, an information officer has been appointed in the Department. His function is to assist the Minister and departmental officials in dealing with requests from the media and the public.

Epilogue

After *Economic Development*

"I think it is true to say", Seán Lemass told a conference organised by the Institute of Public Administration in Killarney in April 1961,[1]

> that in some government departments there is still a tendency to wait for new ideas to walk in through the door. It is, perhaps, the normal attitude of an administrative department of government to be passive rather than active, to await proposals from outside, to react mainly to criticism or to pressure of public demand, to avoid the risks of experimentation and innovation and to confine themselves to vetting and improving proposals brought to them by private interests and individuals rather than to generate new ideas themselves. I think it is also true to say, however, that this tendency is a great deal less evident now than it was some years ago and mainly I believe because of the change which has taken place in the attitude of the heads of the civil service to national development possibilities. In the administration of any government in any country the mood and attitude of the Finance Department is reflected throughout the whole administrative body. If it is hyper-critical of development proposals the effect is to discourage the formulation and presentation of new ideas. If the Finance Department is itself seeking to stimulate and encourage new thinking, the whole approach to the problems of all Departments is altered for the better. At this time, the positive, stimulating attitude of our Department of Finance is a very important factor in the building up of the widely deployed development effort which is now evident.

Generous praise indeed, and acknowledged as such by the then Secretary of the Department of Finance in his own address to the same conference,[2] from a Taoiseach who was never himself a Minister for Finance and much of whose ministerial career bore witness to a marked antipathy for what has been described as the Finance attitude; and praise, too, which reveals something of the gulf which divides the Department, whose history has been traced up to the publication of

Economic Development in 1958, from the Department as it has since evolved.

The history of the post-1958 Department of Finance falls outside the compass of the present work. It is a history which demands, perhaps, another book, certainly, another volume, and the time to write that volume is not yet. The primary reason for this is historical perspective. Historians of twentieth-century Ireland have long been crippled in their endeavours by the inaccessibility of the primary source material in government archives — despite the government's recent decision to make the government and cabinet minutes for 1922–44 available to historians[3] — to the extent where it has been impossible for them to essay anything in the nature of a definitive interpretation of Irish history since the foundation of the state. While the present writer has not, of course, been curbed by such constraints, the very freedom of access to the Department's archives which alone has made possible this book has at the same time, and above all in the more recent period, posed major problems.

These problems may be best considered in relation to the difficulty of deciding upon a terminal date for this history as a work of historical scholarship based upon the vast quantities of primary source material in the Department's archives. One possible date, consonant with the thirty-year rule commonly accepted in many western countries as governing historians' rights of access to state archives, would have been 1945 or the end of World War II. But such a choice, as we have seen already, would have made little sense in a history of the premier department of Irish government; nor is it a significant landmark in any wider historical sense. Such cannot be said of the choice of the publication of *Ecomomic Development* in 1958 as the closing point: first, because it enables us to complete the historical account of what for this purpose may fairly be described as the "old" Department of Finance, while at the same time allowing us to trace the origins of the present-day Department; and, second, because of its broader significance as a landmark for historians who have variously described it as the moment when "with dramatic suddenness the state lurched into the middle of the twentieth century",[4] as the herald of "the dawn that slowly broke over . . . dismal night"[5] and "as a watershed in the modern economic history of the country".[6]

But if the historical significance of *Economic Development* is now commonly recognised — although it was first published "with so little fuss that two of the three national daily papers ignored it com-

pletely, while the third confined itself to quoting from the proposal put to the government in December, 1957, giving no information whatever as to the contents of the document!"[7] — what can one say of the significance of the events which followed in its wake?

The events of the nineteen sixties, to say nothing of the early seventies, whether within or without the Department of Finance, are not yet amenable to objective historical analysis and assessment of the kind attempted in the preceding part of this book: a cursory inspection of some of the files relating to these events, files in some cases still receiving attention from the Department's officials, suggest that they belong to a kind of historical limbo, resting uneasily between the Department's present and past existence. In the perennial debate among historians as to where history ends and current affairs begins, many would say that it is only after fifty years that definitive historical interpretation may properly be attempted; more might say thirty years, some, twenty years but few scholars would try to justify a shorter limit, particularly in Ireland where historians have until so very recently been denied any access to government archives.

The professional historian's objection to endeavouring to treat of the history of the Department in the sixties or seventies in the same way as its earlier history is reinforced by other, more mundane considerations: such treatment, in brief, given the resources presently available to Irish scholars and archivists, is not merely historically undesirable but physically impossible. The sheer volume of documentary material in the Department's records, which have grown dramatically over the last twenty years because of the no less dramatic growth in the Department's national and international commitments; the fact that *none* of the Department's records have been arranged by a professional archivist; the near-impossibility of discriminating between historically relevant material and the ephemera produced in reams by the Department's officers in the course of their everyday work on files which may still be of immediate relevance to the Department today; problems of confidentiality which become increasingly acute in direct ratio to the diminishing age of the documents concerned; the insuperable difficulty of treating of issues in the very recent past which still occasion public debate and, perhaps, party political differences — these are but some of the more important factors dictating a different approach to the Department's recent history.

What follows, then, is not and was never intended to be the same kind of history as that which forms the main body of this work. All

that is here intended is the merest outline of what, for the moment at least, seem among the more significant events since the publication of *Economic Development.*

The preoccupation with planning, which lay at the core of *Economic Development,* was, perhaps, the outstanding characteristic of the Department in the sixties. Finance's new-found concern to chart the future led to a change in the "Finance attitude". This change, essentially, saw a movement away from the predominantly passive, *laissez-faire* philosophy characteristic of the Department for much the greater part of its previous history, towards a positive, interventionist approach to the problems of the national economy. The scale of this shift may be well portrayed by a comparison between two of the public pronouncements of the man who did more than anyone else to bring it about, T. K. Whitaker; namely, his article, "The Finance Attitude", discussed earlier in this work at some length and which has been since described as "as perfect an expression of the 'neo-classical' [view] as you are likely to find anywhere" and one which "revealed little appreciation of the role of the state (or of the Department as its instrument) in stimulating and guiding growth or as an architect of community welfare"; and his article, eight years later in 1961, entitled "The Civil Service and Development" which proclaimed that

> . . . the Department of Finance has now, as an integral part of its organisation, a special division whose responsibility is to seek out ways and means of advancing means of economic growth and to develop ideas and projects to the point at which they can be placed with the appropriate department or agency. While the Department is as keen as ever on securing efficiency and economy in public services and must still eye critically all proposals for new expenditure, its broader concern is with the problems involved in the management of the economy in the interests of steady and rapid national progress. This evolution is an example of a department adapting its organisation and outlook to a new concept of its functions.[8]

The Evolution of Planning

"While planning in a rigid sense is not useful in our circumstances", ran one of the opening passages of *Economic Development,*

> there can be no doubt about the wisdom of looking ahead and trying to direct national policy along the most productive lines. A year is too restricted a frame of reference for policy decisions. . . An attempt should be made to secure a more general coordination of financial and economic

policy with a view to the maximum progress being made in the years ahead. . .

In the context of a programme of economic development extending over five years or longer, it would be easier not only to avoid inconsistencies between individual decisions but also to secure acceptance of decisions which, presented in isolation, might arouse strong opposition. It would be more apparent to all sections of the community that certain adjustments of present policy were necessary and it would be less difficult to have efforts made and sacrifices borne if they were seen to be a necessary contribution to national welfare and were not in danger of being nullified by neglect or extravagance elsewhere.[9]

This was the philosophy underlying the Programmes for Economic Expansion, the first of which — introduced in 1958 and covering the years 1959–63 -- was essentially a by-product of the work on *Economic Development* and outlined economic policy objectives in agriculture, industry and tourism.

The Second Programme, however, published in two parts in 1963 and 1964 and covering the years 1964–70, was the work of the newly established development division (set up in 1961) and of its special economic consultant, Louden Ryan of Trinity College, Dublin. It was much more ambitious than the First Programme "in that it set out detailed projections for the expected increases in resources during the programme period and the way in which they would be used." Another difference was that the views of various national economic interests were invited, an approach given institutional form by the government's setting up of the National Industrial Economic Council (NIEC) in 1963 under Whitaker's chairmanship and with a secretariat drawn from the Department of Finance, whose fifth report[10] — on Results of Discussions with Industry on the Second Programme Targets — has been termed the third part of the Second Programme. It was the Second Programme, too, which provided a definition of just what was meant by the term "programme": "an attempt to apply to the management of the nation's economic affairs the same foresight, organisation, and determination as a competent and prudent person applies to the management of his own household or business"; an attempt which, "in a democracy . . . cannot be authoritarian. It proceeds on the assumption that there is widespread public agreement on making as much economic progress as possible and on the means by which such progress is to be achieved."[11]

Such sensitivity about terminology, evidenced, too, by the

preference for the term "programme" as opposed to "plan", reflects a recognition of how radical a change of direction was being attempted by the Department of Finance. This impression is markedly reinforced by what Whitaker was saying publicly in his efforts to educate public opinion about the merits of planning. "If the term 'planning' still offends some ears — and I think they are becoming fewer", he said in March 1964, "it is because of its association with rigid authoritarian methods such as characterised Stalin's Russia."[12] He went on to argue that the kind of plan he envisaged was not

> . . . a rigid framework imposed on the community by an authoritarian government, rather does it arise from a recognition by the modern democratic community of the need to organise development systematically, to provide an increasing number of better-paid jobs for an increasing number of better-qualified workers; to rationalise the system of production in preparation for the more difficult conditions ahead. A modern community is concerned with collective as well as private spending; with the structure of education and its adequacy in relation to the world of tomorrow and with the provision made for other social needs such as housing, health, social welfare and communications.[13]

This concern to make a better "world of tomorrow" — the *raison* d'être of planning — characterises the optimism which imbued the Department of Finance in the sixties and which so clearly set it apart from the Department of earlier decades: the "world of tomorrow" had not, to say the least, loomed large in the minds of Brennan, McElligott and their senior colleagues.

In 1967 Whitaker returned to the theme of the importance of planning, in language which indicated a growing confidence in the number of converts already made to the cause. "We now know — or ought to know", he said,

> both that economic life is not governed by forces over which we have no control and that a policy of *laissez-faire* will not ensure the greatest good of the community. Yet we still hear objections to government planning, cries of protest about 'intervention', 'direction', 'controls' and wistful recall of the days of rustic simplicity when the state confined its activities to the provision of essential services, the maintenance of law and order and the collection of the necessary taxes for the purpose. . .
>
> Economic planning cannot be regarded as a fashion to be discarded at will. It is essential in a civilised community. . . . To throw it aside would mean stepping backwards into an out-moded environment which the majority have long since repudiated. While our efforts at planning need

improvement, there is no comfort to be gained by harking back to defunct doctrine. To expect *laissez-faire* to solve our problems is like seeking a return to the eighteenth-century sedan chair as a solution for the problems caused by the motor car. To plan or not to plan is not the question of our time. The real issue is the achievement of the required degree of planning and its development and improvement.[14]

So far, then, had the Department of Finance's commitment to planning advanced less than ten years after the publication of *Economic Development*. The extent of the development division's responsibility for the planning function was highlighted in the Devlin Report of 1969, which traced its origins back to "the nucleus of staff" who prepared *Economic Development* and which had become the "main planning agency in the national economic field . . . organised to stimulate and coordinate development in all sectors of the community."[15]

The Devlin Report, hailed as "a milestone and the first real milestone, for nearly half a century in Irish public administration",[16] was, of course, initiated by the Minister for Finance and, as its terms of reference made clear,[17] it was asked to make recommendations on the organisation of the public service so as the better to equip it to cope with the problems of planning and development. In this context what Whitaker (as Secretary of the Department of Finance) and C. H. Murray (as assistant secretary in charge of the development division) said to the Public Service Organisation Review Group on the subject of national planning is of particular interest.

Whitaker described the Department's future "essential role", a role which he saw as "managerial rather than executive", as the programming of "the future course of economic and social development in relation to resources . . . It is concerned with drawing up a four or five year programme and also with ensuring that demand is managed from month to month so as to conform to the longer-term objectives." He felt that the Department should "remain small — concerning itself with policy formation, coordination and management — and should not take on any functions which could be delegated."

Planning was, he felt, "the most obvious way of determining future objectives", but he also insisted that planning "cannot be rigid", citing in this respect some critics of the Second Programme. He argued, too, that there could not be "steady progress towards objectives" unless the Department of Finance, which bore "the main responsibility for setting these objectives, also has responsibility for the day to

day adjustments necessary to ensure that trends are kept in line with goals. . . . Medium term planning should not be divorced from day to day management of economic activity." It was also the Department of Finance's task to agree upon "goals" with other departments

> . . . by a process of discussion and dialogue. . . Each department naturally puts its own priorities first and a sort of bargaining position is taken up. Each department knows that its plans have to fit in with the overall plan for development and tries to get up on the priority scale. It is the job of the Department of Finance to see that the priorities are right.[18]

C. H. Murray on the other hand, dwelt upon some of the inherent difficulties of this process as it had worked in the past when, he observed, other departments had given

> . . . the general impression that economic planning has not meant a great deal to them. Their attitude at best could be described as one of passivity. For example, when the Department of Finance was preparing the Third Programme, it sent a document suggesting the broad outlines of the Programme to departments for their views. There was no sign of interest in the document as a whole; comment was reserved to aspects of it which affected particular activities of departments. A number of factors lie behind this attitude, not least of which is that, in general, the interest of a minister and his department is confined to actions under their control. This results in what might be described as a rather parochial attitude by departments to aspects of programmes which affect their own areas. It also leads to the existence of as many pressure groups as departments and to the fragmentation of pressures for change.[19]

Murray expressed the hope that the solution to this problem, which, he acknowledged, was not peculiar to Ireland, might be found in "the development of public capital appraisal", the extension of the newly inaugurated Planning Programming Budgeting System (PPBS) and "the establishment of development units" in other departments. These factors should, he thought,

> . . . involve departments more closely in the planning process. It could lead to a common language and, hopefully, to a common approach to problems. These developments would have to be supplemented by a more positive effort by the Department of Finance to inform other departments of its role in planning; at the moment, only a handful of individuals in the other departments are fully aware of this role. The Department would like to arrange for special transfer of personnel between it and the other departments for this purpose.

Thus while Murray believed that economic planning would become still more important in Finance, he also looked forward to "getting other departments more involved in medium-term planning"; like Whitaker, he deprecated the prospect of the Department becoming "an executive department" or some kind of "executive planning agency". Such an outcome, he felt, "could lead to a very big department doing everything . . . [and] would be a contradiction of the concept of planning." He was not, on the other hand, "too dissatisfied" with what had been achieved so far, since he felt that economic planning had only really got under way with the Second Programme, the First Programme being "relatively simple" in comparison.[20]

The similarity between Whitaker's and Murray's views and the Devlin Report's recommendations both on planning and on the most appropriate future role for the Department of Finance is striking and suggests that, in these respects at least, calls upon the Minister for Finance to implement the Devlin proposals as soon as possible were favourably received.[21]

It remains to look briefly at the Third Programme (published like the Devlin Report in 1969) which covered the years 1969–72 and which was prepared against the background of the NIEC's report on full employment. It was less detailed than the Second Programme and focussed upon the strategy rather than the detail of future development. Its most interesting feature, perhaps, was that it was designated as a programme for social as well as economic development. This emphasis on social development, the Third Programme stated,

> . . . does not mean that an acceptable level of national prosperity has been achieved, but rather that the stage has now been reached where more thought must be given to how the fruits of progress are to be used. We must avoid a situation where the pursuit of material progress becomes the exclusive goal of economic endeavour.
>
> As a nation, we have particular responsibilities at our present stage of economic development. Not only have we an obligation to ensure that all members of society share in economic progress; by extension, we incur with progress an obligation towards the under-developed countries of the world. We also have, by reason of Ireland's late entry on the path of industrial development, an opportunity of learning from the lessons of other nations. The cost of economic growth — in terms of air and water pollution, traffic congestion, noise, dereliction of cities, destruction of visual amenity and natural life, not to mention the unquantifiable human

costs of social and technological change — are only too apparent in the developed industrial countries. We must take care that in fostering the industrial development that is the key to our future prosperity we do not unwittingly destroy the advantages — some of them increasingly scarce in Western Europe — with which we start. We must distinguish carefully between increases in gross national product and improvements in the quality of life of the nation. An advance in one does not necassarily mean an advance in the other; it may even mean the contrary.[22]

Such language is a worthy monument to the Third Programme's place in the history of planning in Ireland. Written in the late evening of the sixties but before the dawning of the seventies, it reflects that easy if courageous assumption of material progress which so characterised the optimism of the former together with that urgent environmental concern which is a hallmark of the latter.

There has not yet been a Fourth Programme. Planning in the sixties depended on the assumption of reasonable stability in the rate of price increase, growth in world trade and on the acceptability of an assumed pattern of income distribution. The growing dependence on external trade for growth and the emergence of uncertainties engendered by accelerating world inflation, the oil crisis and the world recession ensured that the plans of the sixties were deemed unsuitable for the seventies. Furthermore, the increase in the population and the reversal in the early seventies of the emigration pattern of previous decades has also to be taken into account in assessing the appropriate form of planning. Past plans, dealing essentially with the need to increase incomes and employment tended to assume that the consequential increase in government expenditure could be readily financed, but, as the Minister for Finance in his budget speech in June 1975, stated: "Any future plan will have to be firmly grounded on realistic assessments of resources and on realistic programmes of public expenditure, both current and capital. It will also have to deal explicitly with the inflationary side effects."[23]

More was revealed of the likely shape of such a plan in the course of the next budget speech, on 28 January 1976, which confirmed that the Department of Finance was engaged upon "the preparation of a new medium-term economic and social programme" with "two essential elements." The first concerned the overriding importance of competitiveness in the determination of incomes and the vital role of investment to achieve export led growth. The second concerned the

allocation of income to investment not only for competitive purposes but also to provide for an expanding population and labour force.[24]

In September 1976, a government Green Paper set out to analyse the country's economic problems and the conditions necessary for their solution. But, while the paper

> . . . indicates the broad lines of policy which the country should follow it does not contain a detailed blueprint for action over the next five years. That must await acceptance by the broadest sections of the community of the necessary disciplines and dedication to future growth without which the prospect of full employment must recede into the indefinite future.[25]

External Economic Relations

Economic planning, however, was only one of the three principal components in what the Department of Finance in the sixties envisioned as an "overall economic strategy directed towards promoting a high and stable rate of economic growth". The other elements were external trade policy generally and, in particular, the question of accession to the European Communities. Although each is here treated separately, all three were seen "as integral parts of a total policy which had as its basic objective the stimulation by the State of private enterprise through improving and enlarging capacity in terms of investment and productivity." The relationship between this kind of economic planning and an external economic policy was seen in turn as dependent upon accepting that

(a) economic growth must be export-led;

(b) the rapid and sustained expansion of exports — particularly industrial exports — depended on our capacity to raise the level of our competitive efficiency to that obtaining among our trading partners;

(c) the gap in terms of competitive efficiency could not be closed without the gradual dismantling of protection.[26]

But free trade, as T. K. Whitaker has pointed out, "was not universally welcome and the original impetus towards it ran the risk of running into the sands of frustrated isolation."[27] The task of sustaining that impetus rested largely upon the Department of Finance and the early, critical phase of the free trade versus protection debate provides us with an example of how the new and more positive Finance approach worked in the post-1958 era.

The process whereby Ireland moved from protection to free trade and Seán Lemass's key role in that evolution has been charted in a recent article by T. K. Whitaker[28] and needs no elaboration here other than to indicate how tenaciously Whitaker himself argued the anti-protectionist case in correspondence with the secretaries of the other economic departments and with the Governor of the Central Bank. It is of interest, too, to remark that McElligott (who then held the last-named post) was much the most fervent free trader of these correspondents and he at one point taxed Whitaker with seeming not to contemplate the need to reduce high tariffs unless forced to do so "by outside developments" — a charge the latter rejected out of hand[29] — but then McElligott, on behalf of the board of the Central Bank, had gone on record as early as 1957 in favour of Ireland's joining EFTA.[30]

In the last analysis, however, Whitaker saw the matter not as "one of economic theory but one that bears directly on our hopes of future development"; and, rather than dwelling on the difficulties inherent in dismantling protection, he looked towards "the undoubtedly adverse consequences of being left stranded on a high and narrow protectionist plateau on which acceptable living standards could be provided only temporarily and for a diminishing number of our people."[31] For the protagonists of free trade in the Department of Finance, what was at issue was nothing less than the basic philosophic assumption underpinning *Economic Development,* which was outlined in a passage in its opening chapter:

> Sooner or later, protection will have to go and the challenge of free trade be accepted. There is really no other choice for a country wishing to keep pace materially with the rest of Europe. It would be a policy of despair to accept that our costs of production must permanently be higher than those of other European countries, either in industry or in agriculture. Our level of real incomes depends upon our competitive efficiency. If that must be lower than in the rest of Europe we should have to be content with relatively low living standards. With the alternative of emigration available we are unlikely, either as a community or as individuals, to accept such a situation for long unless it is seen as an essential part of a programme of national regeneration. The effect of any policy entailing relatively low living standards here for all time would be to sustain and stimulate the outflow of emigrants and in the end jeopardise our economic independence. Any little benefit obtained in terms of employment in protected non-competitive industries would be outweighed by losses

through emigration and general economic impoverishment. If we do not expand production on a competitive basis, we shall fail to provide the basis necessary for the economic independence and material progress of the community.

This quest for "the economic independence and material progress of the community", the main theme of *Economic Development*, explains the emphasis upon the dismantling of protection and the evolution of an external economic policy. "One of the paradoxes of Irish life", James Meenan has argued, "has been the coupling of insistence on political separation from Great Britain with the greatest reluctance to develop contacts outside these islands."[32] We have already seen something of the first weakening of that reluctance in the post-war years and its continued erosion now became a major preoccupation of the Department of Finance.

The dismantling of protection was seen in the Department not only as an end in itself but as an opportunity to negotiate reciprocal concessions from other countries which would improve Irish marketing opportunities abroad. Hence the multilateral negotiations within the framework of the General Agreement on Tariffs and Trade (GATT) which led to Ireland's becoming a contracting party to that agreement; hence also two major series of bilateral negotiations, first, with the United Kingdom (culminating in the Anglo-Irish Free Trade Area Agreement of 1965) and, second, with the European Communities (culminating in Ireland's accession to the EEC in January 1973).

Finance had argued for Irish participation in the GATT since July 1960 because it was increasingly concerned with the kind of trading problems which obstructed the expansion of those Irish exports which were central to economic development: first, the problem of gaining favourable access for Irish agricultural exports to industrialised countries which favoured protectionist policies and which might be eased by the GATT's examination of the general question of quantitative restrictions on agricultural international trade; and, second, the effect on all Irish exports of the setting up of the Communities and the EFTA, since all the members of both groupings (except Portugal) were parties to the GATT and thus subject to its provisions on the establishment of customs unions and free trade areas by members. But Irish accession was deferred until 1967 because of difficulties arising from Irish preferential arrangements with Britain and because of the ultimate failure of the initial British and Irish applications of 1961 to join the Communities.

Ireland's unilateral reduction in protective tariffs in 1963 and, again, in 1964 similarly derived from Finance's conviction that continuous progress towards free trade was a *sine qua non* of economic development. The reductions originated in a proposal made by Whitaker to Industry and Commerce in July 1962 for a unilateral, across-the-board reduction of 10–15 per cent on imported goods. Whitaker argued that "there was a need to maintain a psychological impetus towards rapid adjustment to EEC conditions"; that, regardless of whether the Irish application to join the EEC was successful, the greater industrial efficiency consequent upon increased competition was urgently necessary for Irish exporters; that "procrastination in making tariff reductions would merely result in a faster rate of reduction on joining the EEC"; that unilateral reductions "would provide an earnest of our determination to adapt ourselves to EEC conditions . . . [which] would be evidence not only of our realism but of our expectation that we would be admitted to membership"; and that the other countries then seeking admission to the EEC had already, "as members of EFTA", significantly reduced their tariffs.[33]

These unilateral tariff reductions served as a launching-pad for the Anglo-Irish negotiations of 1963–64 in which Finance officials played a prominent part. The Irish objective throughout was to achieve an agreement which would facilitate the expansion of Irish exports on the scale envisaged in the Second Programme and which would be consistent with the eventual participation of both countries in an enlarged Community. Stress was laid upon the need to improve the Irish right of access to the British market for agricultural exports (then running at some 60 per cent of total exports and of particular significance in the context of the balance of payments), since access to the EEC market was no longer an immediate prospect. Both aims were largely achieved in the London agreement of 14 December 1965.

The Department of Finance, "because of its central position in the administration and its prime responsibility for future economic development", also initiated the debate on the broader issue of whether or not Ireland should join the EEC, which began in earnest in November 1960 when the Taoiseach approved Whitaker's suggestion that it should form the subject of a departmental review. This review, which assumed Britain would not join the EEC, concluded that

> . . . it did not seem that association in any form with the EEC, even if it included full integration of Irish agriculture in the Common Market with long-term price stability at a fairly high level, would afford as good a

basis for the expansion of Irish agricultural production as would similar arrangements with the United Kingdom. It concluded that it seemed prudent to defer any decision on seeking association with the Six until it was possible to obtain all the benefits of such association without jeopardising the basic advantages Ireland possessed in the UK market.[34]

But it soon became apparent that Britain might apply to join the EEC and, early in May 1961, another study — this time on the assumption of participation of *both* Britain and Ireland in the Communities — was prepared on the three alternatives which would then be open to Ireland: remaining out, full membership or associate membership. Remaining out was rejected as leading to "the inevitable loss of the British market"; as between full and associate membership, it was argued "that the undoubted balance of advantage for agriculture would lie in full membership. The determining factor would be industry's ability to survive the dismantling of the existing tariff arrangements. Only by entering negotiations for full membership would it be possible to decide where the balance of advantage lay."

This opinion was endorsed at a series of inter-departmental meetings in early June 1961 and, on 30 June, the government published a White Paper,[35] prepared in the Department of Finance, setting out the case for an Irish application for full membership of the EEC. The fate of that application (when the negotiations were indefinitely adjourned after de Gaulle's veto of British entry in January 1963) is well-known and the events preceding it need no recapitulation here.

The mid-sixties saw, perforce, a redirection in the main thrust of the Finance initiative in external trade policy which now focussed, first, upon Anglo-Irish trading relations and, second, upon a reactivation of the Irish application to the GATT. While the hope that Ireland might become a member of the EEC was never abandoned, Finance stressed the need to come to an interim arrangement with the British which would boost economic expansion by improving the British market for Irish agricultural products while reducing tariffs against Irish industrial goods. Mention has already been made of the Anglo-Irish negotiations of 1963–64 which went hand-in-hand with discussions with the GATT secretariat on how to reconcile accession to the GATT with Irish preferential obligations under the Anglo-Irish Trade Agreements. The GATT negotiations were protracted, however, because of disagreement among the contracting parties about procedures whereby new members might be admitted and by delays in the "Kennedy Round"—negotiations then in progress in which

Ireland participated on a "pre-entry" basis; and, by the time the "Kennedy Round" was formally concluded on 30 June 1967, the preferential problem had been disposed of under the terms of the Anglo-Irish Free Trade Agreement of 14 December 1965.[36]

The story of the second round of EEC negotiations, which began in September 1966 when the Ministers for Finance and External Affairs met members of the Commission in Brussels and discussed the continuing Irish interest in membership, does not concern us here. These negotiations, culminating in the signing of the Treaty of Accession to the EEC on 22 January 1972, are described in the government's White Paper.[37] The "responsibility for the negotiations was shared by the Departments of Finance and Foreign Affairs, the Department of Finance concerning itself with coordinating the preparation of detailed material, chairing interdepartmental committees etc. and the Department of Foreign Affairs, in the main, leading discussions in Brussels."[38]

Ireland did not finally become a member of the EEC until 1 January 1973 — Dr Whitaker has written of the economic advantages of the twelve year delay[39] — and Finance has since become deeply involved in Community affairs. The Minister for Finance is a member of the Council of Economic and Finance Ministers and within a year of Ireland's accession the then Minister, Richie Ryan, was chairman of the Council; more recently, in 1977, the Secretary of the Department, Michael Murphy, became President of the Community's Court of Auditors and was succeeded as Secretary by Tomás F. Ó Cofaigh.

The Years of Expansion

A continuous expansion of the interests and responsibilities of the Department of Finance in the sixties and early seventies is, perhaps, what most clearly distinguishes developments in these years from the Department's earlier history. The Department of Finance of, say, 1955, was, for most intents and purposes, the Department of Finance of 1925; the Department of Finance of 1965 (still less the Department of 1975) was not. The necessity to embrace expansionist attitudes as never before is, then, a hallmark of the Department's immediate past. Such expansion sometimes meant that the Department had to take on wholly new interests and responsibilities — accession to the EEC is a case in point; sometimes it has been rather a case of old interests taking on a novel and quite different hue — the Department's role in

underpinning the gilt-edged market is one such example.[40] Expansion could thus lead either to new and onerous duties or to old responsibilities appearing in a new and more challenging guise or, more simply, to a vast quantitative increase of responsibilities which had always fallen to the Department — the growth of the work required in the preparation of budgets is one obvious instance. While it would be beyond the scope of this epilogue to chart such a pattern of growth in its full complexity, we can briefly indicate its impact in three policy areas with which the Department had always been closely concerned: financing of government expenditure, monetary policy (including banking) and fiscal policy.[41]

Financing of Government Expenditure

The rapid growth of government borrowing over the last twenty years was one major problem engaging the attention of the Department's officials in the finance division. Until the late fifties, government borrowing was largely limited to small savings subscribed by the public and to periodic national loans, issued annually after 1950. The introduction of the public capital programme (the implications of which will shortly be examined in more detail) gave the initial impetus to this increase in borrowing and led to the introduction of such sources of finance as exchequer bills and other new savings schemes — prize bonds, for instance. The sterling deutsche mark issue of 1966 which was followed, particularly after 1969, by many public issues and private placements in other cur encies, meant that the Department's officials had to acquire the expertise necessary to raise loans on international markets. One statistic suffices to indicate the scale of growth: the government's foreign debt, which in 1960 had been limited to a Marshall Aid commitment of some £43 million, had grown to £560 million (at current exchange rates) by 31 December 1975.

The growth in government borrowing was mirrored by a corresponding growth of the gilt-edged market as a source for this borrowing. The Department played an active part in the development of a more sophisticated gilt-edged market, following the presentation, in 1968, of a Central Bank report on what might be achieved by a money market in which government stocks were fully marketable and which might lead to the repatriation of Irish funds invested abroad and to investment in government securities by major Irish financial institutions. The use of Departmental funds to purchase and sell stocks

made possible a policy "whereby the Central Bank, in the short-term stocks, and the Department in all others, engaged in much larger transactions than hitherto and gradually instilled confidence by supporting the market." After 1971, this policy was supplemented "by a system of creating tranches of existing stocks as a method of ensuring a wide range of securities of various interest rates, prices and maturities for all investors." Flexibility was again the aim of the decision to issue the annual national loan (no longer as important as hitherto under the new system) as an "open ended" loan after 1971. One statistic again adequately reveals the scale of growth: the amount of outstanding government securities grew from £183 million in 1960 to £500 million in 1970, to £1,400 million in early 1976, with corresponding increases in the net sales of government securities and the turnover of gilt-edged stocks.

Increased borrowing requirements also led, in 1970, to a decision to establish a new section in the Department's finance division "to monitor the overall financial resources of the Exchequer and to prepare forecasts on an annual and multi-annual basis of tax revenue, non-tax revenue and Exchequer capital resources", to forecast expenditure and to monitor receipts and expenditure on Central Fund Services.

Monetary Policy and Banking

Monetary and credit policy increasingly demanded the attention of the Department's officials after 1960 because of the rapid expansion of the economy and, later, because of problems of inflation, both of which focussed attention "on the role of the money supply and the availability, distribution and cost of credit". Consideration of these problems led to close cooperation between Finance and the Central Bank and to a continuing expansion of the latter's functions. In 1965, for the first time, the Bank laid down guidelines on domestic credit creation to the associated banks; again, in 1968–69, the bulk of the associated banks' external assets were transferred to the Central Bank, giving it effective control of the country's external reserves other than those held privately.

These years also saw the expansion and rationalisation of the Irish banking system: new banks were set up and foreign banks opened Irish branches. The Department of Finance became increasingly preoccupied with the question of the control and supervision of banks and the result was the drafting and enactment of the Central Bank Bill 1971, which gave powers to the Central Bank to licence and

supervise banks and increased its powers to regulate credit and the money supply. The Department was also anxious at this time "to promote the consolidation of the domestic banks into larger units able to withstand foreign competition and develop a more dynamic approach to banking in tune with the needs of an expanding economy"; it therefore welcomed the Bank of Ireland's takeover of the Hibernian Bank in 1958 and of the National Bank's Irish business in 1966. In the same year, the Munster and Leinster Bank, Provincial Bank and Royal Bank of Ireland decided to amalgamate and form Allied Irish Banks.

Finance was also the government department most intimately involved with the implementation of the government's decision (announced in the Minister for Finance's budget speech in 1968) to introduce a decimal system of currency. The Irish Decimal Currency Board was established in June 1968, under the chairmanship of one of the Department's assistant secretaries (S. F. Murray), to prepare for the formal changeover on 15 February 1971.

But the rapid changes in monetary policy were not confined to the domestic arena: Irish membership of the World Bank and of the International Monetary Fund, since 1957 in both instances, had weighty implications for the decade ahead. The quest for financial aid from the World Bank was not vigorously pursued by the Department until the nineteen sixties when external capital was needed to help finance the growing public capital programme. But it was 1969 before the Bank made its first loan, since when it has made seven loans totalling $122.5 million, for Irish projects relating to electricity generation, educational development and industrial and agricultural credit. More recently, however, the Bank has been concentrating upon loans to developing countries in the Third World and, in 1973, Ireland transferred from Part II to Part I membership of the International Development Association (the World Bank agency which makes loans on preferential terms to the developing countries) — a transfer which meant in effect that Ireland chose to be grouped with the economically more advanced, as opposed to the developing countries, and one which entailed an additional commitment to contribute to the International Development Association's resources.

Irish membership of the IMF has similarly led to significant changes in monetary policy, the implementation of which engaged the attention of the Department's officials. One such change, in 1961, "involved making Irish currency freely convertible for current transactions and the avoidance of restrictions on current payments." Ireland

borrowed $22.5 million from the IMF in 1966 and later participated in its special drawing rights scheme to supplement reserve assets. Departmental officials have since served in the IMF and, in September 1977, the Minister for Finance, George Colley, presided at its annual general meeting.

Fiscal Policy and the Role of the Budget

Fiscal policy expanded rapidly after 1960 and the budget's role "evolved far beyond the original housekeeping one of balancing expenditure against income"; it was seen instead "as a major instrument for regulating economic activity and influencing the allocation of resources". The budget's redistributive role has also grown: when Jack Lynch was Minister for Finance, for example, he described his budget of 1965 as "a social services budget"; and, between 1960 and 1975, current government expenditure on the social services grew from £50 million to over £500 million. Major changes in the taxation system have included the introduction of PAYE and VAT, and changes have also occurred in the areas of company taxation, death duties, farming, capital taxation, mining and offshore petroleum and the extension of double taxation agreements. A unique feature of Charles J. Haughey's term of office as Minister for Finance was his interest in culture and the arts which found expression in the provision — in the 1969 Finance Act — for relief from income tax in respect of certain earnings from original and creative works of writers, composers, painters and sculptors.

Entry into the EEC has also entailed budgetary changes, since the Commission requires a budgetary statement in a new format and monthly returns of budgetary developments, while the Council of Finance Ministers adopts budgetary guidelines in advance. Another consequence of EEC membership which threw a heavy burden upon the Department's officials, was the decision to bring the Irish financial year into line with the original six member-states of the EEC; this entailed a change in 1975 from the traditional April–March basis to the calendar year for the exchequer and local authorities.

Appraisal of the Public Capital Programme

In June 1967, the heavy and rapidly growing demands on resources to finance the First Public Capital Programme caused the government to authorise the Minister for Finance to carry out an appraisal of the

Programme "by considering the cost of each of the constituent items of the Programme in relation to the economic and social benefits which it yields or may be expected to yield to the community." This appraisal generated new ideas with regard to the planning and budgeting functions in the Department of Finance, if not in the public service at large.

A working group to carry out the appraisal was set up in the Department under the chairmanship of the assistant secretary in charge of the finance division, Seán F. Murray. It drew its members from government departments and state bodies, as well as from outside the public service; Dr Martin O'Donoghue of Trinity College was consultant to the group.* The group divided the Public Capital Programme into fifty different areas of investment and, within about two years from the start of this process in early 1968, completed twenty-seven individual reports covering the costs and economic and social benefits of almost all of these areas.

In November 1968, their interim report to the Minister for Finance pointed out that they had been "particularly struck by the number of instances in which there was no precise definition of the aim of the expenditure, the objectives by which it was to be achieved or of the total costs and total benefits expected." The report argued that what was needed was the introduction of the programme budgeting system, then being developed elsewhere, notably in the United States, and already under investigation in the Department.[42] The theory of programme budgeting is well documented elsewhere;[43] suffice it to say here that the system sought to emphasise, "in all areas of public expenditure . . . the definition of objectives; the identification and quantification of expected costs and benefits; the projection of costs and benefits, annually and globally and for a reasonable period ahead, and the continuous review and updating of plans."[44] Less than three months after the presentation of the interim report, both Whitaker and C. H. Murray urged the advantages of the system on the Devlin Group[45] and it duly received prominent mention both in the Devlin Report and in the Third Programme.

Thereafter, the introduction of programme budgeting rapidly gained momentum. The technical demands of the system and the shortage of skilled personnel led the Department to promote the de-

*Dr O'Donoghue became Minister for Economic Planning and Development after the 1977 change of government.

velopment of analysis and management accounting and, in a matter of a few years, to secure the appointment of management accountants to some eight departments with no previous tradition of management accounting. By 1975, all departments were able to present multi-annual expenditure proposals in a programme format. But, more recently, "constraints such as the absence of a medium-term macro-economic framework and lack of familiarity with programme concepts and material at different decision-making levels have resulted . . . in the replacement, as a short-term development target, of programme-oriented budgeting by multi-annual budgeting of a more traditional kind."[46]

One noteworthy feature of this period of budgetary innovation was the wide range of contacts established by the Finance officials concerned with their counterparts in other national finance administrations — in Belgium, Canada, France, Norway, Sweden, the United Kingdom and the United States. These widespread and direct international contacts were in striking contrast with the Department's earlier history when its officials tended to rely almost exclusively on the British Treasury for advice and cooperation.[47]

The Personnel Function

Until 1 November 1973, when the Department of the Public Service was formally established, the personnel function of the Irish civil service remained the responsibility of the personnel (formerly the establishment) division of the Department of Finance. The implications of that development for the structure and organisation of the Department have already been discussed and it now remains to trace how the rapid growth of the Department's responsibilities affected the exercise of that function before 1973.

In the nineteen sixties pay increases were widespread in the community and the personnel division was continually preoccupied with the pay and conditions of civil servants. The Industrial Relations Act 1969 brought industrial employees of departments within the ambit of the Labour Court for the first time.

The personnel division was also becoming increasingly concerned with the pay and conditions of groups outside the civil service and in 1971 responsibility for the pay of teachers, gardaí and the army was transferred to the division. During this period there were four major investigations:

(1) the Quinn Tribunal, which reported in 1966 on the pay of clerical recruitment grades in the public sector,

(2) the Ryan Tribunal, which reported in 1968 on the pay of teachers,

(3) the Conroy Commission, which reported in 1970 on the pay of gardaí, and

(4) the Review Body on Higher Remuneration in the Public Sector, which reported in 1972, having conducted a review covering members of the government, parliamentarians, the judiciary, top civil servants, top local authority and health board officials, and chief executives of state-sponsored bodies.

Moreover, "the growing dependence on the exchequer of such bodies as universities, health authorities and voluntary or state-sponsored bodies meant that increases in salaries for staff in these areas had to be met by the exchequer although the grant of such increases was not under the direct control of the Department of Finance."

Government policy, formulated against the background of the Third Programme and the NIEC reports on the economy led to the establishment of the National Prices Commission and the Employer-Labour Conference and, ultimately, in December 1970, to the first national pay agreement. For the first time the government was represented in its capacity of employer on the general negotiating team of employers; the private sector and the state-sponsored bodies were the other participants. The personnel division also played an active part in the institutions set up by the Employer-Labour Conference — the steering committee, adjudication committees and interpretation committees — and this brought it face to face with problems of pay and industrial relations in the private sector and their possible impact on the public sector.

Entry into the EEC involved negotiation on Irish staff quotas and acceptance of obligations in the employment field; these had largely been anticipated by the recommendations of the Commission on the Status of Women, on equal pay for women in the public service and the removal of the marriage bar.[48]

Changes in Management and Business Methods

New policies demanded new administrative and technical skills. An organisation and methods training section, established in the personnel

division in 1960, provided training and courses on organisation and methods, and on automatic data processing. More than thirty weeks of training were provided in 1965 and, by 1971-72, this had increased to some seventy-five "management and role courses". By 1970 the organisation and methods unit was advising the civil service as a whole on office machinery and equipment, the use of management consultants and the general development of organisation and methods techniques. The work of the automatic data processing unit accelerated when a computer system was installed in the office of the Revenue Commissioners in 1966 and this led to the establishment of the central data processing services unit which installed its own computer at the Public Service Computer Centre at Kilmainham in 1973.

Another innovation was the establishment of a work survey unit in 1968 to grapple with the ever-growing problem of expanding staff numbers. This in turn gave rise to the 1969 decision to encourage the application of management by objectives (MBO) in the civil service. MBO seminars and courses for senior officials, organised in conjunction with the Institute of Public Administration were intended to produce greater managerial effectiveness, particularly in relation to programme budgeting.[49]

Problems of Recruitment

Lack of competitive remuneration, the poor public image of the public service, excessive delays in recruitment, and the Irish language requirement were the four reasons adduced by the Devlin Report for a concern about recruitment, increasingly evident in the Department of Finance in the late sixties.[50] The growth of the civil service (37.5 per cent during the decade) and the growth, in particular, of the specialised activities for which there was a paucity of qualified candidates (combined with the increased tendency for school-leavers, who had formerly entered the civil service about the age of eighteen, to go to universities) further exacerbated the problem which occupied a significant place in what all three of the senior Finance officials said to the Devlin group. Whitaker, for example, argued that the civil service was "fighting a losing battle against other sources of employment: it is no longer the principal or only avenue of employment for bright young school leavers", and he thought, too, that competition from other sources militated against recruitment more than "image". He argued that

> . . . we have moved beyond the era of patronage and we are losing too much by insisting on the old protective procedures once necessary to safeguard against the exercise of patronage. The idea that people so want to enter the civil service that they are prepared to sit for examinations and wait long periods for results is no longer valid. It is no longer necessary to recruit people permanently; young people today like to move from one job to another and the very idea of a civil service post as a permanent job is tending to work against us.[51]

C. H. Murray similarly looked forward to "a situation emerging in which, for special needs, the possibility could be held open for outsiders to come in for short periods, say, two years", although he acknowledged that the Department of Finance's past efforts on these lines had been discouraging. He referred, for example, to a special competition for economists in 1959 which got a very limited response; in a later competition only two of the six people chosen presented themselves; and the experience had raised doubts about the validity of such competitions for posts of this kind.

"In this small country", Murray argued,

> it should be possible to rely, to some extent at least, on word of mouth to identify people suitable for short-term posts. There is something formal and off-putting about going through the Civil Service Commission or an interdepartmental competition for such posts. Our whole approach to recruitment is geared to 19th century thinking and to meet issues which were more relevant to that century than to the present. This is an area where a strong line will have to be taken. We cannot afford the luxury of an elaborate system of recruitment which does not get us the people we want.[52]

The official immediately responsible as the assistant secretary in charge of the personnel division, Seamus Ó Conaill, was also gloomy about recruitment prospects and, while elaborating in some detail upon the problem, spoke about the steps that had already been taken "to go direct to the universities, 'sell' a career in the civil service and be available for further consultations."[53]

Here, too, then, changes recommended by the Devlin Report reflected a recognition of the need for a change in the higher reaches of Finance. The result was the establishment of a special recruitment section in the department's personnel division in 1971 which was subsequently incorporated in the Department of the Public Service. Here rests responsibility for all recruitment questions, as well as for such

matters as promotions by confined competitions and liaison with the EEC Commission on the employment of Irish nationals.[54]

Civil Service Numbers

The seemingly unending increase in civil service numbers, which so exercised Finance officials in the thirties and, to a greater or lesser extent, ever afterwards, has posed still more acute problems in recent years. The dramatic growth of the establishment function may be seen from the attached table and, more simply, from the fact that the civil service increased by nearly 50 per cent in these years — from 28,000 in 1960 to 41,000 in 1973. Most of the growth occurred towards the end of the period and this has been attributed to

> . . . the provision of new public services and the improvement of existing ones, particularly in the areas of education, social welfare, agriculture and posts and telecommunications. . . . The staff of the Revenue Commissioners had to be expanded to handle the collection of the growing amount of revenue required to meet the cost of the expanding public services and the Department of Finance itself grew in size as it took on a more developmental role in the management of the economy. . . The preparatory work leading to Ireland's entry to EEC called for more posts in most departments, particularly the economic departments and Foreign Affairs.[55]

Seamus Ó Conaill echoed the lamentations of his predecessors when he told the Devlin group that, "while heads of departments would all agree that the functions of their departments should be carried out with the greatest economy of staff, in practice day-to-day pressures cause them to look for additional staff when a new service is added or an existing service enlarged."[56]

The Personnel Function and the Restructuring of the Public Service

The Devlin Report, Professors Lynch and Chubb have argued in their study of economic development and planning in Ireland, is "a document of such breadth and sweeping vision that it cannot but have a tremendous impact on the whole pattern of administration"; its recommendations, if "far-reaching", are "in no sense radical. They are aimed at enabling the public service to deal with the problems of public administration that face any government in the second half of the twentieth century."[57] While the fate of one of the Report's main elements — the recommended separation of policy-making from

execution, by the creation of *aireachts* and executive units — is still unclear, something of that impact has already become apparent, and this is nowhere more true than in respect of the personnel function formally exercised by the Department of Finance.

Growth in Total Civil Service Establishment

At 1 January	Total	Administrative Executive and Departmental Related Grades	Staff Officers and Clerical Grades	Professional and Technical Grades	Supervisory Minor and Manipulative Grades, mainly Posts and Telegraph staff
1960	25,000	2,850	6,300	2,300	13,500
1961	28,108	2,900	6,350	2,300	13,600
1962	28,910	2,935	6,379	2,301	13,651
1963	29,728	2,951	6,645	2,391	14,065
1964	30,383	2,958	6,730	2,496	14,478
1965	31,675	3,054	6,964	2,622	15,200
1966	32,609	3,182	7,125	2,714	15,590
1967	32,965	3,201	7,276	2,823	15,625
1968	33,689	3,409	7,412	2,909	15,822
1969	34,506	3,577	7,556	3,095	15,923
1970	36,250	3,729	7,845	3,176	17,033
1971	38,019	3,961	8,146	3,258	17,869
1972	39,364	4,163	8,670	3,396	18,100
1973	41,340	4,553	9,157	3,562	18,797
1974	44,749	4,892	10,501	3,686	20,116

Notes: *(a)* Not all the categories of civil servant which go to make up the total establishment are shown in the four right-hand columns; only the principal groups are given.

(b) The precise figures for the individual categories are not available for 1960 and 1961: the figures in the four component columns for these two years are approximate.

The personnel or establishment function has loomed large in this history: since the appointment of C. J. Gregg, throughout the years in office of his immediate successor, H. P. Boland, and afterwards, the establishment function was commonly regarded as intrinsic to the proper exercise of financial control which, in turn, was seen as the very heart of the Department's *raison d'être.* Now that function has been removed from the Department and rests instead with the new

Department of the Public Service. Notwithstanding the caveat entered earlier in this epilogue about the folly of attempting historical judgements after so short a space of time, it might seem that never before in its history has the Department of Finance suffered so great a diminution in its power and influence. A brief assessment of what the most senior officials in the contemporary Department thought about the personnel function would seem, therefore, as appropriate a point as any upon which to conclude this book.

"The existing arrangement of having the personnel function in the Department of Finance has worked well enough in practice", Seamus Ó Conaill told the Devlin group:

> The head of personnel division has always had a large measure of autonomy. The Secretary is normally involved only in major issues and particularly in matters with significant Exchequer repercussions. The head of personnel division has direct access to the Minister but the Minister is not unduly burdened with personnel matters; he is concerned mainly with the broader issues and, of course, he is a court of appeal for other ministers whose departments have failed to get all of their way at official level.

Where, Ó Conaill asked, if the arrangement were to be changed, would the personnel function be placed? One alternative was the Taoiseach's Department but, in the Irish government system, the Taoiseach did not take on executive functions; "if personnel went to the Department of the Taoiseach, it could not expect a high priority". Again,

> . . . if a parliamentary secretary were given responsibility for it, he would carry less weight than the Minister for Finance. If there was a separate department for personnel, it would be likely to be under a junior minister and again he would carry less weight. . . . No great advantage would appear to lie in having it under a statutory board, unless it had some reporting relationship with the Department of Finance. A statutory board operating in isolation could easily get into conflict with ministers.[58]

C. H. Murray told the Devlin group that

> . . . it would, theoretically, be possible to take the personnel function away from the Department of Finance and put it in the Department of the Taoiseach. The difficulty here is that the Taoiseach might not want to get involved with such a specific activity. The Department of the Taoiseach would also have to get staff to undertake the function which could just as efficiently be undertaken by the Department of Finance. It knits in closely with the functions of the Department, and has the incidental but impor-

> tant advantage of providing it with a means of exerting some influence over the other departments.[59]

Whitaker, too, acknowledged that

> . . . it is not absolutely essential that the personnel function should be in the Department of Finance. However, if it was moved . . . it would either have to have a separate existence as in England or be put under either the Department of the Taoiseach or Labour. If it was a separate department, there is the danger that a junior minister might be put in charge if personnel was not regarded as leading to a political future. The Taoiseach should not be bothered with administrative problems and the only real link the Department of Labour has with personnel is in the incomes policy aspect.

He, also, stressed the virtual autonomy always enjoyed by the personnel division within the Department of Finance.[60]

The Devlin Group did not contradict these arguments in substance, some of which, indeed, were adduced to support their recommendation that "the organisation and personnel functions will always have regard to financial considerations and, to that extent, it is correct that they should continue to report to the Minister for Finance although enjoying the status of a separate department." The weaknesses they discerned within the pre-1973 system derived "from the subordination of organisation and personnel to the budgetary function within the Department of Finance" rather than from any desire to question that ministerial responsibility for the personnel function should rest with the Minister for Finance.[61]

Thus the inauguration of the Department of the Public Service was *not* necessarily antagonistic to the best interests of the Department of Finance as conceived by that Department's senior officials; indeed, it might well be regarded rather as a natural extension and administrative rationalisation of the former system whereby, ever since the days of C. J. Gregg, the Department's assistant secretary in charge of establishment had enjoyed the right of direct access to the Minister for Finance. The inauguration of the new Department also reflects the more positive attitude of Finance officials to their role in government and administration, which has developed over the last decades. In considering the significance of the Devlin proposals for the Department of Finance, we should remember, finally, that this more positive role was vigorously endorsed. "The finance function is inextricably intertwined with the economic planning function", declared the Report; "the budget is not only the summary of the national accounts;

it is, perhaps, the main weapon in the Government's economic arsenal." It was for this reason that the Report accepted "unreservedly the present organisational arrangements whereby the economic planning function on its creation, was attached to the Department of Finance."[62]

But if the Devlin Report must be placed in the context of an unwonted quest for new directions manifest in the Department of Finance after *Economic Development,* it would be rash indeed to assume that the Department's officials had not earlier addressed themselves to the larger problems it set out to solve. Change there may have been; continuity there certainly was.

> Are we, therefore, to infer that our institutions of parliamentary democracy, with ministeral control and a non-political civil service, provide a key to the solution of all conceivable problems of public administration? An affirmative answer would require much qualification as already there are many problems in sight which demand further progress in the development of administrative technique if we are to preserve the utility of representative institutions and, at the same time, secure executive efficency. The tasks of the State are continuing to spread to fields in which it becomes an ever-growing difficulty to devise methods which will be consistent with parliamentary democracy and, at the same time, adequate for the attainment of the new objects.[63]

The problem was thus posed neither in this decade nor in the last, but some thirty years ago, by the founding father of the Department of Finance, Joseph Brennan. Perhaps, in the last analysis, the great questions compelling the Department's attention may not have changed so very much.

POSTSCRIPT

The change of government consequent upon the general election of June 1977 saw George Colley succeed Richie Ryan as Minister for Finance and Minister for the Public Service. The new government decided to establish a new department — the Department of Economic Planning and Development — with Martin O'Donoghue as Minister. As a result of this change the Department of Finance was reorganised into three divisions: the Finance, Central Budget and Public Expenditure divisions.

Conclusion

The modern Department of Finance revealed in the Epilogue is, then, very different from the Department of Finance as it had endured for close on four decades, and it is to the history of the "old" Department that we must now, finally, return. The spirit of change and innovation, the rapid expansion of responsibilities, the growing participation in Europe and a wider world, and other such characteristics of the present-day Department, form no part of this earlier history. Perhaps, indeed, the single outstanding characteristic of the first thirty-five years of the Department's history is the absence of change, a remarkable continuity reflected both in the Department's organisation and personnel. Thus, in the first instance, the traditional tripartite structure of the Department's finance, establishment and supply divisions remained until 1961; in the second, above all, in the person of J. J. McElligott, who became assistant secretary in 1923, was appointed Secretary in 1927 and continued to hold that post until 1953. So, too, with McElligott's immediate successor, O. J. Redmond, who was one of the handful of officials transferred from the British civil service to serve in the provisional government's newly inaugurated Department of Finance in 1922 and whose first civil service appointment was back in 1906.

Given such continuity in organisation and personnel, it is hardly surprising that there was a no less noteworthy continuity in policy. That the budget must balance annually was not seriously questioned as the first principle of budgetary policy until the introduction of the 1950 capital budget; and the preoccupation with economy and retrenchment was likewise reflected in the relatively slow increase in the public debt (from some £14 millions in 1926 to £81 millions in 1946, which must be compared with an eight-fold increase over the next twenty years).

Critics of the Department of Finance have tended to equate this extraordinary continuity with stagnation, and, certainly, that Finance officials did not then conceive of their Department as an instrument

for change cannot be gainsaid. But, for them, continuity meant stability rather than stagnation. The passion for change which inevitably accompanied the drive for growth, so prominent in shaping the climate of opinion of Ireland in the sixties, is a poor guide to the frame of mind of the men who had charge of the fortunes of the Department of Finance in earlier decades. It is a particularly poor guide if one seeks to understand the value those men placed upon stability. The key to such understanding lies rather in the circumstances in which the Department of Finance was established in 1922 when, after two years of chaos and disorder which accompanied the Anglo-Irish war, civil war threatened to tear the infant state apart. Brennan and Owen Redmond, let it be recalled, worked in Government Buildings in Merrion Street under heavy military guard, in what sometimes amounted to siege conditions, throughout the civil war which was still in progress when McElligott joined the Department. Nor should it be forgotten that the Department's first major retrenchment campaign, in the Department of Defence estimates, was followed by the so-called "Army Mutiny" of 1924.

That the administrative institutions of the new state were set on a firm footing is, for the present generation, a matter of record. For Brennan, McElligott and their colleagues, however, it was the first goal they had to achieve. Ten years were to elapse, moreover, before it was clear that their achievement could survive a change of government or, indeed, that a change of government could take place in the new state by means both peaceful and democratic.

Although the earliest chapters of this work have pointed to the conclusion that the phase in the Department's history there described as "the search for stability" effectively ended in 1924, the stability then achieved was, at best, tenuous, not least in that the Finance officials largely responsible for it were unsure whether they would lose their jobs in the event of a change of government. Under such circumstances, it is hardly surprising that the abiding impression left by the Department's history from 1924 to 1932 is one of little or no change, a period with few clearly defined landmarks.

Yet the very absence of landmarks, the lack of drama in these years, testified to the nature of an achievement greater than the most sanguine Finance official might have hoped for in the troubled days of 1922–24, an achievement that was as unspectacular as it was significant: namely, that the financial administration and the civil service of the new state were working smoothly, quietly and in accordance

with the principles and procedures laid down by the officials who had first established and who now controlled it. Today, when Irishmen tend to take for granted the exercise of an independence now enjoyed by their state for more than half a century, the significance of that achievement may be too easily underestimated. The Brennan/McElligott estimate of that same achievement was very different. Brennan's early civil service career in the chief secretary's office in Dublin Castle was blighted by an under-secretary, Sir John Taylor, who made no secret of his belief that Brennan, like all other Irish Catholics and nationalists, was untrustworthy and had no place in the administrative cadre of the civil service; Brennan had incurred further and particular opprobrium by his complaints about the British troops who ran amok in his home town of Bandon. McElligott had been dismissed from the civil service for his part in the Easter Rising — a fate Brennan might well have shared, had his secret assistance to Michael Collins in preparing the Irish financial case during the Treaty negotiations become known to his then superiors in the Castle.

Yet at the same time both men were wedded to the classic orthodoxies of British financial administration and to the full rigours of Treasury control. The dichotomy is striking and, taken together with the traditional and facile assumption of twentieth-century Irish political life that the most patriotic Irishman is he who spurns all things British, helps explain why the quality of Brennan's and McElligott's patriotism has been called into question in some quarters. In fact, theirs was a patriotism which sought to prove that native Irish government could be good government and to refute the classic Unionist objection to the Irish demand for independence: that the Irish were not fit to govern themselves. Again, fifty years on, refutation may seem gratuitous, but, when the first blossoms of independence had been shrivelled by the icy winds of civil war, whether good government and orderly administration could be established was an open question for Brennan and his colleagues in the Department of Finance. Nor should one underestimate the strength of their determination to prove, above all to their erstwhile civil service colleagues in London and Belfast, that proper procedures could be quickly established in Dublin. One notable example of the residual prejudice they encountered was the marked reluctance of the Dublin bankers to give them the necessary financial support when they were investigating the prospects for the first national loan. McElligott's London celebrations, once he knew the loan's success was assured, became part of the De-

partment's early folklore and aptly symbolised a wholly justifiable sense of achievement.

A certain pioneering spirit, none the less tangible for being nowhere explicitly recorded in the sober minutes of official files, attached to this sense of helping to build the foundations of the new state and was a factor in inducing men like Sarsfield Hogan and the talented group of successful candidates in the first junior administrative examination in the mid-twenties to join the Department. These were days, moreover, when much was done by few. The very smallness of the Department enhanced its officials' sense of belonging to an élite, and élitist sentiments were further fostered by the Department's exercise of powers which in practice proved greater than the powers it has subsequently possessed.

We are here speaking, not of the Department's powers as formally defined by constitution and statute, but of how those powers were circumscribed by the attitudes and actions, first, of the members of the government of the day and, second, of other government departments. In this respect at least, the years 1924–32 may fairly be designated the years of ascendancy of the Department of Finance, years when the Department's authority was but rarely challenged and Finance policies rarely questioned. This ascendancy derived from the extraordinary confidence reposed in the leading Finance officials by the heads of government, Michael Collins and, above all, W. T. Cosgrave, both of whom held the Finance portfolio contemporaneously with the first place in the government — not until 1966, when Jack Lynch became Taoiseach, was an Irish government again headed by a man who had served as Minister for Finance. Ascendancy followed, too, from the fact that the civil war and the concomitant circumstances of the birth of the new state denied ministers the opportunity of independently examining the financial and administrative policies proposed by Finance. That these ministers were erstwhile revolutionaries with, in most cases, scant experience of such matters, contributed to the same result. Ministers, moreover, shared a common concern with their civil servants that the affairs of the new state should be conducted in accordance with proper procedure. That the Department of Finance was a *new* Department (unlike, say, the Department of Agriculture), and was established at the same time as a *new* government, cemented this bond.

Similar factors explain the unsurpassed ascendancy over the officials of these other departments which Finance officials enjoyed during

these years. Instances of other departments challenging the Finance attitude to the extent of making a separate submission to the government on matters under dispute are much rarer during the twenties than at any time subsequently. Few heads of other departments enjoyed the government's collective confidence as did Brennan and McElligott and few had entered the government's service in 1922 with high reputations won elsewhere. Finance officials, indeed, were commonly considered to be of a higher calibre than their colleagues in other departments, the legatees of the British tradition that first division men were heavily concentrated in the Treasury offices. Nor had the practice yet been established whereby men who began their careers in Finance eventually rose to prominence as the heads of other departments — John Leydon and J. C. B. MacCarthy in Industry and Commerce, Maurice Moynihan in the Taoiseach's Department, P. S. Ó Muireadaigh in Health and Seán Ó Broin in Agriculture are but some examples which come readily to mind. In later years financial and administrative policies emanating from Upper Merrion Street were more likely to fall foul of advice proffered to their ministers by the heads of other departments — the Leydon-Lemass versus McElligott-MacEntee confrontations of the thirties are notable early examples.

Perhaps the most striking monument to the willingness of ministers to acquiesce in politically unpalatable financial policies was the 1924 reduction in old-age pensions, but mention should also be made of the Shannon scheme controversy as the outstanding exception to the general rule of Finance ascendancy in the twenties. The unwonted acerbity of the exchanges it engendered between Minister and Secretary and the fact that it precipitated Brennan's resignation from the Secretaryship revealed how unaccustomed leading Finance officials were to having their advice on major issues rejected.

The 1932 change of government ushered in an era when Finance's star was no longer so clearly in the ascendant, even if its premier place among government departments was not in dispute. De Valera's unique position in the new government, the fact that he was much more than *primus inter pares*, sufficiently explains why this was so. But there were other contributory reasons. Fianna Fáil's election platform — the annuities campaign, the economic policy of self-sufficiency and the pledge to inquire into civil service pay — all ran counter to the established order of things which Finance officials had played so prominent a part in setting up. The economic war and its conse-

quences for agricultural and industrial policies seemed to threaten the overthrow of the old order. The harmony of Anglo-Irish financial relations, so carefully nurtured by Finance officials in the twenties, was totally, if temporarily, disrupted. The consequential economic policies were anathema to Finance orthodoxies and led to a marked increase in the number of civil servants. The big spending departments, such as Industry and Commerce and Agriculture, enjoyed a new-found prestige *vis-à-vis* Finance.

Yet, although much has been made of the significance of the 1932 change of government as a watershed in the Department's history, the strength of continuity binding the two decades cannot be lightly dismissed. Whatever Finance officials may have thought about the unwisdom of many of the new policies, the institutions and administrative procedures they had established remained essentially unaltered. So too — and this was crucial — did the system known as "finance control": as we have seen, the financial articles of the 1937 constitution were substantially the same as those of 1922. Thus we find that neither the Brennan Commission nor the Banking Commission significantly diminished the Department's power or undermined the general scheme of things which Finance thought appropriate. It may, indeed, be argued that the publication of these reports at that particular time enabled the Finance attitude to these questions to endure for longer than might otherwise have been the case. The strength of continuity is evident also in the smooth transition of 1932. The new Minister, Seán MacEntee, and his departmental officials seem to have experienced no difficulty in establishing a harmonious working relationship. While the political climate within which Finance policies were advanced had changed dramatically, the manner in which those policies were framed within Finance and put up to their minister had not. Finance officials, in short, advocated the same policies in the same way, even if those policies no longer won the same kind of governmental support to which they had become accustomed in the twenties.

That the civil servants in the premier government department did not cut the coat of policy according to the political cloth of their new masters was a notable tribute to their integrity — without which the ideal of an independent civil service which would advise impartially all governments, whatever their political complexion, could not have been so firmly established. Here, too, the lapse of time may have blurred the significance of this achievement for later generations — an achievement which in 1932 could not be taken for granted and

which the new government's decision not to introduce a spoils system in public service appointments ensured.

A passion for stability, it has been suggested, was the guiding principle of Finance officials throughout the early decades of the Department's history. When World War II began in 1939, they might reasonably have been forgiven for fearing that stability was unattainable. Civil war and its aftermath, when the main opposition party refused to participate in the institutions of parliamentary democracy, was followed by the economic war, the end of which was now swiftly followed by world war with all that it implied for the exposed and vulnerable Irish economy. The Emergency, perforce, was a time of stagnation. Shortages of fuel and other vital supplies meant that it could not be otherwise. The severity of the international crisis highlighted the fact that the State was confronted with a battle for economic (if not, like many other countries, political) survival. The demands of that battle placed an increasing strain on Finance's resources, especially in the first years of the war when much of the work of preparation to meet the contingency of invasion fell to its lot; the Department was closely involved, too, in setting up the new Department of Supplies to which many of its officials were seconded.

Yet if the Emergency added to Finance's day-to-day responsibilities, the sense of crisis which is the hallmark of these years was conducive to the Department's bleak prescriptions falling upon more receptive ears. The Finance attitude was more nicely attuned to the siege mentality of the forties than to the heady radicalism implicit in the new economic policies of the thirties. The Emergency supplementary budget of 1939 and the economy committee of 1939–40 were both proposed by Finance and were both accepted by the government without demur, as were the emergency powers orders put forward by the Department. The ready acceptance of these measures testifies not to any intrinsic change in the nature of the advice offered by Finance to the government, but to a willingness to implement policies during the Emergency which had previously been deemed unacceptable. Hairshirts were back in fashion.

That international economic disruption and, in particular, critical shortages of vital supplies, inevitably continued for some years after the war had ended, effectively ensured that the Fianna Fáil government's new-found readiness to endorse Finance policies persisted throughout its term of office. But the Department of Finance did not view the election of 1948 as it had viewed the election of 1932. The

wheel had turned full circle. The patina of sixteen years of office had conferred upon Fianna Fáil the status of the established order, an order which Finance, as ever, sought to preserve. The threat to order seemed to come, as in 1932, from the opposition and in the shape, in particular, of the financial heterodoxies embedded in the programme of Seán MacBride's Clann na Poblachta.

This resemblance between the Department of Finance's reaction to the 1932 and 1948 elections is not as strange as it might appear at first sight; at one level, indeed, it is a measure of how fully, in the appropriate civil service tradition, the Finance officials adapted to the role of advising the ministers who became their new masters in 1932. On another level, it is a product of the phenomenon whereby a natural sympathy often develops between ministers and officials working closely together over a long number of years. It is a product, too, of the multi-party system of government, whereby opposition parties traditionally put forward radical financial policies which may seem unorthodox and unwise to officials who always have access to the secrets of office. Finance ministries in such party systems the world over have a natural tendency, moreover, to distrust change in as much as the new policies which follow in the wake of change generally lead to increased public expenditure.

Such distrust was amply justified in respect of the four changes of government which followed in quick succession between 1948 and 1957 — twice as many as had occurred in the previous quarter of a century since McElligott joined the Department. The Secretaryship of the Department of Finance, which had changed hands only once before since 1923, similarly changed hands twice in the same period. Both sequences of change aptly characterise the fifties when the old, familiar landscape, so well known to the Department's officials, began finally to dissolve. Marshall Aid, the introduction of the capital budget, the sterling and balance of payments crises and the report of the Capital Investment Advisory Committee were among other powerful instruments of change.

Most decisive of all, perhaps, was the change in the political climate of opinion consequent upon the Republic of Ireland Act of 1949 and the unique sequence of four general elections within the space of nine years in which financial and economic policy was a major issue as never before. Whether, to return to the theme delineated earlier in this conclusion, the pool of Irish politics before 1948 be described as reassuringly tranquil or revoltingly stagnant, it was a pool in whose

waters neither Irish politicians nor the Irish public had shown much aversion to bathing. To criticise officials of the Department of Finance for having failed to initiate radical and innovatory policies in the twenties, thirties or forties may make sense in the context of a present desire to build a new and better society. It makes little sense in historical perspective.

When, however, Irish political and public opinion was prepared to take a more positive attitude to financial and economic policy *qua* financial and economic policy (as opposed seeing it as a product of political aspirations), a positive response from the Department of Finance was not long in coming; indeed, it might be argued that in some respects the response anticipated a demand as yet incoherently voiced. " 'Sound' finance may be right psychologically; but economically it is a depressing influence", said John Maynard Keynes in 1932. The Irish experience in the nineteen fifties pointed to a somewhat different conclusion: "sound" finance was as depressing psychologically as it was depressing economically — a phrase, indeed, which might well have served as a motto for the men who prepared *Economic Development* in their endeavours to chart a course through new and more turbulent waters.

NOTES TO CHAPTER 1

NOTE: All references are to Department of Finance files unless otherwise indicated. For other abbreviations see p. xxi.

1. R. Barry O'Brien, *Dublin Castle and the Irish People* (London: Kegan Paul & Co., 1912), p. 23.
2. The standard work is R. B. McDowell, *The Irish Administration* (London: Routledge & Kegan Paul, 1964); see especially pp. 297–99 for a list of departments, boards and offices in 1914.
3. O'Brien, op. cit., p. 299.
4. See Lord Welby (late Permanent Secretary to the Treasury), "Irish Finance", in J. H. Morgan (ed.), *The New Irish Constitution* (London: Hodder & Stoughton, 1912), p. 115 et seq.
5. See McDowell, op. cit., pp. 93–94; also Henry Roseveare, *The Treasury* (London: Allen Lane, the Penguin Press, 1969), chapter 5.
6. Maurice Headlam, *Irish Reminiscences* (London: Robert Hale, 1947), p. 27.
7. ibid., p. 57; see also p. 28 for a list of the previous holders of the post.
8. George Chester Duggan, "The Life of a Civil Servant" (unpublished MS); I am indebted to Leon Ó Broin for having provided me with a copy of Duggan's chapter entitled "Chief Secretary's Office, Dublin Castle, 1919–21". See also Leon Ó Broin, "Joseph Brennan, Civil Servant Extraordinary" in *Studies,* LXV, 259, pp. 30-31.
9. Henry A. Robinson, *Memories: Wise and Otherwise* (London: Cassell & Co., 1923), pp. 94–95.
10. The relevant reports are the Haldane Committee Report (Cd. 9230), 7 January 1919, and also published in *Administration,* XX, 2, pp. 29–49 — see also Roseveare, op. cit., pp. 244–46 and H. P. Hamilton, "Sir Warren Fisher and the Public Service" in *Public Administration,* XXIX, 1951, pp. 3–38; the Bradbury Report, 21 February 1919 (Cmd. 62) which "made a number of recommendations designed to improve the status and efficiency of establishment work and insisted on genuine cooperation between the Treasury and other departments" — see DNB (1941–50), entry for Sir N. F. W. Fisher; and the Ramsay-Bunning Committee Report, 28 May 1919 (Cmd. 198) — see Hamilton, loc. cit. The Whitley Report of 1917 (Cd. 8606) dealt with employer-employee relations; a second report was published in 1918 (Cd. 9002).
11. Roseveare, op. cit., p. 248.
12. ibid., pp. 248–51.
13. See below, pp. 38–43
14. See Hamilton, loc. cit.
15. PRO (London) T. 162/85/E.9478. The Appointed Day was 1 April 1922.
16. Sir Norman Fenwick Warren Fisher: born 1879, educated Winchester and Hertford College, Oxford; entered the civil service in 1903 (Board of Inland Revenue); appointed Chairman of the Board, 1918; Permanent Secretary to the Treasury, 1919–39.
17. Lloyd George Papers, F 31/1/32.
18. ibid., F 31/1/33.
19. See J. W. Wheeler Bennett, *John Anderson: Viscount Waverly* (London: Macmillan, 1962), p. 56.
20. Lloyd George Papers, F 31/1/33.
21. Robinson, op. cit., p. 292.
22. Wheeler Bennett, op. cit., p. 45.

23. Duggan, loc. cit.
24. PRO (London) T. 14/109.
25. Wheeler Bennett, op. cit., p. 59.
26. Periscope [G. C. Duggan], "The Last Days of Dublin Castle" in *Blackwood's Magazine,* MCCLXXXII, August 1921, pp. 149 and 151.
27. See Headlam, op. cit., pp. 215–16 and Robinson, op. cit., pp. 292–93.
28. Cf. McDowell, op. cit., pp. 46–51.
29. Lloyd George Papers, F 31/1/33. Fisher's marked sympathy for Irish nationalism was also evident during the economic war. His strictures are borne out by the bitter dedication to Headlam's reminiscences, published twenty-five years after he had left Dublin Castle: "To those who have loved Ireland and do not care much for Eire." Duggan — although he himself elected to transfer from Dublin Castle to the civil service of Northern Ireland (where he became Comptroller and Auditor-General) rather than to the civil service of the Irish Free State — wrote that Headlam's "book leaves a bad taste in the mouth of any ex-British civil servant" (as note 8).
30. For this and other interesting information about the attitudes of the British civil servants transferred to Dublin Castle in 1920, see a private diary kept by one of them, Mark Sturgis — PRO (London) 30/59.
31. *Minutes of Proceedings of the First Dáil 1919–21* (Dublin: Stationery Office, n.d.) — hereafter cited as MFD — pp. 13 and 26.
32. ibid., p. 34.
33. ibid., pp. 36 and 40.
34. Margery Forester, *Michael Collins — The Lost Leader* (London: Sidgwick & Jackson, 1971), pp. 99–100.
35. MFD, p. 38.
36. ibid., p. 47.
37. ibid., p. 41.
38. See SPO DE 2/8/3.
39. MFD, pp. 132–34; and SPO DE 2/506.
40. Piaras Béaslaí, *Michael Collins and the Making of a New Ireland* (London: George G. Harrap & Co., 1926, 2 volumes), Vol. I, pp. 340–41.
41. SPO DE 2/358.
42. SPO DE 2/7; see also MFD, pp. 140–41.
43. Béaslaí, op. cit., Vol. I, pp. 341–42.
44. Deposition of Hugh Kennedy before Charles M. Hathaway, Consul of the United States of America at Dublin, on 16 February 1924, pp. 9–10 (Kennedy Papers, P 4/VIII/7). Kennedy was giving evidence in connection with the legal dispute which developed after the Treaty split about the American Sinn Féin funds.
45. Béaslaí, op. cit., Vol. I, pp. 342–43 and 373.
46. ibid., Vol I, pp. 351–53, 403 and Vol. II, p. 324; also Forester, op. cit., pp. 109–10.
47. Béaslaí, op. cit., Vol I, pp. 345–46 and Forester, op. cit., p. 108.
48. Béaslaí, op. cit., Vol. I, pp. 357 and 413–14.
49. ibid., pp. 358–59.
50. ibid., pp. 414–16.
51. MFD, p. 171.
52. SPO DE 2/7.
53. MFD, p. 182.
54. Forester, op. cit., p. 155.
55. ibid., pp. 108–09.
56. SPO DE 2/7.
57. MFD, p. 150.
58. SPO DE 2/7.

59. MFD, pp. 168–86; see SPO DE 2/8 for a full list of the decrees of the first Dáil.
60. Colonel J. V. Lawless, "Recollections of the Irish War of Independence, 1916–21", p. 284 (unpublished MS — Mulcahy Papers).
61. Collins to Art O'Brien, 10 February 1920, NL MS 8430.
62. Béaslaí, op. cit., Vol. I, p. 352.
63. PRO (London) C.O. 904/188/(1).
64. SPO DE 2/7.
65. Diary entry for 26 October 1920 (quoted in Forester, op. cit., p. 166, where the total losses incurred are estimated at £10,000).
66. See MFD, pp. 181–82 and SPO DE 1/3/87.
67. See MFD, p. 37 and Forester, op. cit., p. 123.
68. MFD, p. 171.
69. Cf. Béaslaí, op. cit., Vol. I, p. 376; Forester, op. cit., p. 158; and Frank Pakenham, *Peace by Ordeal* (London: Mentor, 1967) p. 81.
70. 15 March 1921, DE 2/9.
71. MFD, pp. 213–14.
72. SPO DE 2/7.
73. MFD, p. 180.
74. Frank O'Connor, *The Big Fellow* (London: Corgi, 1965), p. 26.
75. MFD, pp. 162 and 183.
76. See, for example, SPO DE 2/513.
77. SPO DE 2/7.
78. ibid.
79. SPO DE 1/3/126.
80. SPO DE 2/2.
81. SPO DE 2/9.
82. SPO DE 2/443.
83. SPO DE 2/9.
84. 26 August 1921 — *Dáil Éireann: official report* (Dublin: Stationery Office, n.d.), p. 84. The new loans were not proceeded with because of the Treaty split.

NOTES TO CHAPTER 2

1. Hugh Kennedy's "explanatory memorandum" on the history and development of the Dáil, 23 May 1923 (Kennedy Papers, P 4/VII/3).
2. SPO T/D S.1.
3. ibid.
4. 13 Sepember 1922, Kennedy Papers, P 4/III/14.
5. SPO T/D S.1.
6. Kennedy's minute for Patrick Hogan, Minister of Agriculture, 19 January 1923 (Kennedy Papers, P 4/I/6).
7. SPO T/D S.2.
8. SPO T/D S.1.
9. SPO G 1/1/6.
10. SPO G 1/1/11.
11. SPO T/D S.1.
12. See appendix 3 for a list of the offices and departments assigned to the Department of Finance under the provisional government.
13. SPO T/D S.1.
14. 17 March 1922, Kennedy Papers, P 4/VII/26.
15. *Irish Independent*, 19 January 1922.
16. ibid.
17. SPO T/D S.991.
18. SPO T/D S.1086. The period covered by the notice was subsequently extended — see the minutes of the provisional government's meeting of 4 October 1922, SPO G 1/3.
19. SPO T/D S.1.
20. W. J. Flynn, *Free State Parliamentary Companion, 1932* (Dublin: The Talbot Press, 1932), p.11.
21. 19 January 1922, PRO (London) T. 162/85/E.9478. See also John Anderson's memorandum on the relationship between the provisional government and Northern Ireland, 2 February 1922, where he wrote that, under Article 11 of the Treaty, "the area at present within the jurisdiction of the Parliament of Northern Ireland is entirely excluded from the scope of these arrangements and that the British Government cannot transfer and the Provisional Government cannot exercise any powers within or in respect of that area ... Accordingly administration as regards Northern Ireland must continue for the present in all respects as if the Provisional Government had not been set up." (Department of Finance, F 63.)
22. 27 January 1922, PRO (London) T.158/7.
23. N. S. Ó Nualláin (Secretary to the Department of the Taoiseach) to the author, 24 May 1971.
24. ibid. See also Waterfield to the Civil Service Commission, 22 February 1922 [PRO (London) T.158/7] for an early reference to O'Brien's acting on behalf of the provisional government.
25. E/S 23: the letter is a fair copy of a draft in O'Brien's hand.
26. SPO G 1/1/51 and G 1/2/5.
27. SPO G 2/2.
28. SPO G 1/2/29.

29. 3 May 1922, SPO T/D S.2125.

30. SPO G 2/1.

31. See McElligott to the Attorney General, 18 December 1924, F 138/1/25: "The view held in this Ministry is that the word 'Department' as used in the Ministers and Secretaries Act is not intended to refer to the office or unit of administrative machinery supervised by a Minister but is merely an abstract noun connoting the sphere of jurisdiction of a Minister" and arguing that there was, therefore, no necessity to change the title of the Department. But the Attorney General disagreed and the change was made.

32. E/S 101.

33. Ó Broin, "Joseph Brennan, Civil Servant Extrordinary", pp. 28–30.

34. Author's interview with Joseph Brennan, 30 March 1971. See also Ó Broin, loc. cit. and see also below, pp. 48–9

35. Doolin was born in 1890 and took a BA (Honours) degree in 1910; he entered the Public Record Office in Dublin as a 1st Class Clerk in 1913 and was transferred to the Chief Secretary's Office in 1917 where he was made a Principal on 21 February 1922. He entered the Department of Finance at that grade on 1 April 1922; he became an Assistant Secretary on 2 October 1933 and died in June 1939 when he was only forty-nine years old. (E/S 20). The other men who transferred from the Chief Secretary's Office were V. de P. O'Connor (Higher Clerical Officer) and F. S. Conway (Lower Executive Officer).

36. 6 March 1922, PRO (London) T.158/7.

37. 11 March 1922, PRO (London) T.158/8.

38. SPO T/D S.991.

39. Clause 7 (i) of Provisional Government (Transfer of Functions) Order, 1 April 1922.

40. SPO T/D S.991.

41. The relevant clause — 7 (ii) — reads: "Where an officer is transferred to the Provisional Government under this Order, he shall hold office by a tenure corresponding to his previous tenure, and if he is discharged by the Provisional Government, or if he retires in consequence of the change of government effected by this Order, he shall be entitled to receive compensation from the Provisional Government and the terms of such compensation shall not be less favourable to him than such as are accorded in the like circumstances by the Government of Ireland Act, 1920."

42. SPO T/D S.991.

43. 25 March 1922, PRO (London) T.158/8.

44. ibid., 18 April 1922.

45. E/S 391.

46. ibid., C. J. Gregg to the Treasury, 1 February 1923.

47. E/S 102.

48. 24 August 1922, F 203/10.

49. F 6/3.

50. A. P. Waterfield's memorandum to William O'Brien, 27 February 1922, F 15.

51. F 88.

52. F 118.

53. F 126/2.

54. ibid., 19 April 1922.

55. ibid., 21 April 1922.

56. F 99; see also SPO G 1/3 and T/D S.1931.

57. F 99/2.

58. F 126/3.

59. F 39/6/32.

60. 6 June 1922, SPO G 1/2/80.

61. G. P. S. Hogan, "The Constitutional Basis of Financial Control", in *Administration*, VII, 2, p. 158.

62. Hilton Young, *The System of National Finance* (London: Smith, Elder & Co., 1st edition 1915, 2nd edition 1924). The author was advised to begin his researches by reading Young when he interviewed Joseph Brennan on 30 March 1971. The other 'bible' commended to new recruits to the Department of Finance was A. J. V. Durrell, *The Principles and Practice of the System of Control over Parliamentary Grants* (London: John Hogg, 1917).

63. Hogan, loc. cit.

64. ibid., pp. 164–65.

65. ibid., p. 155.

66. SPO G 1/2/3, 67 and 88.

67. Brien Farrell, *The Founding of Dáil Éireann* (Dublin: Gill & Macmillan, 1971), p. 78.

68. *Dáil Éireann — Official Report*, 28 February 1922, p. 101. See also ibid., p. 100, for the following exchange: "*Arthur Griffith:* 'Every Minister here is a Minister of Dáil Éireann. As a Minister of Dáil Éireann he is going to see that the Provisional Government works in harmony with Dáil Éireann until an election.' *Seán T. O'Kelly:* 'And responsible to Dáil Éireann?' *Michael Collins:* 'Certainly not.' " Cf. Collins's remark in the Dáil next day (ibid., p. 139) when he said that a question put down for him reminded him "of a picture of a house with 'The Provisional Government' written upon it, the front door being open, and a man in the picture who does not go in by the front door but sneaks around to the back door which is a little door marked 'Dáil Éireann' ".

69. SPO T/D S. 11. The first meeting of the Third Dáil is described as "the Provisional Parliament" in the Provisional Government's minutes — see SPO G 1/3.

70. Flynn, op. cit., pp. 12–13.

71. SPO T/D S.8736.

72. ibid. The deaths of Griffith and Collins had no effect on this process.

73. SPO T/D S.1223.

74. Author's interview with Joseph Brennan, 30 March 1971.

75. SPO T/D S.1.

76. SPO T/D S.1093.

77. SPO T/D S.1388.

78. *Report of Commission of Inquiry into the Civil Service, 1932–35* [P No. 1844], (Dublin: Stationery Office, 1935), Vol. I, paragraph 7 — hereafter cited as the *Brennan Report*.

79. Béaslaí, op. cit., Vol. II, p. 429. See also Brennan's "Memorandum as to dealings of Government Moneys by Irregulars at Cork in July and August 1922", 23 August 1922, Blythe Papers, P 24/11/1.

80. SPO G 1/2/46.

NOTES TO CHAPTER 3

1. E/S 5; see also "Silhouette", "J. J. McElligott" in *Administration*, I, 1, p.p. 67–68.
2. SPO DE 2/261 — Collins noted: "he is in London and probably too busy".
3. SPO DE 2/40.
4. E/S 5.
5. E 2/85/24.
6. See Leon Ó Broin's letter to *The Irish Times*, 9 February 1974.
7. SPO G 2/1.
8. E 2/85/24.
9. SPO G 2/1.
10. O'Brien's "personal" memorandum to President Cosgrave, 18 January 1923, T/D S.2006.
11. ibid. The italics are O'Brien's.
12. ibid., also SPO G 2/1.
13. PRO (London) T.14/111; also E/S 121.
14. Author's interview with Leon Ó Broin, 24 February 1971.
15. E/S 36.
16. E 109/26/32.
17. SPO G 1/2/173.
18. SPO T/D S.1390.
19. E 109/26/32.
20. SPO G 1/3.
21. E 18/7.
22. ibid., 31 January 1923; O'Brien minuted the same day that he agreed generally with Gregg's comments.
23. ibid., n.d.
24. ibid., 27 January [1923].
25. E 18/7.
26. J. J. Walsh to the Minister of Finance, 2 February 1923, E 18/7.
27. ibid.
28. ibid.
29. ibid., Hayes to Cosgrave, 9 April 1923.
30. ibid., 18 April 1923.
31. ibid., 1 May 1923. Cosgrave had sent Blythe his file on the matter on 27 April.
32. SPO G 2/2.
33. E 18/7. The appointment of the Civil Service Commission was given statutory force by the Civil Service Regulation Act, 1923 [8 August 1923] under the terms of which the three Commissioners appointed at the Executive Council meeting of 8 May 1923 were reappointed in October 1923. The duration of this act was limited to six months and it was replaced by the Civil Service Regulation (no. 2) Act, 1923 under the almost identical terms of which the Commissioners were finally reappointed on a permanent basis on 14 April 1924 — E 18/13/24.
34. PDDE, 5,743; 14 November 1923.
35. Hayes to Blythe, 22 May 1924, Blythe Papers, P 24/2/1.
36. The doctrine of collective responsibility, enacted in Article 54 of the 1922 Consti-

tution, was first enunciated when the provisional government decided on 26 August 1922 "that all decisions of the Cabinet should be regarded as unanimous and should be treated as strictly confidential" — SPO G 1/3.

37. Gregg to Blythe, 14 October 1924, Blythe Papers, P 24/2/1. The committee in question is the Blythe Committee which presented the report upon which the Ministers and Secretaries Act of 1924 was based — see below, pp. 73–4.

38. Gregg to W. R. Fraser, 14 September 1923, E 18/7.

39. E 18/13/24.

40. 8 January 1923, E 123/3.

41. Mulcahy Papers.

42. E 123/3. Hugh Kennedy appears to have replaced Duggan on this committee since he was the fifth signatory of its report, which was not signed by Duggan.

43. ibid.

44. SPO G 2/1.

45. E 123/3. The nine Ministries were those of the President, Finance, Defence, Local Government (renamed Local Government and Public Health under the Act), Education, Lands and Agriculture, Home Affairs (renamed Justice under the Act), Industry and Commerce, and the Post Office (renamed Posts and Telegraphs under the Act). The Report contemplated "two less Ministers than there are at present, the work of the Ministry of External Affairs being allocated to the President and of the Ministry of Fisheries to the Ministry of Industry and Commerce", but acknowledged that this proposal could not be immediately implemented and that the Ministries in question must retain a separate identity "in the political circumstances of the present time". Joseph Brennan, however, felt differently and, in a memorandum of 5 October 1923 (F 826/5), argued for the immediate streamlining and consolidation of government departments: "The unnecessary multiplication of departments is an obvious source of waste. A small country like this should not need and indeed cannot support the elaborate organisation of a great and wealthy country such as Great Britain. The case for maintaining, for example, a separate Ministry of Fisheries seems to require reconsideration. The suggested creation of a Department of Law should not be hastily accepted. The question of incorporating External Affairs with the staff of the Executive Council and the President's Office and attaching the whole to the President might be considered. The abolition of a Publicity Branch seems called for."

46. n.d. [mid-March 1923], F 907.

47. E 1/5/25. See Appendix 4 for a full list of the changes affecting the Department of Finance under the Act.

48. n.d. [?early January 1923], F 612.

49. 17 January 1924, E 19/53/24.

50. ibid., minute of 22 January 1924.

51. Author's interview with A. W. Bayne, 29 March 1971, who was one of the successful candidates in this first examination.

52. E 19/53/24 and E 1/22.

53. E/S 102.

54. ibid., Cosgrave's minute of 27 March 1923.

55. PRO (London) C.O. 739/18.

56. PRO (London) C.O. 739/19/39570.

57. E/S 102.

58. ibid., 29 February 1924.

59. ibid., 26 June 1923; see also T/D S. 13646. O. J. McWilliams (formerly of the Office of the Revenue Commissioners) told the author in an interview that Gregg resigned as Greenwood's private secretary because of the burning of Cork in December 1920.

60. E/S 310.

61. PRO (London) T. 162/74/E 6968— Malcolm Ramsay to Sir James Craig, 15 June 1921

and Sir Ernest Clark to Ramsay, 11 July 1921. I am indebted to John McColgan for these references.

62. Waterfield to Niemeyer, 15 September 1922, PRO (London) T 158/9.
63. F 599/8.
64. ibid.
65. 23 January 1923, F 599/4.
66. ibid., 24 January 1923.
67. ibid.
68. ibid., Brennan's confidential minute of the meeting.
69. ibid., 17 February 1923.
70. See below, pp. 138–55, for a discussion of the compensation issue.
71. 13 March 1923, F 599/4.
72. ibid., 19 March 1923.
73. ibid., 24 March 1923.
74. 24 March 1923, F 674/6.
75. ibid., McElligott's minute of 4 February 1924.
76. ibid., 29 May 1924. Brennan and McElligott had exchanged minutes in May 1923 about the possibility of transferring all (or most) of the government's accounts to the Land Bank, but had decided it was not feasible.
77. Brennan to McElligott, 25 March 1923, F 599/10.
78. See below, pp. 168–74.
79. McElligott to Brennan, 27 March 1923, F 599/10.
80. ibid., Brennan to McElligott, 16 April 1923.
81. ibid., 24 May 1923.
82. 3 March 1923, PRO (London) T. 176/12.
83. ibid., 27 April 1923.
84. ibid., 9 May 1923.
85. T/D S.3067.
86. 31 May 1923, F 599/10
87. T/D S.3067.
88. SPO G 2/2.
89. Mulcahy Papers.
90. ibid.
91. 3 July 1923, F 599/30.
92. ibid., 25 July 1923.
93. PRO (London) T 176/12.
94. 19 November 1923, F 599/55.
95. ibid., 20 November 1923.
96. ibid.
97. *The Times*, 9 January 1924.
98. Joseph Brennan laid special emphasis on this point in an interview with the author, 30 March 1971.
99. Richard Mulcahy's note of discussion at an Executive Council meeting, Mulcahy Papers. The speaker is identified only as "L" — possibly Finian Lynch, Minister without Portfolio.
100. ibid. — identified only as "E", possibly Eoin MacNeill (Education).
101. Author's interview with J. J. McElligott, 24 February 1971.
102. SPO G 2/1 and G 2/4.
103. See SPO G 2/1-4.
104. SPO T/D S.1646/2.
105. ibid., 8 February 1923.
106. ibid., the instructions were issued on 11 March 1924.

107. ibid., the new instructions were issued on 14 October 1930.
108. ibid., issued on 16 April 1932.
109. F 807.
110. 27 April 1923, F 599/17.
111. SPO G 2/2.
112. ibid.
113. F 599/17 — n.d. [?May 1923].
114. John A. Murphy, *Ireland in the Twentieth Century* (Dublin: Gill & Macmillan, 1975), p. 65.
115. James Meenan, *The Irish Economy since 1922* (Liverpool: Liverpool University Press, 1970), p. 369. Meenan's total takes no account of army and property compensation estimates — see below, note 129.
116. SPO G 2/3.
117. PDDE, 5, 666.
118. 12 February 1924, 614/7 *[sic]* — Department of Finance file.
119. ibid., Arthur Codling's minute of 10 January 1924 — the same day on which the Minister of Finance reported progress with the preparation of legislation to the Executive Council, SPO G 2/3.
120. F 8/1/25.
121. ibid.
122. 2 May 1924, F 8/1/25.
123. ibid., 19 November 1924.
124. ibid., notes of meeting of 20 May 1925.
125. ibid., 29 May 1925.
126. SPO T/D S.3532/1 — this particular proposal was eventually turned down for technical reasons.
127. SPO T/D S.3532A.
128. F 39/6/32.
129. SPO T/D S.1086.
130. SPO G 2/1.
131. F 747/76.
132. ibid.
133. 3 June 1924, F 168/40.
134. SPO T/D S.4002.
135. 5 October 1923, F 826/5.
136. PDDE, 5, 664–5.
137. As note 135.
138. 15 April 1924, S 4/80/24.
139. Minutes of Executive Council meeting of 18–19 March 1924, SPO G 2/3.
140. Note of meeting of 22 April 1924, S 4/80/24.
141. F 39/12/24.
142. ibid.

NOTES TO CHAPTER 4

1. Keith Middlemas (ed.), *Thomas Jones, Whitehall Diary* (London: Oxford University Press, 1969–71, 3 vols), III, p. 121 — hereafter cited as *Jones Diary*.
2. SPO DE 2/304:3, part I.
3. 9 May 1919, MFD, pp. 94-95.
4. SPO DE 2/304:3, part III.
5. See above, p. 40.
6. 6 July 1922, PRO (London) T 163/13/G.687/015.
7. 25 September 1922, PRO (London) T 176/12.
8. PRO (London) T 160/163/F. 6295.
9. Curtis's memorandum, 11 December 1922, PRO (London) C.O. 739/10.
10. ibid.
11. ibid.
12. ibid.
13. ibid., minute of 12 December 1922.
14. *Jones Diary,* III, p. 219.
15. ibid., p. 220.
16. ibid., p. 222, Curtis to Jones, 28 June 1923. Curtis had met Cosgrave in Dublin on 26 June.
17. ibid. The compensation awards were payable under the agreement of 12 February 1923 — see below, pp. 144–46.
18. *Jones Diary,* I, p. 209.
19. O'Shiel to Cosgrave, 18 June 1923, Mulcahy Papers.
20. F 67/1/24.
21. Treasury circular F5135 No. 19A/22.
22. F 596.
23. Waterfield to Mark Sturgis, 25 April 1922, PRO (London) T 158/8.
24. F 200/15/55.
25. Collins to Hugh Kennedy, 11 June 1922, Kennedy Papers, P4/11/19.
26. F 200/15/55. See also ibid., Collins to Cosgrave, 31 July 1922, where Collins wrote that he had not gone into "the matter very closely with Mr Churchill — he knew nothing of the details, and it was not this question of Belfast I was so concerned with at the time, *as the transfer to England.* Technically, I think they are entitled to transfer to Belfast, but I am of opinion that if the matter is handled properly no transfer at all will be made for the present."
27. ibid., note of the conference of 10 November 1922.
28. ibid., J. J. McElligott's minute of 29 January 1947. See also ibid., the President and Vice-President of the Dublin Stock Exchange to the Governor General [copy], 9 December 1924: "At the request of the Stock Exchange, Your Excellency went over to London and interviewed Mr Bonar Law with the most satisfactory result that the Register still remains in Dublin, with the exception of the holdings of stockholders domiciled in the Six Counties." The total of British government stock transferred under this arrangement was just over £6½ millions representing the "12,263 accounts of persons domiciled in the Six Counties who entered no objection to the proposed transfer" — see ibid., the Governor of the Bank of Ireland to Brennan, 20 March 1923.
29. SPO T/D S.1995.

30. ibid., memorandum of 12 December 1922.
31. SPO G 2/1.
32. Brennan's report of 24 December 1922, SPO T/D S.1995.
33. ibid.; see also SPO G 2/1.
34. SPO T/D S. 1995.
35. F 37/4/29.
36. Financial agreement of 12 February 1923, part I (B), 1–2.
37. SPO G 2/1.
38. Brennan to Whiskard (of the Dominions Office and a colleague of Brennan's in Dublin Castle in 1920–21), 17 July 1925, F 37/4/29.
39. PDDE, 4, 1013–14.
40. SPO T/D S.1995.
41. Telegram from Brennan to Whiskard, 31 November 1926, F 37/4/29.
42. See de Valera's Dáil speeches of 8 June 1934 and 29 May 1935 (from which this quotation is taken), PDDE, 52, 2715–16 and 56, 2098–99. The agreement had been presented to the Dáil on 20 April 1932. See also SPO T/D S.1995, especially Michael McDunphy to Maurice Moynihan, 11 April 1932, where it is stated that the original of the agreement "is in the possession of the Department of Finance who have persistently refused to deliver it to the Department of the President for custody as a State document in spite of a specific ruling from the Attorney General on the subject." The present writer has not seen the original of the agreement.
43. See above p. 90.
44. F 765/2.
45. ibid.
46. ibid., Brennan's minute of 27 June 1922.
47. ibid.
48. ibid., minute of 12 July 1922.
49. ibid., Brennan's report of 22 July 1922.
50. ibid., Brennan's memorandum, 29 July 1922.
51. ibid.
52. ibid., 5 August 1922.
53. Kennedy to Kevin O'Higgins, 3 May 1922, Kennedy Papers.
54. O'Higgins to Kennedy, 4 May 1922, Kennedy Papers.
55. William O'Brien to M. A. Corrigan [the government solicitor], 7 June 1922, Kennedy Papers.
56. F 37/10/25.
57. ibid., Brennan's minute of 29 June 1922. The full text of the agreement, signed by Collins and Churchill but undated, reads: "*Agreement for Supplementary Instructions to the Compensation (Ireland) Commission.* The two Governments agree that the proportions of the total sums mentioned in paragraph 5 (e) of the Heads of Working Arrangements to be reimbursed by the British Government under that paragraph shall be such as may be recommended by the Commission as representing damage assumed to have been done by the military, police, or other servants of the British Government, or by persons acting in the interests or supposed interests of that Government; and in making their recommendation the Commission shall take into consideration cases, whether defended or undefended, which have not been the subject of review by them, as well as those which have been reviewed or determined by them and the damage which under the same paragraph is to be taken into account."
58. F 37/4/29.
59. ibid.
60. Proceedings of the conference of 16 May 1924, F 1/10/24.
61. ibid.

62. ibid., conference proceedings, 29 May 1924.
63. ibid., conference proceedings, 16 May 1924.
64. ibid.
65. Dowdall to Brennan, 30 March 1924, F 19/40/24. The proclamations in question were issued on 10 December 1920 (when martial law was proclaimed in Counties Cork, Limerick and Tipperary) and on 4 January 1921 when it was extended to Clare, Kilkenny, Waterford and Wexford.
66. ibid., 15 May 1924.
67. Cosgrave's minute to Blythe, 5 May 1924, SPO T/D S.934B.
68. 26 May 1924, F 19/40/24.
69. ibid., conference proceedings of 29 May 1924.
70. ibid.
71. ibid., despatch from Secretary of State for the Colonies to the Governor General, 6 June 1924.
72. ibid., despatch from the Governor General to the Secretary of State for the Colonies, 7 July 1924.
73. Howell Thomas and the chairman, Wood Renton, who had replaced Lord Shaw as chairman under a warrant of appointment of 23 February 1923.
74. Cosgrave to Thomas, 3 July 1924, F 19/40/24.
75. ibid.
76. ibid., Brennan's minute of 8 August 1924.
77. ibid., Brennan's memorandum to Cosgrave, 8 August 1924.
78. ibid., Whiskard to Brennan, 11 August 1924.
79. ibid.
80. ibid., telegram from Thomas to Cosgrave, 11 August 1924.
81. For the details of the agreement, see despatch from Secretary of State for the Colonies to the Governor General, 3 December 1924 and "Summary of terms of an agreement relating to compensation for damage to property in Ireland between His Majesty's Government and the Government of the Irish Free State" (enclosure from Whiskard to Brennan, 27 May 1925), F 19/40/24.
82. ibid., Upcott [of the Treasury] to the Compensation Commission, 27 December 1924.
83. The Conservatives, under Baldwin, had returned to office in November 1924.
84. 26 November 1924, PRO (London) T 160/124/F.4599/015/2.
85. See above, pp. 144–46.
86. Minutes of conference of 29 May 1924, F 1/10/24.
87. ibid.
88. ibid.
89. See Brennan to Waterfield, 20 and 25 June 1924, F 1/10/24.
90. ibid., Brennan to Upcott, 16 July 1924.
91. Despatch from the Secretary of State for the Colonies to the Governor General, 8 October 1924, F 165/1/26.
92. ibid., 12 December 1924.
93. ibid., 21 April 1925.
94. See p. 162 and note 107.
95. F 165/1/26.
96. Notes of the financial conference of 3 July 1925, F 1/10/24.
97. ibid.
98. ibid.
99. ibid. The £180,000 had been advanced to the Dublin and South-Eastern Railway from a Vote of Credit as a war service by the British, since it would otherwise have been contrary to a Treasury minute and to the Appropriations Act. The British subsequently argued that the sum was owed to them as a set-off.

100. ibid.
101. ibid.
102. ibid., telegram from Brennan to Upcott, 11 July 1925.
103. ibid., Guinness to Blythe, 8 July 1925.
104. "Agreement between the British Government and the Irish Free State Government", 21 July 1925, signed by Walter Guinness and Ernest Blythe, F 1/10/24. There are no notes or minutes of the conference of 21 July on this file.
105. ibid., notes of the conference of 3 July 1925.
106. As note 103.
107. "Memorandum on the liability of the Irish Free State, under Article 5 of the Treaty, for the service of the Public Debt of the United Kingdom and towards the payment of War Pensions", n.d., but enclosed with the despatch of 21 April 1925 [see note 93], F 165/1/26.
108. ibid.
109 Cf. above, pp.156–7.
110. Despatch from Governor General to the Secretary of State for the Colonies, 23 October 1925, F 165/1/26.
111. ibid.
112. ibid., Fitzgerald to Brennan, 8 September 1925.
113. ibid., 30 November [1925].
114. See, in particular, G. J. Hand (ed.), *Report of the Irish Boundary Commission, 1925* (Shannon: Irish University Press, 1969).
115. G. J. Hand, "MacNeill and the Boundary Commission" in F. X. Martin and F. J. Byrne (eds.,), *The Scholar Revolutionary: Eoin MacNeill, 1867–1945, and the Making of the New Ireland* (Shannon: Irish University Press, 1973), p. 262.
116. *Jones Diary,* III, p. 243, entry for 29 November 1925.
117. ibid., p. 244; 2 December 1925.
118. ibid., p. 245. MacNeill, in his unpublished memoirs dictated in the thirties, said he had "very little doubt that if the Irish Government had demanded at the same time the remission of the land annuity payments it would have been readily conceded also" — Hand, in Martin and Byrne, op. cit., p. 272.
119. *Jones Diary,* III, p. 245.
120. For the full text of the agreement, see Flynn, *Parliamentary Companion 1932,* pp. 260–62.
121. F 200/8/26; see also F 200/75/25.
122. See F 37/3/28; also F 200/8/26 and F 37/10/25.
123. See the agreed communiqué on the ministerial talks, F 121/48/68.
124. *Parliamentary Debates (House of Commons),* 189, 138, 313–14, 8 December 1925.
125. ibid., 315.
126. ibid., 359.
127. 9 December 1925, PDDE, 13, 1589–90.
128. The agreement was published simultaneously in Dublin and London on 16 November 1926.
129. See part IV of the financial agreement of 12 February 1923.
130. F 200/75/25.
131. ibid., 5 December 1925. Brennan's arguments were elaborated in a longer memorandum of McElligott's on 13 January 1926, which emphasised that "the only claim of substance which the Treasury proposed waiving was the £250,000 for munitions."
132. ibid., 8 December 1925.
133. ibid., Cosgrave to Churchill, 21 December 1925.
134. This figure refers to the income tax witheld on the land annuities.
135. Waterfield to Upcott, 22 December 1925, PRO (London) T 160/421/F.9366/1.
136. ibid., Upcott to Niemeyer, 16 January 1926.

137. See McElligott to Waterfield, 11 January 1926, F 200/75/25.
138. ibid., 13 January 1926.
139. ibid., 12 January 1926.
140. ibid., Blythe to Churchill, 14 January 1926.
141. Upcott to Grigg, 18 January 1926, PRO (London) T 160/230/F.8993/02/1.
142. Churchill to Blythe, 20 January 1926, F 200/75/25.
143. ibid., Blythe to Churchill, 24 February 1926.
144. ibid., Upcott to Brennan, 13 March 1926.
145. See Part 1(A) (4) of the agreement.
146. For the text of the ultimate financial settlement, see Flynn, op. cit, pp. 279–81.
147. "Draft notes" of the conference, F 200/75/25.
148. ibid.
149. ibid.
150. ibid.
151. This clause was initialled by Brennan and Upcott on behalf of their respective ministers; the other clauses had been initialled by Blythe and Churchill when the conference proper ended the previous day.

NOTES TO CHAPTER 5

1. Author's interview with Maurice Moynihan, 1 April 1971.
2. *Report of Commission of Inquiry into the Civil Service 1932–35* (Dublin: Stationery Office, n.d. — 1936 — P. 1844), Vol. I, paragraphs 8 and 12.
3. Brennan's draft of 11 November 1924, F 9/10/25.
4. ibid., memorandum of interview of 8 April 1925.
5. F 9/46/25.
6. ibid., 15 June 1925.
7. 13 January 1926, F 9/47/25.
8. Maurice Moynihan, *Currency and Central Banking in Ireland 1922–60* (Dublin: Gill and Macmillan, 1975), chapters 3–5.
9. ibid., pp. 67–68 and *Banking Commission Report* (Dublin: Stationery Office, 1926), p. 65.
10. Moynihan, op. cit., pp. 31–36.
11. Minutes of 2 and 5 October 1925, F 17/23/29.
12. Meenan, *Irish Economy,* p. 169.
13. SPO G 2/3 and G 2/4/74.
14. Gordon Campbell to Leo MacAuley (then private secretary to the Minister for Finance) 13 January 1925, F 35/1/25.
15. ibid., Campbell to the Secretary of the Department of Finance, 15 January 1925.
16. ibid.; Brennan's minutes to Blythe and to Industry and Commerce were both dated 11 February 1925.
17. ibid., Campbell to Brennan, 12 February 1925.
18. ibid., Brennan to Blythe, 15 February 1925.
19. *The Irish Times,* 23 February 1925.
20. Brennan to Blythe, 23 February 1925, F 31/1/25. Brennan here refers to the letter sent by Industry and Commerce to Siemens-Schukert on 26 February 1924 and published in the government's White Paper on the Shannon Scheme.
21. F 31/1/25.
22. ibid.
23. ibid., 6 April 1925.
24. PDDE, 10, 1774–75.
25. Minute of 6 April 1925, F 31/1/25.
26. ibid., 7 April 1925.
27. ibid.
28. ibid.; see also SPO G 2/4/212. Brennan in fact did not ask Fisheries for their observations until 23 April and their only observation (in a reply of 27 April) assumed that "adequate provision is included in the £4,400,000 [the amount provided for in the final draft of the Bill] to cover the compensation which may be payable for fishing rights disturbed by the carrying into effect of the Scheme."
29. SPO G 2/4/278 and G 2/5/88.
30. See above, pp. 100–104.
31. F 118/1/27.
32. ibid., 23 March 1927.
33. F 118/1/27 — part II. The Finance minute did comment, however, on the necessity for parity of salaries between the employees of the Board and those of other organisations.

34. F.S.L. Lyons, *Ireland since the Famine* (London: Weidenfeld and Nicolson, 1971), p. 597.
35. 11 October 1927, F 55/9/36.
36. ibid., 12 January 1928.
37. ibid., n.d.
38. ibid., see McElligott to Colbert, 7 February 1928 and the Secretary of the Department of Finance to the Secretary of the Agricultural Credit Corporation, 7 September 1928.
39. ibid., 14 December 1932.
40. ibid.
41. ibid., McElligott's minute, 31 December 1935.
42. ibid., McElligott's minute, 9 November 1936.
43. ibid., McElligott's minute, 14 December 1942.
44. Basil Chubb, *The Government and Politics of Ireland* (London: Oxford University Press, 1970), pp. 256–57.
45. E/S 101.
46. ibid., (?3) [*sic*] February 1927.
47. Leon Ó Broin, "Joseph Brennan, Civil Servant Extraordinary", pp. 34–37.
48. Author's interviews with J. J. Manweiler (20 January 1972) and A. W. Bayne (29 March 1971). Bayne was then Brennan's private secretary.
49. E 121/2/27.
50. See SPO CAB 1/2/186 and, for Brennan's appointment to the Currency Commission, G 2/6/66. The supplementary agreement has been published in Flynn, *Free State Parliamentary Companion for 1932,* pp. 263–72. 286 civil servants retired in 1930 under the terms of the agreement, out of a total of 1,281 who retired in consequence of the change of government — over 900 of the retirements were in 1922–24; a mere fifteen retirements took place in 1926–29 (*Brennan Report,* appendix 3). See also a Finance memorandum to the government (20 April 1944) on the re-employment in the civil service of persons receiving compensation under Article X where it was stated that "it was the desire of the Government that Mr Brennan should be the person elected to be Chairman of the Currency Commission and with this end in view his retirement and the date of his departure from the government service was facilitated." (E/S 101). See also Ó Broin, loc. cit.
51. Author's interview with A. W. Bayne, 29 March 1971.
52. Author's interview with G.P.S. Hogan, 25 January 1972.
53. Joseph Brennan, "The Civil Service: Its Character and Scope", in F. C. King (ed.), *Public Administration in Ireland* (Dublin: Parkside Press, 1944), Vol. I., p. 12.
54. Author's interviews with O. J. Redmond (27 January 1972) and L. M. Fitzgerald (1 February 1972).
55. See SPO G 2/3–7 and CAB 1/1–2 — see especially G 2/5/7–8.
56. 8 March 1926, E 109/13/26.
57. ibid., from the Secretary to the Executive Council to the private secretary to the Minister for Finance, 16 June 1926.
58. ibid.
59. ibid., 19 March 1926.
60. See above, pp. 7, 9, for a discussion of Whitley Councils etc.
61. PDDE, 19, 1355–57.
62. ibid., 1357. The Finance note (see note 59 above) calculated that 12,715 of the total of 22,953 persons in the civil service were in the Department of Posts and Telegraphs. If these Posts and Telegraphs employees were added, the cost of the civil service came to 16·6 per cent of state expenditure.
63. ibid., 1358.
64. Minute of 8 March 1926, E 109/13/26.
65. ibid.

66. From the secretary to the Executive Council to the private secretary to the Minister for Finance, 18 May 1927, E 121/2/27. See also SPO G 2/5/294.

67. ibid., Boland's minute, 3 May 1927.

68. ibid.

69. Boland's minute of 13 May 1927, E 121/2/27.

70. ibid., 11 July 1928. F. J. Meyrick was appointed to the committee in place of Diarmuid O'Hegarty on 21 October 1929 because of the heavy demands on O'Hegarty's time — an appointment which caused McElligott to minute "Mr Boland — to see and envy!" Ó Broin replaced Hanna as the committee's secretary from 18 September 1930.

71. E 121/2/27.

72. ibid.

73. ibid., M. P. Heffernan to President de Valera, 16 April 1932.

74. ibid., "interim report of the committee on economy in government expenditure to the Minister for Finance", 30 November 1931.

75. ibid., Heffernan to Blythe, 30 November 1931.

76. ibid., minute of 3 May 1932.

77. As note 73.

78. E 121/2/27.

79. ibid. See also SPO CAB 1/4/134.

80. Secretary to the Executive Council to the Secretary of the Department of Finance, 29 November 1928, E 121/17/28.

81. ibid.

82. *The Irish Times,* 25 July 1929.

83. 21 February 1923, F 605/3.

84. ibid., 11 April 1923.

85. PDDE, 12, 768; see also PDDE, 14, 589–93.

86. S 90/20/25.

87. ibid. Blythe was strongly supported by the Minister for Agriculture, Patrick Hogan, who wrote on 15 April 1926 to the Executive Council urging that the report be rejected (S.10016 — Department of the Taoiseach).

88. Meenan, *Irish Economy,* p. 138. The members of the committee were: T. A. Smiddy (chairman), C. F. Bastable, R. M. Henry, George O'Brien and J. G. Smith. See also SPO T/D S.3107.

89. PDDE, 3, 2024 — quoted by Meenan, loc. cit.

90. ibid.

91. 23 January 1924, 835 [*sic*] — early Department of Finance file number.

92. ibid.

93. PDDE, 7, 40. See also R. C. Ferguson, "Industrial Policy and Organisation" in King, op. cit., Vol. I., p. 38.

94. See Ferguson, op. cit., pp. 39–41.

95. 5 January 1929.

96. SPO CAB 1/3/54.

97. ibid.; also CAB 1/3/56, 21 October 1931.

98. PDDE, 40, 901, 4 November 1931.

99. ibid., 881.

100 PDDE, 29, 753; 24 April 1929.

101. ibid., 756–57.

102. ibid., 753.

103. ibid., 755–56.

104. McElligott to the Governor of the Bank of Ireland (H. J. Millar), 30 April 1930, F 44/16/30.

105. The first draft of the minutes read "would probably" and the undated emendation is in McElligott's hand.

106. Copy of the minutes of the meeting of the Currency Commission, 14 September 1931 (attached to F 17/3/49); see also Moynihan, *Currency and Central Banking in Ireland,* p. 167 et seq.

107. ibid.

108. n.d., F 17/8/31; but see a copy dated 12 October 1931 in McElligott's hand in the Blythe Papers, P 24/10/10.

109. McElligott's memorandum of 22 September 1931 — attached to F 17/3/49.

110. 22 September 1931, Blythe Papers, P 24/14.

111. See SPO G 2/8/178–90 and CAB 1/3/158–68.

112. See Moynihan, loc. cit.

113. McElligott's memorandum of 24 September 1931 — attached to F 17/3/49.

114. Memorandum of 9 September 1931 (circulated to the Executive Council on 12 September), Blythe Papers, P 24/10/10.

115. SPO CAB 1/3/176. The Finance (Increase of Income Tax) Bill 1931, became law on 20 November — see SPO G 2/8/214.

NOTES TO CHAPTER 6

1. Author's interviews with J. J. McElligott, 24 February 1971, and Maurice Moynihan, 1 April 1971.
2. Moynihan interview.
3. McElligott interview.
4. Longford and O'Neill, *De Valera,* pp. 275–76.
5. E 109/12/32.
6. ibid., 9 March 1932.
7. NL MS 955, paragraph 3858.
8. SPO CAB 1/4/58 and 1/5/194.
9. SPO CAB 1/4/71.
10. See SPO CAB 1/4/71, 75–76, 86, 89–90 and 237–41.
11. See SPO CAB 1/4/87–88, 110 and 126–27.
12. A. J. P. Taylor, *English History 1914–45* (London: Oxford University Press, 1965), p. 333.
13. SPO CAB 1/4/29 and 35.
14. "Memorandum on the Financial Position", 19 April 1932, F 43/2/32.
15. SPO CAB 1/4/2.
16. "Further Memorandum on the Financial Position", 22 April 1932, F 43/2/32.
17. SPO CAB 1/4/59–65.
18. *The Irish Press,* 2 February 1932.
19. Author's interview with G. P. S. Hogan, 24 March 1975. Ministers' salaries were fixed at £1,000 a year (£1,500 for the President of the Executive Council) at the first meeting of the new cabinet — SPO CAB 1/4/2.
20. SPO CAB 1/4/82.
21. Note on proceedings of meeting of 25 May 1932, E 109/15/48.
22. ibid., manuscript draft of note on proceedings of meeting of 26 "April" [May] 1932.
23. ibid., note on proceedings of meeting of 10 June 1932.
24. ibid., note on proceedings of meeting of 4 July 1932.
25. ibid.
26. ? August 1932, E 121/7/32.
27. SPO CAB 1/4/164.
28. E 121/7/32.
29. ibid. The four signatories were: Arthur D. Codling (assistant secretary), W. Doolin (principal), Owen Redmond (assistant principal) and Louis M. Fitzgerald (junior administrative officer).
30. ibid., minute of 24 September 1932. The committee did, however, interview certain senior civil servants — see p. 234.
31. Majority report of the committee of inquiry into temporary reductions in the pay of public servants, 26 October 1932, E 121/16/32.
32. C. Gordon Campbell's minority report, E 121/16/32.
33. ibid., Edward Gallen's minority report, 3 November 1932. O'Brien is identified in this report only as the "head of one of the most important government departments", but a minute of McElligott's of 8 November 1932 clearly identifies him.

34. ibid., 7 November 1932.
35. ibid., 8 November 1932.
36. ibid., 9 November 1932.
37. ibid., 16 December 1932.
38. ibid., 13 February 1933 and 29 October 1932.
39. Brian Farrell, *Chairman or Chief? — the role of Taoiseach in Irish Government* (Dublin: Gill and Macmillan, 1971), pp. 36-37.
40. E 109/10/33.
41. ibid., see also memorandum of 17 February 1933 with attached tables.
42. ibid.
43. ibid., Secretary to the Executive Council to the Private Secretary to the Minister for Finance, 20 February 1933.
44. Note of proceedings of meeting of 24 May 1934, E 109/59/34 and *Brennan Report,* appendix 3.
45. Author's interview with J. J. Manweiler, 20 January 1972.
46. E 109/21/32.
47. SPO CAB 1/4/33–4.
48. Department of Finance memorandum for Executive Council, 5 May 1932, E 109/21/32.
49. The relevant paragraph of Fianna Fáil's election manifesto of 9 February 1932 read: "We are prepared to institute an inquiry into the basis on which the cost of living figure is calculated and to establish an Arbitration Board to deal with the grievances of the civil service."
50. The cabinet confirmed Brennan's appointment on 2 May 1932, E 109/21/32.
51. ibid., Boland's minute to the Minister for Finance, 21 November 1933.
52. ibid. Boland did not object to Senator Johnson's second query which he saw as bearing on "the organisation of the Service and . . . therefore . . . a proper subject of question and evidence."
53. See below, chapter 12.
54. *Brennan Report,* I, paragraph 31.
55. "Commission of Inquiry into the Civil Service — Summary of Final Report", n.d., but submitted to the Executive Council on 30 April 1936, E 109/8/33. Cf. *Brennan Report,* I, paragraphs 32–41.
56. E 109/8/33.
57. Memorandum of 1 November 1932 in folder marked "Memoranda of the Minister for Industry and Commerce on the Economic Situation" on F 200/25/37.
58. ibid., McElligott's "Memorandum on Proposals Submitted by the Minister for Industry and Commerce", n.d.
59. 22 February 1928, PDDE 22, 213–14 — quoted in T. K. Whitaker, "From Protection to Free Trade: the Irish Experience" [Seán Lemass Memorial Lecture] in *Social and Economic Administration,* 8, 2, pp. 95–115.
60. 7 November 1932 — as note 57.
61. ibid.
62. ibid.
63. As note 58.
64. ibid.
65. ibid. Finance also used this argument when they questioned the need to establish the Industrial Credit Corporation — see p. 252.
66. ibid.
67. As note 57, 14 November 1932.
68. McElligott's minute of 18 November 1932, F 200/25/37.
69. ibid.

70. Meenan, *Irish Economy*, pp. 49–50.
71. SPO CAB 1/4/255 et seq.
72. Colbert's memorandum was dated 24 May 1932; Finance were sent a précis on 15 August and the full text on 1 September, F 200/35/32.
73. ibid., 12 September 1932.
74. See p. 256.
75. 15 September 1932, F 200/35/32.
76. ibid.
77. ibid.
78. ibid., "Report of the committee on industrial finance", 16 March 1933, paragraphs 17, 20, and 37. The members of the committee, whose report was unanimous, were Seán Moynihan (Secretary to the Executive Council — chairman), H. G. Smith (Agriculture), Philip Dempsey (Industry and Commerce), J. L. Lynd (Finance) and A. W. Bayne (Finance); the committee's secretary (W. A. Honohan) was also from Finance.
79. Finance memorandum to Executive Council, 14 June 1933, F 100/2/33.
80. T. J. Barrington, "Public Administration, 1922–36", in F. J. McManus (ed.), *The Years of the Great Test 1926–39* (Cork: Mercier Press, 1967), p. 87.
81. 22 June 1933, F 97/11/33.
82. ibid., 26 June 1933.
83. ibid., 30 June 1933.
84. ibid. The outcome was that Industry and Commerce informed Finance on 31 August that the Advisory Committee had recommended in favour of a loan of £90,000, which recommendation Finance supported without further ado.
85. 21 January 1938, F 97/3/38.
86. ibid., 5 May 1938.
87. ibid., 27 June 1938.
88. ibid., Finance to Industry and Commerce, 6 July 1938. Lemass subsequently dismissed the pertinent paragraphs (446–456) of the majority report as "unconvincing" in his Dáil speech on the second reading of the Trade Loans Guarantee Bill 1938 — PDDE, 74, 138 et seq.
89. 27 July 1938, F 97/3/38.
90. ibid.
91. Whitaker, loc. cit.
92. Cf. above, pp. 205–206.
93. Meenan, op. cit., p. 142.
94. Author's interview with John Leydon, 19 January 1972. The new cabinet, on 14 March 1932, deferred a decision on the appointment and Leydon was formally appointed by the Executive Council on Lemass's recommendation on 19 April 1932, the appointment taking effect from 1 May — SPO CAB 1/4/6 and G 2/9/24.
95. Cf. below, pp. 572–74.
96. Author's interview with J. J. McElligott, 24 February 1971.
97. Author's interview with L. M. Fitzgerald, 24 February 1972.
98. James Meenan, "From Free Trade to Self-Sufficiency", in McManus, op. cit., p. 76.
99. Evidence of D. Twomey (Secretary of the Department of Agriculture) to the Commission of Inquiry into Banking, Currency and Credit, vol. II, p. 1194. Twomey's cross-examination by Brennan (the chairman) and McElligott reveals some interesting examples of the differences between the 'Finance' and 'Agriculture' viewpoints.
100. 4 August 1932, F 75/8/32.
101. ibid., 25 August 1932.
102. F 75/10/32.
103. ibid.
104. ibid. McElligott here refers to another memorandum of 8 September 1932 where he

discussed these effects in more detail, but which I have been unable to trace.

105. 21 December 1934, F 75/10/34.

106. ibid.: "The payment of bounties is authorised by the Dáil to be made on terms and conditions laid down with the approval of the Minister for Finance; but the system has an undesirable indefiniteness as compared with, say, the system of unemployment assistance where, though the annual expenditure is not half as great, all the conditions are minutely prescribed by Statute or by Statutory Rules and Orders."

107. ibid.

108. 28 January 1935, F 75/10/32.

109. ibid., 31 January 1935.

110. ibid.

111. 25 May 1934, S 84/38/34.

112. ibid., 7 June 1934.

113. ibid., 22 June 1934.

114. Secretary of the Department of Justice to Secretary of Department of Finance, 2 June 1934, F 100/3/34.

115. ibid.

116. 19 March 1937, S 84/22/37, part III.

117. ibid., Finance memorandum on the first draft of the 1937 Constitution, 22 March 1937 and sent to the President's Department on the following day.

118. See chapter 12.

119. See pp. 295–7.

120. F 200/25/37.

121. ibid.

122. See pp. 292–94.

123. McElligott's figures did not "include any sum in respect of (a) state liability undertaken for the housing debt of Local Authorities, (b) sums claimed by the Government of the United Kingdom and not admitted by the Saorstát. On the other hand the pre-1922 local loans formerly treated as miscellaneous revenue are now capitalised as an asset."

124. This point is discussed in more detail in chapter 12.

125. This point was supported by a series of tables.

126. See F 200/25/37; also Longford and O'Neill, *De Valera*, p. 311.

127. 11 October 1937, F 200/25/37.

128. T/D S. 9660.

129. 8 November 1937, F 200/25/37.

130. ibid., 9 November 1937.

131. ibid.

NOTES TO CHAPTER 7

1. PRO (London) CAB 27/500.
2. See above, Chapter 4.
3. Author's interview with J. J. McElligott, 24 February 1971.
4. Author's interview with Joseph Brennan, 30 March 1971.
5. Longford and O'Neill, *De Valera,* p. 275.
6. J. P. Walshe to McElligott, 11 April 1932, F 200/43/32.
7. ibid.
8. ibid.
9. ibid., 9 April 1932.
10. See above, pp. 136–8.
11. F 37/4/29.
12. F 37/3/32.
13. T/D S. 6298.
14. PDDE, 42, 1688–93. See also F 200/43/32 for the full text of de Valera's letter.
15. PRO (London) CAB 27/522. For a general discussion of the work of the Irish situation committee, see D. Harkness, "Mr de Valera's Dominion: Irish Relations with Britain and the Commonwealth 1932–38", in *Journal of Commonwealth Political Studies,* November 1970, VIII, 3, pp. 206–28.
16. 13 June 1932, PRO (London) CAB 27/525.
17. Lord Sankey's notes of the talks, 20 July 1932, T/D S. 6298.
18. T/D S. 6298.
19. PRO (London) CAB 27/525.
20. n.d., PRO (London) T.160/430/F.12302. I am indebted to Dr John McColgan for having drawn this memorandum to my attention.
21. ibid.
22. PRO (London) T.160/560/F.12892/01.
23. Cf. Longford and O'Neill, *De Valera,* p. 280 et seq.
24. F 37/4/32.
25. ibid.
26. F 6/4/32.
27. ibid.
28. See above, pp. 120–1.
29. Conference minutes, T/D S.6298.
30. See *Papers relating to a conference between representatives of the Irish Free State and of the United Kingdom held in London, 14–15 October 1932* [P. No. 804] for the Irish memorandum of 12 October and the British reply of 15 October.
31. ibid., British memorandum of 17 October 1932.
32. "Note on Mr Chamberlain's Statement on the Irish Free State memorandum no. 2", 15 October 1932, F 200/43/32.
33. ibid. The agreement in question was one of January 1929 under which the United Kingdom undertook to redeem its silver coinage from the Irish Free State when the new Irish coinage came into circulation — see Treasury memorandum of 9 June 1932, PRO (London) CAB 27/525.
34. As note 30.

35. 30 October 1934, PRO (London) T.160/673/F.14026/01/1.
36. ibid.
37. For Finance's reaction to this kind of criticism of civil servants, see 566–67
38. MacDonald's "Note of conversation with Mr Dulanty", PRO (London) CAB 27/527. I am indebted to Miss Deirdre MacMahon for drawing my attention to this document.
39. 19 November 1934, PRO (London) T.160/673/F.14026/01/1.
40. ibid., 11 December 1934.
41. Meenan, *The Irish Economy*, p. 101.
42. Memorandum by Sir Richard Hopkins, 10 January 1936, PRO (London) T.160/744/F.14026/1.
43. ibid.
44. ibid., 3 January 1936.
45. ibid. The Treasury thought it necessary to inform the Dominions Office that "Fisher has obtained instructions from the Chancellor of the Exchequer about the Irish Free State" and to send them copies of Fisher's minute and of Chamberlain's response. It should also be noted that Hopkins's memorandum of 10 January (see note 42 above) was not dissimilar from the proposals approved by Fisher and was accepted by Chamberlain, subject only to minor amendments. But, as Hopkins was careful to point out, "since the matter was before the Chancellor it has been ascertained that, owing to the growth of coal imports into the Irish Free State, a substantial addition to the number of free fat cattle ... is necessary to counterbalance (on a £ to £ basis as heretofore) the quantity of coal imports ... It differs from the former suggestion in being specific, naming definite concessions against definite counter-concessions. In this respect it appears to conform to the Chancellor's minute ... The opinion of the officials chiefly concerned in the negotiations is ... that if there is no increase of fat cattle, it is likely that the whole negotiation will break down."
46. See p. 299.
47. See Malcolm MacDonald, *Titans and Others* (London: Collins, 1972), pp. 55–62.
48. Irish situation committee, "Note by the Secretary of State for Dominion Affairs, covering a memorandum on the items of the financial dispute", 10 July 1936, PRO (London) CAB 27/527.
49. ibid., "Note on the question of a financial settlement with the Irish Free State".
50. Minute by Sir F. Phillips, PRO (London) T. 160/702/F.5716/06/2.
51. ibid., 9 July 1936.
52. As note 49.
53. PRO (London) CAB 27/524.
54. ibid.
55. ibid.
56. Report of the Irish situation committee, "The proposed discussions on all outstanding questions between the two Governments", 24 July 1936, PRO (London) CAB 27/522.
57. Longford and O'Neill, *De Valera*, p. 308.
58. 8 November 1937, F 200/57/37.
59. 27 April 1938, PDDE, 71, 43.
60. SPO CAB 1/8/76–77.
61. See SPO CAB 2/1/6 and T/D S. 10596.
62. Note of 27 November 1937, PRO (London) T. 160/702/F.5716/06/5.
63. PRO (London) T. 160/702/F.5716/06/Annex.
64. PRO (London) T. 160/786/F.5716/07/1. Cf. T. 160/702/F.5716/06/5 where Fisher minuted: "Remember Kitchener's treatment in 1914 of Redmond's offer"; and that Baldwin had "rightly called" de Valera "'a medieval mystic and straight as a gun-barrel'".
65. Conclusions of the first meeting of the British cabinet's Irish negotiations committee, 17 January 1938, PRO (London) CAB 27/642 — the remark quoted was Neville Chamberlain's.

66. Longford and O'Neill, op. cit., p. 309.
67. As note 64.
68. ibid.
69. ibid. Chamberlain summarised the view of the Chiefs of Staff on the critical question of the ports as follows: "They were anxious for an assurance that the defended ports would be placed at our disposal in the event of war. If that assurance could not be obtained they would waive their insistence on it if, as a result of doing so, it was possible for His Majesty's Government to secure genuinely friendly relations with Eire."
70. Memorandum by Sir F. Phillips, 18 January 1938, PRO (London) T. 160/786/F.5716/07/1. See T. A. Smiddy, then the Irish high commissioner in London, for an earlier comment on Phillips: "There was also present F. Phillips, C.B., Principal Assistant Secretary — a very dour individual and one who creates a somewhat unsympathetic atmosphere. He was somewhat shifty in his look and created an impression as if he had a grudge against my country." — 20 November 1929, F 40/11/29.
71. PRO (London) T.160/786/F.5716/07/1, 19 January 1938.
72. Conclusions of the second meeting of the British cabinet's Irish negotiations committee, 18 January 1938, PRO (London) CAB 27/642.
73. ibid., author's italics.
74. ibid. Waley sent in a note to this effect to the Chancellor while the meeting was in progress.
75. As note 71, 18 January 1938. The last paragraph of Waley's minute of what purported to be financial negotiations between financial representatives is of interest: "Mr McElligott spoke as if Mr de Valera would in the last resort give us the desired assurance that we could use the ports in time of war; but he has no special knowledge as to this, and I do not attach much importance to what I inferred from his attitude."
76. ibid., 30 January 1938.
77. See above, pp. 166–7.
78. As note 76.
79. ibid.
80. F 200/27/38.
81. ibid., 14 February 1938.
82. ibid.
83. ibid.
84. Memorandum by the Chancellor of the Exchequer, 16 February 1938, PRO (London) CAB 27/527.
85. Conclusions of a meeting of the Irish situation committee, 17 February 1938, PRO (London) CAB 27/524.
86. Waley's minute, 23 February 1938, PRO (London) T. 160/786/F.5716/07/1.
87. As note 81.
88. As note 86.
89. Conclusions of a meeting of the Irish situation committee, 25 February 1938, PRO (London) CAB 27/524.
90. ibid.
91. PRO (London) CAB 27/642.
92. See MacDonald, op. cit., pp. 76–80; also Longford and O'Neill, op. cit., p. 322.
93. But cf. Longford and O'Neill, loc. cit.
94. PRO (London) CAB 23/92/335–37.
95. Conclusions of a meeting of the Irish situation committee, 10 March 1938, PRO (London) CAB 27/524.
96. See above, p. 303.
97. See Longford and O'Neill, op. cit., pp. 322–24.
98. PRO (London) T. 160/786/F.5716/07/2.

99. PRO (London) CAB 23/93/159.
100. PDDE, 71, 41–42.
101. Author's interview with J. J. McElligott, 24 February 1971.

NOTES TO CHAPTER 8

1. S 84/25/39.
2. ibid., note by P. P. O'Donoghue and T. J. Coyne, 14 September 1938.
3. "Note for Taoiseach", n.d. [25 September 1939], F 200/12/40.
4. S 75/9/30.
5. 27 April 1939, S 99/18/39.
6. See SPO G 3/3/173–4 and 183.
7. PDDE, 77, 263.
8. E 109/44/39.
9. ibid.
10. E 101/41/39.
11. See below, pp. 577–83.
12. Memorandum of 29 August 1939, E 109/44/39.
13. 21 September 1939, F 200/12/40.
14. ibid., Moynihan to McElligott, 22 September 1939.
15. ibid., 25 September 1939.
16. F 43/3/39.
17. F 43/1/39.
18. 13 October 1939, F 43/3/39.
19. McElligott's memorandum of a meeting on 20 October 1939 at the Bank of Ireland with the Governor and Deputy Governor and the chairman of the Irish Banks' Standing Committee, F 44/9/39.
20. ibid., Seán T. O'Kelly, to the chairman of the Irish Banks' Standing Committee, 3 January 1940.
21. ibid., 1 December 1939.
22. PDDE, 85, 267.
23. PDDE, 85, 277.
24. S 101/7/39.
25. ibid.
26. ibid., minutes of the committee's meeting of 15 September 1939.
27. ibid., minutes of meeting of 19 September 1939.
28. ibid.
29. First interim report of the economy committee, 12 October 1939, S 101/7/39.
30. ibid., second interim report, 2 November 1939.
31. ibid., 23 November 1939.
32. Summary of the government's decisions on the recommendations of the economy committee circulated by the Taoiseach's Department for the information of Ministers, 5 February 1940, F 5/8/39.
33. ibid.
34. ibid.
35. ibid.
36. 31 May 1940, E 121/2/40.
37. ibid.
38. ibid., 7 June 1940.
39. ibid., O'Kelly to the Bishop of Galway, 13 June 1940.

40. ibid.
41. 20 December 1939, E 109/9/40.
42. ibid., 10 January 1940.
43. ibid., 19 February 1940.
44. Assistant secretary to the government to the private secretary to the Minister for Finance, 30 April 1940, E 109/9/40.
45. ibid.
46. ibid.
47. ibid., 29 March 1940.
48. ibid., minute of 30 March 1940.
49. ibid., 30 April 1940.
50. ibid.; see also SPO CAB 2/3/114.
51. E 109/9/40.
52. Desmond Williams, "Ireland and the War" in Kevin B. Nowlan and Desmond Williams (eds.), *Ireland in the War Years and After* (Dublin: Gill and Macmillan, 1969), p. 16; cf. Joseph T. Carroll, *Ireland in the War Years* (Newton Abbot: David and Charles, 1975), pp. 39–44, for an interesting account of growing government fears of invasion after mid-May 1940.
53. F 200/12/40.
54. Report of the first meeting of the interdepartmental committee on Emergency measures, 5 July 1940, S 56/1/40.
55. ibid.
56. ibid.
57. S 200/26/40.
58. S 56/1/40.
59. E 109/55/40; see also F 99/4/90.
60. Report of the inter-departmental committee's second meeting, 12 July 1940, S 56/1/40.
61. As note 59.
62. See Patrick Cosgrave, *Churchill at War* (London: Collins, 1974) pp. 274–75.
63. This condition was met by the recommendation of an inter-departmental meeting of 16 November 1940 (that all commandeering be carried out through the single channel of the military authorities) which was ratified by the cabinet committee on Emergency problems on 5 December 1940, S 2/15/40.
64. F 99/4/40.
65. ibid., Finance memorandum of 22 March 1941 for the cabinet committee on Emergency problems (approved on 27 March 1941).
66. See Williams, op. cit., p. 20.
67. E 109/55/40.
68. ibid.
69. ibid., 20 February 1941.
70. ibid.
71. ibid., 12 September 1941.
72. ibid., 30 September 1941.
73. E 109/55/40.
74. ibid.
75. F 46/8/40.
76. 13 June 1938 — Committee of Imperial Defence [CID] 1467–B.
77. 20 March 1939, F 46/8/40.
78. ibid.
79. ibid., 23 August 1939.
80. ibid., 4 October 1939.
81. ibid., 13 July 1940.

82. ibid., 12 July 1940.
83. ibid., 20 July 1940.
84. PDSE, 24, 2229–30.
85. 29 September 1940, F 46/8/40.
86. F 18/76/41.
87. 28 January 1941, F 18/1/41.
88. ibid., 18 February 1941.
89. 18 February 1941, F 18/76/41.
90. ibid., 11 March 1941.
91. F 46/8/40.
92. ibid.
93. F 18/7/43.
94. McElligott's minute of 4 June 1940, F 17/2/53.
95. ibid.
96. 22 February 1941, S 99/7/41.
97. S 99/7/41 — part II.
98. 27 February 1941, S 99/7/41.
99. ibid., 27 February 1941.
100. As note 97.
101. *Index to the Emergency Powers Orders* (Dublin: Stationery Office, 1942).
102. F 100/5/39.
103. 3 July 1940, S 99/26/40.
104. ibid., 8 July 1940.
105. S 99/26/40.
106. S 84/35/40.
107. Government decision of 16 April 1943, S 84/5/43.
108. Leydon to McElligott, 8 February 1941, F 80/1/41.
109. ibid.
110. ibid.; see also Emergency Powers (No. 72) Order 1941.
111. F 80/1/41.
112. F 5/16/42.
113. PDDE, 94, 1167–70; cf. Carroll, op. cit., pp. 89–92.
114. See F 80/1/41.
115. S 84/31/47.
116. Internal Finance memorandum, 31 December 1941, F 39/6/41.
117. ibid., Finance memorandum for the government, 11 March 1942.
118. ibid.
119. SPO G 3/7/150–1; the decisions were also incorporated in a letter of 8 July 1942 from the Taoiseach to the Minister for Finance, S 101/2/42.
120. ibid., the Minister for Finance to the Taoiseach, 24 July 1942.
121. Cabinet minutes of 24 November 1942, SPO CAB 2/5/119.
122. SPO CAB 2/6/67–8.
123. J. C. Holloway, Secretary of the Department of Industry and Commerce, to M. N. Ó Murchú, Secretary of the Department of Finance, 11 January 1977. I am indebted to Mr John Leydon for having provided Mr Holloway with the information in question. Mr Leydon's misgivings on this score proved justified when, during discussions with representatives of the Board of Trade in London on 4 April 1946, he elicited the admission that Ireland's inadequate allocation of cotton yarn about which he then complained "had, in fact, been political in character; that during the war they [the British] had fixed their allocations on a certain basis which gave more favourable treatment to their allies than to others, and that they now find it impossible to get away from this basis."
124. Note of meeting of 27 March 1945, S 200/4/45.

125. ibid.
126. ibid., memorandum of meeting of 20 April 1945.
127. ibid.,
128. ibid.
129. ibid. See PDDE, 94, 44–5 for the relevant passage from the budget speech of 2 May 1945.
130. PDDE, 94, 725–30. The scheme won unanimous support from representatives of all parties in the Dáil.
131. As note 123. Leydon instanced the war risk insurance issue (see above, pp. 339–43) as another such example.

NOTES TO CHAPTER 9

1. Author's interview with T. K. Whitaker, 28 October 1971.
2. ibid.
3. *Commission of Inquiry into Banking, Currency and Credit — Reports and minutes of evidence* (Dublin: Stationery Office, 1938).
4. Meenan, *Irish Economy,* p. 222.
5. See above, pp. 241–44.
6. Meenan, op. cit., p. 221, n. 34.
7. 2 August 1938, F 9/19/38.
8. Bulmer Hobson, *Ireland Yesterday and Tomorrow* (Tralee: Anvil Books, 1968), pp. 112–13; see also p. 171.
9. *Commission of Inquiry into Banking, Currency and Credit — Minority Report No. III,* paragraph 6.
10. ibid., paragraph 8.
11. ibid., paragraph 23.
12. ibid., paragraph 17.
13. ibid., paragraphs 9 and 20–22.
14. 25 April 1938, F 9/18/38.
15. ibid., 8 December 1938.
16. SPO CAB 2/1/50 and 2/2/12.
17. 5 November 1938, F 9/18/38. "It is remarkable", observed McElligott, "that Mr O'Loghlen, who was strangely silent for three and a half years, has been, since the Report of the Banking Commission appeared, one of the most vocal of our public men."
18. F 9/18/38.
19. ibid., n.d.
20. ibid.
21. ibid., McElligott's minute of 9 December 1938.
22. McElligott's minute of 11 July 1939, F 9/21/38.
23. 17 June 1939, F 9/19/38. See Hobson, loc. cit., for a fuller description of the genesis of O'Loghlen's report.
24. Whitaker's draft memorandum, 26 June 1939, F 9/23/38. The submission of this memorandum to the government was deferred until, in May 1943, after the Central Bank had commenced business, it was finally recorded that there was no longer any necessity to send the government a memorandum on this subject.
25. "Memorandum on a Central Bank for Éire", F 9/21/38.
26. ibid., 11 October 1939. See also SPO CAB 2/2/268.
27. 24 January 1940, F 9/21/38.
28. Joseph Johnson — see Meenan, op. cit., p. 223.
29. 16 February 1940, F 9/5/41.
30. ibid., 24 February 1940.
31. ibid.
32. ibid., 1 August 1940.
33. ibid., Lemass to Seán T. O'Kelly, 6 August 1940.
34. ibid. — copy of a note of the same date sent to the Taoiseach.
35. ibid., O'Kelly to Lemass, 8 August 1940.

36. ibid., Lemass to O'Kelly, 12 August 1940.
37. ibid., 7 September 1940.
38. ibid., Lemass to O'Kelly, 9 September 1940.
39. ibid., O'Kelly to Lemass, 13 September 1940.
40. Extract from minutes of meeting of 16 September 1940, F 9/5/41.
41. ibid., 20 September 1940.
42. ibid., 21 September 1940.
43. ibid.
44. ibid., 9 December 1940.
45. ibid., 13 December 1940.
46. ibid., 19 December 1940.
47. ibid., McElligott to the Secretary of the Taoiseach's Department, 19 December 1940; Brennan, writing to McElligott on 12 December 1940, described the proposal as "extremely ill-judged."
48. F 9/5/41.
49. ibid., 5 February 1941.
50. ibid., Finance memorandum for the government, 14 February 1941.
51. ibid., Currency Commission memorandum for the government, 17 February 1941.
52. ibid., Brennan's further memorandum, 19 February 1941.
53. ibid., Finance memorandum for the government, 20 February 1941.
54. ibid.
55. F 9/2/42.
56. ibid., 22 October 1941.
57. ibid., 23 February 1942.
58. PDDE, 87, 403 — quoted in Meenan, op. cit., pp. 223–25.
59. E. E. Jucker-Fleetwood, "The Irish Banking Commission 1934–38 as seen by Per Jacobsson", in *Central Bank of Ireland — Quarterly Bulletin,* Winter 1972, p. 73.
60. See SPO CAB 1/5/277B-D and 293.
61. Memorandum of 9 October 1939, forwarded to McElligott by J. C. Dowdall, T.D., 18 October 1939, F 9/20/38.
62. ibid.
63. See below, pp. 565–67.
64. *The Irish Press,* 19 October 1939.
65. PDSE, 24, 755–87.
66. 16 January 1940; the memorandum from which this and the following quotations are taken was approved by the government on 2 February 1940 — F 9/20/38. The extracts from the Banking Commission's majority report are from paragraphs 207–10.
67. McElligott to Rowe Dutton, 15 March 1940, F 9/20/38.
68. P.R.O. (London) T. 160/884/F. 16430/ff. 29–30.
69. Author's interview with G.P.S. Hogan, 24 March 1975.
70. Meenan, op. cit., p. 361.
71. 27 February 1941, F 40/7/39.
72. McElligott's letter helps clarify a point raised by James Meenan (op. cit., p. 360, n. 13): "The Currency Commission bought some gold in September 1938 but did not add to their holding between that time and the outbreak of war. The reasons for buying in the first place and for not buying in the second excite curiosity." McElligott later claimed, during the dollar crisis talks in London in September 1947, "that Ireland had before the war acceded to a British request that she would not convert her sterling holdings into gold or dollars" and he cited his own correspondence with Sir David Waley of the Treasury in support of this claim; I have been unable to trace this correspondence in the Department's records — see below, p.400

73. Flinn's note to the Taoiseach — copy to the Minister for Finance — 5 March 1941, F 40/7/39.

74. ibid., n.d. (?31March 1941). See also PDDE, 82, 865–66.

75. 28 August 1943, F 39/5/43; the article in question, "Britain's War Debts", was published in *The Economist* of 7 August 1943.

76. 29 October 1943, F 39/5/43.

77. ibid., McElligott to Brennan, 11 December 1943.

78. ibid., 2 February 1944.

79. Stanley Lyon to McElligott, 18 March 1941, F 40/7/39.

80. Cf. T. K. Whitaker, "Ireland's External Assets" in *Journal of the Statistical and Social Inquiry Society of Ireland,* 18, (delivered on 29 April 1949) pp. 192–216.

81. The memorandum included, for example, a highly critical analysis of the Department of Agriculture's policy on the breeding and export of dairy cattle.

82. Author's interview with T. K. Whitaker, 28 October 1971.

83. ibid.

84. "Discussion on the problem of full employment" in *Journal of the Statistical and Social Inquiry Society of Ireland,* 17, pp. 439–40.

85. ibid., pp. 447–49.

86. Finance memorandum for the government, 9 October 1944, F 20/1/46.

87. ibid., 10 October 1944.

88. Record of the meeting between Rowe Dutton and Finance officials, 4 June 1946, F 200/3/46.

89. ibid., minute of 30 May 1946.

90. ibid., record of meeting of 5 June 1946.

91. ibid., 26 September 1946.

92. ibid., 19 November 1947; this minute of McElligott's also discussed the esoteric question of whether the two Industry and Commerce officers attending the conference should be made a special allowance of £30 for "tropical kit".

93. 29 October 1947, F 20/1/46.

94. Record of discussions of 4 November 1947, McGilligan Papers; see below, p. 403 for an account of these discussions. The IMF issue was sufficiently sensitive to cause a subsequent disagreement between Irish and British delegates as to just what had been decided on this occasion. The British record read: "In the event of Eire becoming a member of the International Monetary Fund, any drawings from this Fund should be used in diminution of Eire's net dollar demands on the Sterling Area Pool." The Irish amendment read: "In the event of Eire becoming a member of the International Monetary Fund the Irish Government would give consideration to the proposal that any drawings from this Fund not utilised for capital purposes should be used in diminution of Eire's net dollar demands on the Sterling Area Pool." Neither side was prepared to give way — McGilligan Papers.

95. Brennan's views were incorporated in a Finance memorandum for the government, 19 December 1947, F 20/1/46.

96. ibid., Finance memorandum of 23 December 1952.

97. Rowe Dutton wrote to McElligott on 13 April 1948 informing him of this decision which, he said, Britain had opposed — folder attached to F 20/1/46.

98. F 9/7/30. The Irish government made no formal application for admission when Finance's overtures to the Bank revealed the unlikelihood of such an application being accepted.

99. Government decision of 12 February 1957, F 20/1/56.

100. ibid., Whitaker to Minister for Finance, 23 February 1957.

101. As note 80; see especially pp. 192–3.

102. Michael Viney, "Kenneth Whitaker — Power without Glory", in *The Irish Times,* 2 May 1973.

103. Author's interview with T. K. Whitaker, 28 October 1971.

104. See Patrick Lynch, "The Irish Economy since the War, 1946–51", in Nowlan and Williams (ed.), *Ireland in the War Years and After*, p. 187. The Banking Commission had also examined the Douglas scheme — see *Memoranda and Minutes of Evidence*, paragraphs 6074–80, 7204–7, 7225 and 7264–66.

105. Viney, loc. cit.

106. As note 103.

107. Author's interview with C. H. Murray, 15 July 1975. A former Minister for Finance, C. J. Haughey, made a similar point in a Telefís Éireann interview on 22 July 1975.

108. Author's interview with G. P. S. Hogan, 24 March 1975.

109. PDDE, 97, 17–18 and 31.

110. McElligott's minute of 1 October 1945, McGilligan Papers.

111. Memorandum of 29 October 1946, McGilligan Papers.

112. Finance memorandum for the government, 19 December 1946, McGilligan Papers.

113. The controversy centred upon a disagreement between McElligott and Leydon about the most appropriate method of computing the cost of living index number — McGilligan Papers. See also R. C. Geary, *The Official Cost of Living Index Number and its Critics* (Cork: University Press, 1951).

114. McGilligan Papers.

115. Minute to Minister for Finance, 31 July 1947, McGilligan Papers.

116. ibid., 1 August 1947.

117. Record of meeting of 21 August 1947, F 17/7/47.

118. ibid.

119. ibid., record of Treasury talks of 4 September 1947.

120. ibid.

121. As note 119.

122. Record of Treasury talks of 5 September 1947, F 17/7/47.

123. ibid., "note of discussion with Sir Edward Bridges."

124. Record of discussion with Rowe Dutton, 6 September 1947, F 17/7/47; see also above, note 72.

125. Hogan's minute of 20 September 1947, F 17/7/47.

126. 25 September 1947, F 93/5/47 — D.19.

127. Note of meeting of Irish delegation, 26 September 1947, F 93/5/47 — D.24.

128. ibid., D.43.

129. Note of discussion with Rowe Dutton on the morning of 30 September 1947, F 17/7/47. A second conversation took place that afternoon when Leydon (who was not at the morning meeting) offered a similar "unofficial" assurance — F 93/5/47 — D.40.

130. 18 October 1947, F 17/7/47.

131. Press communique (annex to minutes of meeting of 4 November 1947), McGilligan Papers.

132. F 17/1/48.

133. ibid.

134. ibid., Hogan's minute of 27 February 1948.

135. Note of inter-departmental conference of 25 November 1947, F 17/2/48.

NOTES TO CHAPTER 10

1. *Administration,* 1, 1, pp. 69–70.
2. Murphy, *Ireland in the Twentieth Century,* pp. 123–4; also notes to the author from C. H. Murray, 10 September 1975, and T. K. Whitaker, 5 March 1976.
3. See Murphy, op. cit., p. 117 and Lyons, *Ireland since the Famine,* pp. 512–3.
4. Author's interview with Patrick Lynch, 2 August 1975.
5. Author's interview with Seán MacBride, 30 June 1974.
6. MacBride to Costello, 7 October 1949, MacBride Papers.
7. ibid. — see *Banking Commission — Memoranda and Minutes of Evidence,* i, pp. 310–14 and 559–83 for Mrs Berthon Waters' evidence.
8. See especially PDDE, 109, 304 and 739.
9. As note 5 — afforestation figured prominently in O'Loghlen's minority report.
10. Author's interview with Sarsfield Hogan, 24 March 1975.
11. Minute of 4 March 1949, F 17/2/48.
12. Memorandum of 15 March 1948, F 17/7/47 (3).
13. See MacBride to Costello, 25 February 1948 (MacBride Papers) where he proposed that such a committee should consist of the Taoiseach, the Tánaiste, and the Ministers for External Affairs, Agriculture, Finance, and Industry and Commerce and that it "should undertake a complete survey of the whole economic position of the State and make recommendations to the Government."
14. See secretary to the government to the private secretary to the Minister for Finance, 22 and 24 March 1948, F 17/7/47 (3).
15. As note 10.
16. McGilligan Papers.
17. 19 August 1947, F 121/2/48.
18. ibid.
19. Record of meeting of 25 November 1947, F 121/3/48.
20. ibid.
21. ibid., Whitaker's minute of 3 February 1948.
22. ibid.
23. F 121/3/48.
24. ibid., Boland to Hogan, 10 February 1948.
25. ibid., R. W. B. Clarke (of the Treasury) to Hogan, 16 February 1948. This letter and Hogan's earlier letter of 9 February later assumed great significance — see pp. 422–25.
26. F 121/11/48.
27. Whitaker's minute to Hogan, 3 February 1948, F 121/10/48.
28. ibid., McElligott's minute of Brennan's meeting with the Minister for Finance, 14 April 1948.
29. 30 April 1948, F 121/98/48. McElligott also sent copies of his letter and of the peccant External Affairs memorandum to Brennan and to the secretaries of Industry and Commerce and of Agriculture.
30. Finance "Memorandum for the ERP Committee of the Cabinet", 1 May 1948, F 121/15/48.
31. ibid., minute of 6 May 1948.

32. Hogan's minute to McElligott, 14 May 1948, of his Treasury discussions of 7–8 May 1948, F 121/98/48.
33. 9 May 1948; copies of all three memoranda are in the McGilligan Papers.
34. 3 May 1948, McGilligan Papers.
35. See above, p. 413.
36. 14 May 1948, F 121/98/48.
37. F 121/21/48.
38. ibid., External Affairs memorandum to the government on the Washington talks, 8 June 1948. All unattributed quotations which follow are taken from the same source.
39. Record of meeting of 1 June 1948, F 121/15/48.
40. ibid., 8 June 1948.
41. See above, note 25.
42. Hogan's minute of 7 June 1948, F 121/15/48.
43. Author's interview with Seán MacBride, 30 June 1974.
44. As note 38.
45. Hogan's minute of 9 June 1948, F 121/98/48.
46. F 121/15/48.
47. F 93/4/46.
48. 7 February 1948, F 93/2/48.
49. ibid., minute of 5 April 1948.
50. ibid., minute of 10 April 1948.
51. ibid., 30 April 1948.
52. Finance memorandum to the government, 26 May 1948, F 93/2/48.
53. As note 39.
54. Minutes of the opening session of 17 June 1948, F 17/6/48. The secretaries to the Irish and British delegations took minutes but the British version is not as full and the Irish minutes have ordinarily been preferred in the account that follows.
55. Information given to the author by Patrick Lynch, the secretary to the Irish delegation.
56. Lynch's minutes of session on 18 June 1948, F 17/6/48.
57. See above, notes 25 and 41.
58. Finance note of discussion at Treasury, 18 June 1948, F 17/6/48.
59. ibid., 19 June 1948.
60. ibid., Lynch's minutes of meeting of 20–21 June 1948 and author's interview with T. K. Whitaker, 15 March 1976.
61. Note of discussion at Treasury, 21 June 1948 (morning meeting), F 17/6/48.
62. ibid., afternoon meeting.
63. ibid.
64. F 121/15/48.
65. Minute of 25 June 1948, F 121/98/48.
66. Hogan's minute of 3 July 1948, F 17/10/48.
67. ibid.
68. ibid., 31 July 1948.
69. ibid., 6 August 1948.
70. ibid., 9 September 1948.
71. ibid., Hogan's minute to McElligott, 24 September 1948.
72. F 17/10/48.
73. F 96/10/48.
74. ibid., summary of Industry and Commerce memorandum to the government, 30 September 1948.
75. ibid., McElligott's minute of Brennan's meeting with the Minister for Finance on 16 September 1948.
76. ibid., Finance memorandum to the government, 6 October 1948.

77. F 96/10/48.
78. McGilligan Papers.
79. White Paper, P. 9157.
80. F 121/21/48. See also a note by McElligott in the McGilligan Papers which shows how the terms achieved differed from the terms sought by the Irish negotiators.
81. Telegram 2951, Ambassador Douglas to Secretary of State, 2 July 1948, decimal file of Department of State 1945–49, 840–50 Recovery/7-248, National Archives building, Washington D.C.
82. See above, pp. 418–19.
83. Whitaker's minute of a discussion on 23 July 1948, F 121/21/48. The Central Bank Report for 1948–49 noted "that so long as this deposit, which has in effect already been used to pay for the corresponding imports, remains at the Central Bank undrawn by the Minister it has passed normally out of circulation and through being thus sterilised has ceased for the time being to be a factor in the domestic monetary situation" — cited in Moynihan, *Currency and Central Banking*, p. 346.
84. See F. H. Boland's note of 1 April 1948 on the significance of the American decision to opt for this multilateral, as opposed to bilateral, approach to the negotiations on the details of the ERP aid, F 121/11/48.
85. Author's interview with Seán MacBride, 30 June 1974. That Garrett sent MacBride copies of certain of his letters to Hoffman and to the Under-Secretary of the Treasury in Washington shows how closely the two men cooperated (MacBride Papers).
86. Note to the author from Theodore Wilson of the University of Kansas, 13 November 1975. Professor Wilson is writing a history of U.S. foreign aid from 1943–53.
87. External Affairs memorandum to the government, 16 December 1948, F 121/10/48.
88. ibid., 17 December 1948.
89. Author's interview with Seán MacBride, 30 June 1974.
90. Author's interview with McElligott, 24 February 1971.
91. F 121/10/48.
92. ibid., 7 February 1949.
93. ibid., 9 February 1949.
94. As note 92.
95. As note 93.
96. PDDE, 114, 1929.
97. 25 November 1949, McGilligan Papers.
98. Record of inter-departmental ERP committee meeting of 2 January 1950, F 121/1/50.
99. ibid., record of meeting of 20 January 1950.
100. ibid., 8 June 1950.
101. F 121/1/50.
102. ibid.
103. ibid., minute of 3 August 1950.
104. F 121/1/50.
105. ibid., 25 September 1950.
106. ibid.
107. ibid., 5 April 1951; see also F 121/10/48.
108. Record of talks at Treasury, 5 September 1947, F 17/7/47.
109. As note 38 — record of conversation at a State Department luncheon on 24 May 1948.
110. Folder marked "possibility of devaluation of sterling", attached to F 17/3/49; unattributed quotations which follow are taken from the same source.
111. ibid., McElligott to Brennan, 7 March 1949.
112. ibid., McElligott to Boland, 31 May 1949.

113. ibid., McElligott to Seán Ó Broin (Secretary of the Department of Agriculture), 16 June 1949.

114. ibid., minute of 21 June 1949.

115. External Affairs memorandum to the government on the possible devaluation of sterling, 23 June 1949, MacBride Papers. There is a reference on F 17/3/49 to the "Secretary's folder on 'Department of External Affairs on devaluation and sterling assets'", but I have been unable to trace these papers.

116. See above, pp. 359–65.

117. Whitaker's minute of 30 June 1949.

118. McElligott's note of July talks, n.d., in folder marked "Dollar crisis June-August 1949 — consultations in London", with F 17/3/49.

119. McElligott to the Minister for Finance, 16 September 1949, F 17/6/49.

120. ibid.

121. Hogan's minute of 19 September 1949, F 17/3/49.

122. The foregoing account is based on the author's interviews with Seán MacBride (30 June 1974), Sarsfield Hogan (24 March 1975), Patrick Lynch (2 August 1975) and T. K. Whitaker (15 March 1976). MacBride's fragmentary manuscript note of what was said at the meeting, and which I am grateful to him for allowing me to reproduce here, reads as follows: "*McElligott.* Likely fall in prices in U.S. Cost of living will rise less than in Britain. Possibility of being excluded from sterling area pool. Rise in cost of living here will be negligible. The devaluation will not affect our budgetary position. *James* [Dillon] Entering in (*sic*) an era of unequalled prosperity. No rise of price of maize or wheat. No rise in price of fertilisers."

123. F 17/3/49.

124. The statement is reproduced in full in Moynihan, op. cit., pp. 356–7. McGilligan elaborated upon the reasons for the government's decision in an anodyne ministerial broadcast on the night of 19 September.

125. F 17/3/49.

126. ibid.

127. ibid.

128. ibid., 24 September 1949.

129. MacBride Papers.

130. Finance memorandum to the government, 24 September 1949, F 17/3/49.

131. ibid.

132. ibid., Attorney General's opinion, 4 October 1949.

133. ibid., 6 October 1949.

134. F 17/3/49.

135. ibid., Whitaker's memorandum, ? October 1949 — this memorandum was prepared for, but apparently not circulated to, the government.

136. Seán MacBride, *Our People — Our Money* (Dublin: Browne and Nolan, 1949).

137. Moynihan, *Currency and Central Banking* p. 361.

138. Author's interview with Seán MacBride, 30 June 1974.

139. See above p. 359.

140. MacBride Papers.

141. See Moynihan, op. cit., p. 361.

142. F 200/8/49.

143. MacBride Papers.

144. ibid. MacBride wrote that his letter and the accompanying seven page memorandum giving chapter and verse for his complaints had been typed by his personal secretary and had not been seen by any of the officials in his department. I have been unable to trace the exchange control papers on this subject.

145. MacBride Papers.

146. MacBride to Costello, 30 January 1950, MacBride Papers. See also Moynihan, op. cit., pp. 360–1 and 370.

147. 15 November 1950, F 200/47/50.

148. McGilligan was in fact unavoidably absent from the bankers' dinner and his speech was delivered by the Minister for Defence, Dr. T. F. O'Higgins.

149. PDDE, 120, 1629 and 1631–32. See also below, pp. 554–55, for Whitaker's assessment of how the budget affected the Department's organisation.

150. Lynch, "Irish Economy Since the War", p. 187.

151. Quoted in Moynihan, op. cit., p. 362.

152. Author's interview with Patrick Lynch, 2 August 1975.

153. See Patrick Keatinge, *The Formulation of Irish Foreign Policy* (Dublin: Institute of Public Administration, 1973), p. 63.

154. Author's interview with Patrick Lynch, 2 August 1975.

155. Lynch, op. cit., pp. 192–3.

156. Profile of Patrick McGilligan in *The Leader,* 28 February 1953.

157. Author's interview with T. K. Whitaker, 28 October 1971.

158. Author's interview with Sarsfield Hogan, 24 March 1975.

159. Author's interview with Patrick Lynch, 2 August 1975.

160. Murphy, *Ireland in the Twentieth Century,* p. 121.

161. Lyons, *Ireland since the Famine,* p. 555.

162. Note to the author from Patrick Lynch, October 1975.

NOTES TO CHAPTER 11

1. F 200/39/50.
2. Cf. T. K. Whitaker, "Ireland's External Assets" in *Journal of the Statistical and Social Inquiry Society of Ireland*, 18, pp. 192–216.
3. See M. M. Postan, *An Economic History of Western Europe 1945–64* (London: Methuen, 1967), p. 14.
4. Author's interview with J. J. McElligott, 24 February 1971.
5. Author's interview with Sarsfield Hogan, 24 March 1975.
6. PDDE, 173, 1078–80; cf. Patrick Lynch, "The Economics of Independence — Some Unsettled Questions of Irish Economics" in *Administration*, 7, 2, p. 91.
7. See above, pp. 406–7.
8. 9 March 1948; PDDE, 110, 253.
9. 12 March 1952; PDDE, 129, 2025.
10. PDDE, 127, 528.
11. PDDE, 127, 931–32.
12. PDDE, 127, 342.
13. Author's interview with Seán MacBride, 30 June 1974.
14. PDDE, 127, 1087–88.
15. Moynihan, *Currency and Central Banking*, chapters 16 and 17.
16. See above, pp. 451–55.
17. 23 September 1948, F 17/7/48.
18. ibid., Finance internal memorandum, 15 October 1948.
19. F 17/3/50.
20. Section 36 (1).
21. *The Leader*, 21 November 1953 — cited in Moynihan, op. cit., p. 375.
22. ibid., p. 341.
23. F 17/8/51.
24. Moynihan, op. cit., p. 381.
25. 13 October 1951, F 17/8/51.
26. *Central Bank Report for 1950–51* (Dublin: Stationery Office, 1951, Pr. 726), paragraphs 9–10, 12–13, 17–19 and 21.
27. 30 June 1951, F 200/25/51.
28. ibid., 21 September 1951.
29. ibid., 25 September 1951.
30. ibid., minute of 11 October 1951.
31. *The Leader*, 27 September 1952.
32. F 17/1/52.
33. F 96/14/51.
34. I was unable to find a copy of this letter in the Department's records.
35. 17 January 1952, F 17/1/52.
36. ibid., 22 January 1952.
37. 7 February 1952, F 93/1/52.
38. F 17/1/52.
39. Boland to Sarsfield Hogan, 1 February 1951 (?1952), F 200/22/52.
40. See above, p. 412 *et seq.*

41. Record of London discussions on sterling area position, 18-19 February 1952 — appendix A to Finance memorandum for the government, 27 February 1952, F 93/1/52.
42. Finance memorandum for the government, 6 March 1952, F 17/1/52.
43. ibid.
44. ibid., Sarsfield Hogan's note of 10 March 1952.
45. PDDE, 129, 1937 *et seq.*
46. The decision was postponed from the government meeting of 7 March to the meeting of 11 March — F 17/1/52.
47. PDDE, 129, 1954–55.
48. See above, pp. 442–54.
49. The final communique of the conference was published in a British White Paper (Cmd. 8717) and was described by Sarsfield Hogan as "by no means a sensational document" — F 17/21/52.
50. ibid., government decision of 8 January 1953.
51. ibid., MacEntee finally agreed to circulate the report at the end of February 1953.
52. Whitaker's address to the Sterling Area Statistical Committee (SASC), 16 July 1953, F 17/21/52.
53. Moynihan, op. cit., p. 390.
54. Summary of Finance memorandum for the government, 26 October 1951 — in folder marked "1952 Budget, information used" attached to F 43/1/52.
55. ibid., — this was the first sentence of the first, and subsequently amended, draft of the 1952 budget statement.
56. See PDDE, 130, 1113–55.
57. ibid., 1113–29.
58. See above, pp. 396–7.
59. 2 August 1950, F 200/32/50.
60. ibid., 21 September 1950.
61. 5 May 1952, F 29/1/52.
62. ibid., 24 May 1952.
63. ibid., 29 May 1952.
64. 5 December 1952, F 13/5/52.
65. 23 January 1953, F 29/1/52.
66. Nunan to McElligott, 10 June 1952, F 93/4/52.
67. ibid., 16 June 1952.
68. ibid., 21 June 1952.
69. Leydon to Nunan (copy), 23 July 1952, F 93/4/52.
70. ibid., McElligott to Nunan, 25 August 1952. Nunan repudiated Leydon's suggestion that External Affairs were poaching upon other department's preserves and, in particular, the allegation, as endorsed by McElligott, that External Affairs "representatives from time to time at meetings of the foreign trade committee have tended to express views which go some distance to justify his [Leydon's] apprehensions."
71. Hogan's minute to McElligott, 26 June 1950, F 121/2/50.
72. ibid., 29 June 1950.
73. ibid., Finance memorandum for the government, 3 July 1950.
74. ibid., External Affairs memorandum for the government, 3 July 1950.
75. As note 73.
76. Brennan to McGilligan, 5 July 1950, F 121/2/50.
77. ibid., McGilligan's minute of 10 August 1950 and Finance memorandum for the government, 24 August 1950.
78. F 93/3/51.
79. ibid., 31 July 1951.
80. ibid., 10 March 1953.

81. ibid., 23 June 1953.
82. ibid.
83. *The Irish Times*, 26 January 1974.
84. Author's interview with T. K. Whitaker, 28 October 1971.
85. "Silhouette", "J. J. McElligott", in *Administration*, 1, 1, p. 70.
86. ibid., pp. 70–71.
87. Author's interview with O. J. Redmond, 27 January 1972.
88. Moynihan, op. cit., pp. 394–99.
89. ibid., p. 396.
90. ibid., p. 399.
91. Lynch, "Irish Economy Since the War", p. 199.
92. 5 June 1953, F 40/4/53.
93. ibid., 25 June 1953.
94. T. K. Whitaker's note to the author, 6 March 1976.
95. Moynihan, op. cit., pp. 325–30, 390 *et seq.*
96. Whitaker's minute of the meeting of 26 June 1953, F 40/4/53; cf. Moynihan, op. cit., pp. 405–11.
97. 28 July 1953, F 126/1/53.
98. ibid., 31 July 1953.
99. ibid., 11 August 1953.
100. ibid., 13 August 1953.
101. *The Sunday Press*, 16 August 1953.
102. Moynihan, op. cit., pp. 409–10.
103. *The Leader*, 16 January 1954.
104. 29 October 1953, F 40/4/53.
105. 31 July 1953, F 49/1/53.
106. ibid.
107. 17 June 1954, F 200/8/54.
108. ibid., government decision of 25 June 1954.
109. ibid., 7 January 1955.
110. Moynihan, op. cit., p. 425 *et seq.*
111. PDDE, 155, 320 *et seq.*; 13 March 1956.
112. PDDE, 157, 19–44; 8 May 1956.
113. *Administration,* 4, 2, pp. 13–40.
114. T. K. Whitaker, "The Finance Attitude" in *Administration*, 2, 3, p. 67.
115. *Administration*, 4, 2, pp. 39–40.
116. Viney, op. cit., *The Irish Times*, 2 May 1973.
117. See above, p. 11.
118. E 1/22. The other examinations in which Whitaker obtained first place were the Junior Executive Officer examination in 1935 (after which he was assigned to the Department of Education where he served as private secretary to the minister (Tom Derrig) from August to October 1937) and the Assistant Inspectors examination of the Revenue Commissioners where he was assigned in October 1937.
119. Author's interview with P. S. Ó Muireadaigh, 15 March 1972.
120. E 1/22 — cf. below, pp. 550–52.
121. Viney, loc. cit.
122. Author's interview with T. K. Whitaker, 28 October 1971.
123. Private information.
124. See above, pp. 392–93.
125. ibid.
126. Murphy, *Ireland in the Twentieth Century*, p. 142. The present writer would, however,

emphatically dispute the contention (loc. cit.) that Whitaker's "role became significant only after Fianna Fáil resumed office in 1957."

127. PDDE, 159, 1591–94; 25 July 1956.
128. ibid., 1605.
129. "The policy for production", Taoiseach's speech of 5 October 1956.
130. Sweetman's speech to a Fine Gael meeting at Mills Hall, Dublin, 16 October 1956.
131. F 200/13/56.
132. F 40/8/56; also T. K. Whitaker's note to the author, 6 March 1976.
133. Whitaker's minute of 15 December 1956, F 40/8/56.
134. *First Report of Capital Investment Advisory Committee* (Dublin: Stationery Office, 1957, Pr. 4041), paragraph 8.
135. ibid., paragraphs 10–15.
136. Government decision of 28 March 1957, F 40/8/56.
137. ibid., government decision of 23 April 1957.
138. *Administration*, 4, 3, pp. 89–92.
139. Whitaker's minute to the assistant secretaries, 17 May 1957, D 129/1/58.
140. See *Administration*, 4, 2, p. 17 and *Economic Development* (Dublin: Stationery Office, 1958, Pr. 4803), chapter 1, paragraph 8.
141. Finance memorandum for the government, 8 July 1957, F 39/11/57.
142. See above, pp. 386–91.
143. Author's interview with T. K. Whitaker, 28 October 1971.
144. Whitaker to Seán Murray, 20 September 1957, F 9/7/57.
145. ibid.
146. September 1957, F 9/2/58.
147. ibid.
148. *Second Report of Capital Investment Advisory Committee* (Dublin: Stationery Office, 1958, Pr. 4406).
149. F 40/8/56 and F 40/12/57.
150. Ryan to Kevin Boland, Minister for Defence, 5 December 1957, F 39/11/57.
151. ibid., Ryan to Seán Lemass, 17 December 1957. The ensuing correspondence between the two men revealed a difference of opinion about what was and what was not productive investment. MacEntee, on the other hand, expressed his "complete agreement" with Ryan's memorandum but feared that his own "endorsement of them will not help to secure their acceptance".
152. D 1/1/59.
153. S. 16066 A (Taoiseach's Department).
154. Viney, op. cit.
155. See paragraph 6 of Whitaker's minute of 12 December 1957.
156. Cremin to Whitaker, 1 January 1958, D 1/1/59.
157. Author's interview with C. H. Murray, 16 July 1975.
158. See Patrick Lynch and C. F. Carter, *Planning for Economic Development* (Dublin: Tuarim, 1959).
159. D 1/1/59.
160. Seán Murray's minute of discussions of 30 May 1958, F 9/2/58.
161. ibid.
162. Whitaker to Brian Durnin, 3 June 1958, D1/1/59.
163. Whitaker's minute of his meeting with Cope on 8 October 1958, D 1/1/59 — part II.
164. Whitaker's note of 24 July 1958, D 1/5/59 — part I.
165. D 1/5/59 — part II.
166. D 1/5/59 — part I.
167. *The Irish Press*, 29 October 1958.
168. S. L. Forde to T. K. Whitaker, 22 November 1958, D 1/3/59.

NOTES TO CHAPTER 12

1. F 200/43/40. I have been unable to establish when or where McElligott delivered this talk, but internal evidence suggests a date in the mid-thirties.
2. Departmental organisation chart for 1933, E 1/20/20, part 1.
3. E 1/22. This file contains the basic information on the structure and staffing of the Department.
4. ibid.
5. ibid.
6. Patrick Lynch, 'Administrative Theory and the Civil Service", in *Administration,* 4, 4, p. 111.
7. F 112/1/29.
8. F 85/1/41.
9. As note 1.
10. ibid.
11. Author's interview with P. S. Ó Muireadhaigh, 15 March 1972.
12. Boland's minute of 31 January 1927, E 1/22.
13. Author's interview with Leon Ó Broin, 25 February 1971.
14. As note 12.
15. Author's interviews with O J. Redmond, 21 January 1972 and Leon Ó Broin, 25 February 1971.
16. E 1/22.
17. *Brennan Report,* iii, p. 350.
18. Redmond's *curriculum vitae* — supplied by the staff section of the Department of Finance.
19. The passage is quoted on p. 175.
20. E 1/22.
21. See above, pp. 75–7.
22. ibid.
23. Note of 7 November 1935, E 1/22.
24. Author's interview with Sarsfield Hogan, 25 January 1972.
25. *Devlin Report,* 7. 5. 2.
26. Chubb, *Government and Politics of Ireland,* p. 236.
27. Gregg's memorandum — quoted on p. 76.
28. E 1/22.
29. ibid., 11 August 1927.
30. E 100/9/29.
31. 5 June 1929, PDDE, 30, 765.
32. 31 July 1930, E 100/17/30.
33. 18 April 1932, E 124/40/24.
34. 8 June 1932, E 100/8/31.
35. E 100/18/33.
36. 19 January 1933, NL MS 954, paragraphs 2009–2011.
37. Author's interview with Sarsfield Hogan, 24 March 1975.
38. March 1934, E 1/22.
39. ibid., 27 March 1934.

40. ibid., 25 October 1934.
41. ibid., 5 November 1934.
42. 8 April 1936, E 100/19/36.
43. 24 November 1932, NL MS 953, paragraph 16.
44. 3 May 1934, NL MS 958, paragraph 55.
45. Author's interview with J. J. McElligott, 24 February 1971.
46. Author's interview with A. W. Bayne, 29 March 1971.
47. 29 January 1936, E 1/16/28.
48. 28 April 1936, E 1/22.
49. ibid.
50. This section draws heavily upon a Department of Finance memorandum of 29 January 1968 entitled "Salary differentials in Department of Finance over general service grades: should they be maintained?" I am grateful to Séamus Ó Conaill, Secretary of the Department of the Public Service, for providing me with a copy of this memorandum.
51. E 1/22.
52. See E 1/13/59.
53. As note 50.
54. F 200/12/40.
55. E 1/22.
56. ibid., 29 November 1947.
57. ibid., 13 September 1948.
58. ibid., 8 May 1950.
59. ibid., minute of 2 June 1950.
60. ibid., 26 October 1948.
61. As note 58.
62. 12 April 1961, Department of Finance office notice, 2/61.
63. ibid.
64. *Devlin Report,* 20.2.15.
65. ibid., 20.3.8 and 20.4.1.
66. Department of the Public Service circular, 1/73.
67. Department of Finance office notice, 7/73.
68. PDDE, 97, 37-8.
69. PDDE, 110, 1060–1.
70. PDDE, 138, 1202 and 1213.
71. ibid., 1201.
72. PDDE, 249, 72.
73. PDDE, 290, 559–60.
74. Hilton Young, *System of National Finance,* (2nd ed.), p. 8.
75. *Administration,* 2, 3, pp. 61–8.
76. *Brennan Report,* i, paragraph 37.
77. ibid., pp. 148–9.
78. 24 November 1933, NL MS 954, paragraph 5484.
79. 3 November 1932, NL MS 953, paragraph 13.
80. 22 March 1934, NL MS 958, paragraph 37.
81. NL MS 954, paragraphs 2483–7.
82. Boland to Daniel Twomey (Secretary of the Department of Agriculture), 12 October 1934, E 109/1/35.
83. NL MS 956, paragraphs 5475 and 5484.
84. *Brennan Report,* i, paragraphs 40–41.
85. 9 February 1933, NL MS 954, paragraph 2723.
86. 15 April 1936, E 109/98/35.
87. Minutes to the Minister and Secretary, 18 January 1937, E 15/3.

88. See above, pp. 265–69.
89. Finance memorandum to the President's Department, 22 March 1937, S 84/22/37, part III.
90. ibid.
91. ibid., "Notes on the revised draft of the Constitution", 17 April 1937.
92. See above, pp. 35–36.
93. As note 89.
94. As note 91.
95. As note 89.
96. 14 May 1937, S 84/13/37.
97. 2 January 1937, F 100/3/34.
98. 10 September 1928, F 200/9/28.
99. ibid, 10 September 1928.
100. See above, p. 258.
101. F 200/9/28.
102. Minutes of meeting of heads of departments, 24 March 1930, E 109/15/48.
103. 29 March 1930, F 200/9/28.
104. Minutes of meeting of 22 May 1930, E 109/15/48.
105. Minutes of meeting of 12 September 1930, F 200/9/28.
106. ibid.
107. *Devlin Report,* 20.3.8.
108. T.K. Whitaker, "The Finance Attitude", in *Administration,* 2, 3, pp. 61–8.
109. ibid.
110. 20 August 1932, E 109/45/32.
111. Whitaker, op. cit., p. 64.
112. Executive Council decision of 6 September 1932, E 109/45/32.
113. E 109/25/34.
114. *Brennan Report,* ii, 2.
115. E 109/25/34.
116. Minutes of a meeting of heads of departments, 15 March 1935, E 109/37/35. The unattributed quotations which follow are taken from the same source.
117. ibid., 20 March 1935.
118. ibid., 22 March 1935.
119. E 109/41/39.
120. 15 July 1940, E 109/58/39 and 16 January 1942, E 109/41/39.
121. E 109/6/44.
122. ibid., minutes of a meeting of heads of departments on 18 February 1944. The unattributed quotations which follow are taken from the same source.
123. 30 March 1953, E 109/12/53.
124. ibid., 7 April 1953.
125. 23 November 1926, E 109/46/26.
126. ibid., 30 December 1926.
127. The other exception was the Office of the Revenue Commissioners and Boland pressed the same principle in correspondence with their Chairman, William O'Brien. This controversy was even more protracted as O'Brien took his stand on the special privileges he enjoyed as Chairman of the Revenue Commissioners (see above, p. 62). The matter was not resolved, and then only by way of a somewhat obscure compromise, until November 1940 — some years after O'Brien's retirement. See E 109/46/26, E 2/10/32, E 2/11/37 and E 2/13/39.
128. 21 January 1927, E 109/46/26.
129. ibid., 31 January 1927.
130. ibid., 5 March 1927.

131. Information given the author by Leon Ó Broin.
132. See above, pp. 78–80.
133. As note 130.
134. 6 January 1936, E 109/15/35.
135. 22 November 1948, E 130/1/47.
136. ibid., 30 December 1948.
137. ibid.
138. ibid., 6 January 1949.
139. ibid., 16 February 1949.
140. ibid., 17 February 1949.
141. See above, pp. 254–5.
142. 22 February 1949, E 130/1/47.
143. ibid., McGilligan's minute of 22 February 1949.
144. See D. Roche, "The Civil Servant and Public Relations" in *Administration,* 11, 2, pp. 95–108.
145. Whitaker, op. cit., p. 68.

NOTES TO EPILOGUE

1. Seán Lemass, "The Organisation behind the Economic Programme", in *Administration,* 9, 1, p. 5.
2. T. K. Whitaker, "The Civil Service and Development", in *Administration,* 9, 1, p. 83.
3. See the Taoiseach's statement in the Dáil on 17 December 1975, PDDE, 286, 1851.
4. Chubb, *Government and Politics of Ireland,* p. 242.
5. Murphy, *Ireland in the Twentieth Century,* p. 142.
6. Lyons, *Ireland since the Famine,* p. 618.
7. Garret FitzGerald, "Grey, White and Blue: a review of three recent economic publications" in Basil Chubb and Patrick Lynch (eds.), *Economic Development and Planning* (Dublin: Institute of Public Administration, 1969), p. 122
8. Chubb and Lynch, op. cit., p. 39; also Whitaker, loc. cit.
9. Chapter 1, paragraphs 2 and 10.
10. Pr. 7987.
11. Pr. 7239, chapter 1, paragraph 5.
12. T. K. Whitaker, "Merits and Problems of Planning" in Chubb and Lynch, op. cit., p. 266.
13. ibid., p. 272.
14. T. K. Whitaker, "Economic Planning in Ireland" in *Administration,* 14, 4, pp. 278 and 285.
15. *Devlin Report,* 9.1.7–8.
16. Chubb and Lynch, op. cit., p. 361.
17. *Devlin Report,* 1.1.1; see also 13.1.1.
18. T. K. Whitaker's note of discussion with the Devlin Group, 12 December 1968 (hereafter cited as Whitaker Note).
19. C. H. Murray's note of discussion with the Devlin Group, 31 January 1969 (hereafter cited as Murray Note).
20. ibid.
21. See, e.g., Chubb and Lynch, op. cit., pp. 361–2.
22. *Third Programme — Economic and Social Development, 1969–72* (Dublin: Stationery Office, 1969, Prl. 431), paragraphs 9–10.
23. PDDE, 282, 1969.
24. PDDE, 287, 661.
25. *Economic and Social Development, 1976–1980* (Dublin: Stationery Office, 1976, Prl. 5758), p. 5.
26. "Principal developments since 1960" — a memorandum prepared for the author in 1975 by the economic policy division of the Department of Finance and hereafter cited as *EPD memo.*
27. Whitaker, "From Protection to Free Trade", p. 108.
28. I am indebted to Dr Whitaker for having lent me his file of semi-official correspondence on the dismantling of protection from October 1959 to January 1960 from which this and other of the following quotations are taken (hereafter cited as *Whitaker File*).
29. ibid.
30. Moynihan, *Currency and Central Banking,* p. 438.
31. *Whitaker File.*

32. Meenan, *Irish Economy*, p. 298.
33. *Whitaker File.*
34. *EPD memo.*
35. Pr. 6106.
36. See White Paper on the GATT (November 1967, Pr. 9694).
37. *The accession of Ireland to the European Communities* (Dublin: Stationery Office, 1972, Pr. 2064).
38. *EPD memo.*
39. Whitaker, "From Protection to Free Trade", p. 114.
40. Author's interview with C. H. Murray, 3 June 1976.
41. This section closely follows a memorandum on the major developments after 1960 prepared for the author by the finance division in March 1976.
42. Interim report, 11 November 1968, paragraph 3.
43. See, e.g., Allen Schick, *Budget Innovation in the States* (Washington D.C.: The Brookings Institution, 1971) and David Novick (ed.), *Current Practice in Program Budgeting (PPBS)* (New York: Crane, Russak, 1973).
44. Interim report, paragraph 7.
45. Whitaker Note and Murray Note.
46. Note prepared for the author by T. F. Ó Cofaigh, June 1977.
47. Department of Finance progress report on the development of programme budgeting, March 1972, 9.1.
48. Note prepared for the author by Séamus Ó Conaill, 26 May 1976.
49. "Facets of personnel work, 1960–73", note prepared for the author in 1975 by the Department of the Public Service.
50. *Devlin Report*, 8.3.15.
51. Whitaker Note.
52. Murray Note.
53. Séamus Ó Conaill's note of discussion with the Devlin Group, 14 February 1969 (hereafter cited as Ó Conaill Note).
54. As note 49.
55. ibid.
56. Ó Conaill Note.
57. Chubb and Lynch, op. cit., pp. 357–59.
58. Ó Conaill Note.
59. Murray Note.
60. Whitaker Note.
61. *Devlin Report*, 12.7.5–6.
62. ibid., 12.6.1.
63. Joseph Brennan, "The Civil Service: its character and scope" in King, op. cit., i., p. 6.

Appendix One

Ministers for Finance 1919–77

	Name	*Period of office*
1st Dáil:		
	Eoin Mac Néill	22.1.19 – 1.4.19
	Michael Collins	2.4.19 – 26.8.21
2nd Dáil:		
Dáil Ministry	Michael Collins	26.8.21 – 9.1.22
Dáil Ministry	Michael Collins	10.1.22 – 22.8.22
Provisional Government:	Michael Collins	18.1.22 – 22.8.22
Provisional Government:	William T. Cosgrave	26.8.22 – 9.9.22
Dáil Ministry:	William T. Cosgrave	26.8.22 – 9.9.22
3rd Dáil:		
Provisional Government:	William T. Cosgrave	9.9.22 – 5.12.22
1st Executive Council:	William T. Cosgrave	6.12.22 – 21.9.23
4th Dáil:		
2nd Executive Council:	Ernest Blythe	21.9.23 – 23.6.27
5th Dáil:		
3rd Executive Council:	Ernest Blythe	23.6.27 – 12.10.27
6th Dáil:		
4th Executive Council:	Ernest Blythe	12.10.27 – 3.4.30
5th Executive Council:	Ernest Blythe	3.4.30 – 9.3.32
7th Dáil:		
6th Executive Council:	Seán MacEntee	9.3.32 – 8.2.33
8th Dáil:		
7th Executive Council:	Seán MacEntee	8.2.33 – 21.7.37

9th Dáil:		
8th Executive Council & 1st Government:	Seán MacEntee	21.7.37 – 30.6.38
10th Dáil:		
2nd Government:	Seán MacEntee	30.6.38 – 16.9.39
	Seán T. Ó Ceallaigh	16.9.39 – 2.7.43
11th Dáil:		
3rd Government:	Seán T. Ó Ceallaigh	2.7.43 – 9.6.44
12th Dáil:		
4th Government:	Seán T. Ó Ceallaigh	9.6.44 – 14.6.45
	Frank Aiken	19.6.45 – 18.2.48
13th Dáil:		
5th Government	Patrick McGilligan	18.2.48 – 14.6.51
14th Dáil:		
6th Government:	Seán MacEntee	14.6.51 – 2.6.54
15th Dáil:		
7th Government:	Gerard Sweetman	2.6.54 – 20.3.57
16th Dáil:		
8th Government:	James Ryan	20.3.57 – 24.6.59
9th Government:	James Ryan	24.6.59 – 12.10.61
17th Dáil:		
10th Government:	James Ryan	12.10.61 – 21.4.65
18th Dáil:		
11th Government:	John Lynch	21.4.65 – 16.11.66
12th Government:	Charles J. Haughey	16.11.66 – 2.7.69
19th Dáil:		
13th Government:	Charles J. Haughey	2.7.69 – 6.5.70
	George Colley	9.5.70 – 14.3.73
20th Dáil:		
14th Government:	Richie Ryan	14.3.73 – 5.7.77
21st Dáil		
15th Government:	George Colley	5.7.77 —

Appendix Two

Secretaries of the Department of Finance 1922–77

Name	*Period of Office*
William O'Brien	Feb. 22 – 21.2.23
Joseph Brennan	22.2.23 – 20.9.27
James J. McElligott	21.9.27 – 31.3.53
Owen Joseph Redmond	1.4.53 – 29.5.56
Thomas Kenneth Whitaker	30.5.56 – 28.2.69
Charles Henry Murray	1.3.69 – 29.2.76
M. N. Ó Murchú	1.3.76 – 17.10.77
Tomás F. Ó Cofaigh	18.10.77 –

Appendix Three

Allocation of British Government Services to the Department of Finance as laid down in the Provisional Government's notice of 19 January 1922.

Commissioners of Charitable Donations and Bequests[1]
Office of Deputy Paymaster-General for Ireland and Treasury Assistant Secretary[2]
Teachers Pension Office[2]
Office of the Treasury Solicitor[2]
Commissioner of Valuation and Boundary Survey[2]
Board of Public Works[2]
Office of the Collector of Customs and Excise[3]
Office of the Registrar of Friendly Societies[3]
National Health Insurance Commission (Ireland)[3]
National Insurance Audit Department[3]
Office of the Regional Director, Ministry of Pensions (Ireland)[3]
Quit Rent Office[3]
Office of the Public Trustees[1]

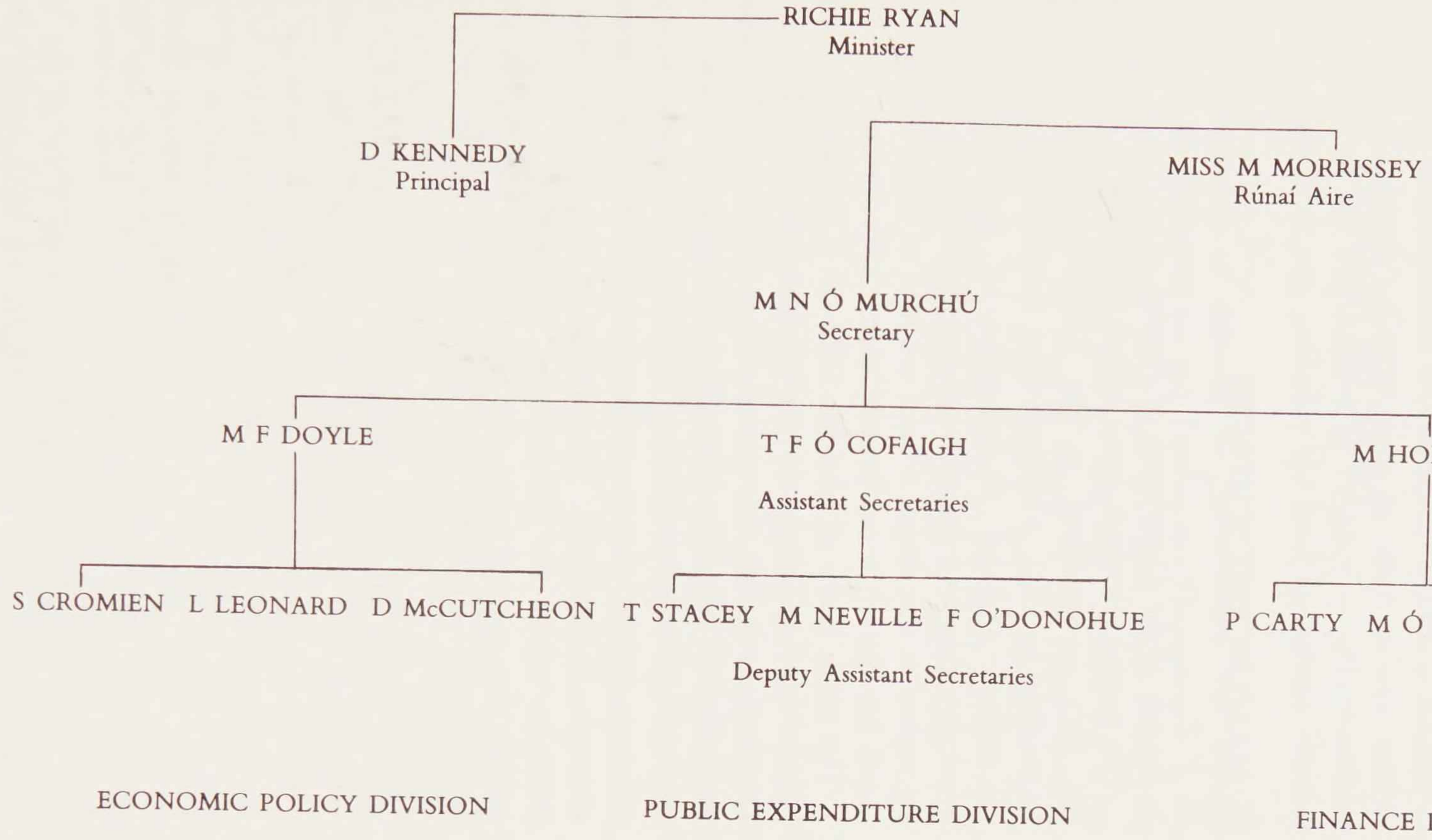
Functions assigned to the Ministry of Finance under the British Provisional Government (Transfer of Functions) Order, 1 April 1922

The Treasury[2]
The Commissioners of Inland Revenue and Special Commissioners of Income Tax[3]
The Commissioners of Customs and Excise[3]
The Commissioners of Public Works in Ireland[2]
The Irish Insurance Commissioners and National Insurance Audit Department[3]
The Commissioner of Valuation and Boundary Surveyor for Ireland[2]
The Registrar of Friendly Societies[3]
The Registrar of Business Names[3]
The Registrar of Jointstock Companies[3]
The Commissioners of Charitable Donations and Bequests for Ireland[1]
The Paymaster-General and Deputy Paymaster for Ireland[2]
The Treasury Solicitor for Ireland[2]
The Superintendent of the Teachers Pension Office[2]
The Civil Service Commission[3]
The Stationery Office[3]

[1] — formerly a department of the "Irish government"
[2] — formerly a Treasury department
[3] — formerly a branch of a United Kingdom department functioning in Ireland

Appendix Four

ORGANISATION OF THE DEPARTMENT OF FINANCE
PRIOR TO THE 1977 CHANGE OF GOVERNMENT



Note on Sources

A. MANUSCRIPT SOURCES

1. *Records of the Department of Finance*

The primary sources upon which this book is principally based are the files accumulated in the Department of Finance since its foundation in 1922. Although these records have not been the subject of formal archival examination or arrangement and nothing approximating to a definitive description of them can consequently be attempted at this stage, a brief account of those files upon which this work has drawn most heavily seems appropriate.

The main body of files for 1922–58 is divided into three separate groups corresponding to the tripartite divisional structure of the Department during this period. Thus the files of the finance division are called "F" files; the files of the establishment division "E" files; the files of the supply division "S" files. The great majority of file references cited also comprise three different sets of numbers: for example, E 100/18/33. The first set of numbers indicates the general series to which the file belongs; the second is a specific reference within that general series; the third reveals the year in which the file was opened — files for 1922 and 1923 lack this last reference. Thus E 100/18/33 is an establishment division file opened in 1933 on the subject of the entrance examination for junior administrative officers which was held the following year — "100" is the general series for civil service examinations. Again, "121" is the series for commissions and committees of inquiry and E 121/2/27 is an establishment division file on the setting-up of the Economy Committee of 1927.

The "E/S" series of files to which occasional references occur contains the personal files of the Department's officials: thus E/S 109 is Joseph Brennan's personal file.

A few references to "D" files — the files of the development division set up when the Department was reorganised in 1961 — also occur in the notes to chapter eleven.

2. *Records of the Department of the Taoiseach*

When this project began, the Department of the Taoiseach kindly prepared a brief list of their files which related specifically to the Department of Finance and these files were subsequently made available. Access was also requested and obtained to a small number of other files in the Taoiseach's Department in cases where lacunae occurred in the files of the Department of Finance — policy-making during the Economic War was probably the most important instance of this kind.

The forty-one volumes of minutes of government and cabinet meetings for 1922–44 deposited by the Taoiseach's Department in the State Paper Office on 4 February 1976 were also used, even though the first draft of the relevant chapters had by then been completed. It has not been possible, however, to consult many of the corresponding government secretariat ("S") files which have gradually been transferred from the Taoiseach's Department to the State Paper Office since then and, even now, that transfer process is incomplete.

3. *British public records*

Certain Treasury and Colonial Office records in the Public Record Office in London were indispensable sources for the opening chapters and for the chapters on Anglo-Irish financial relations. British cabinet papers were also consulted, particularly in relation to the chapter on the Economic War.

4. *Private manuscript collections*

The Archives Department of University College Dublin, under the directorship of Professor R. Dudley Edwards, has been notably successful in recent years in acquiring some of the major collections of private papers relating to the history of Irish government since independence. The following are the collections used in this work for which grateful acknowledgement is here made: papers of Ernest Blythe, Minister for Finance, 1923–32; papers of Hugh Kennedy, Law Officer of the Provisional Government and Attorney General, 1922–24; papers of Patrick McGilligan, Minister for Finance, 1948–51; papers of General Richard Mulcahy, Minister for Defence, 1922–24.

A similar acknowledgement is due to Mr Seán MacBride, Minister for External Affairs, 1948–51, for kindly permitting the use of papers in his possession.

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