

**Government-Business Relations in the
Services Sector of Independent
Ireland, 1922-1958**

Trinity College Dublin, the University of Dublin

2024 PhD

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Declaration

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Dedicated to: Una, Valerie, Sarah, Michelle, Tony. Fondly remembered Hilary, Michael, Florence, Sean, Dolly, Brendan and Barry.

Summary

This thesis consists of three distinct yet interlinked investigations on the theme government-business relations in the services (or tertiary) part of the Irish economy, 1922 to 1958. All papers focus on episodes of intense government-business relations and relate to sectors providing services with economic criticality. The work is situated in the Business History field, using archival sources and documents. Economic historians in Ireland have for a long time highlighted a lack of scholarly attention on the services sector in the early decades of Irish independence. While a protectionist paradigm governed the manufacturing sector, this work explores submerged paradigms governing the tertiary sector. Using archival sources and grey literature, the papers investigate critical junctures in insurance, railways and banking in the initial decades of Irish independence. All three sectors were substantial parts of the pre-independence economy, but the governments of the fledgling state sought to reconfigure all three using a host of approaches, including legislation and moral suasion. This attempted reconfiguration and break from path dependency was often done for the purposes of economic and social development and met with a variety of responses from capitalistic interests.

The first research chapter concerns a radical restructuring of the insurance industry in the 1930s and finds that attempts to create a native insurance industry were frustrated by the comparative advantage associated with the sector, while a domestic insurance constituency took advantage of the protectionist policy direction. The second paper concerns the parlous position of the railway industry in the 1930s and attempts to counter shareholder primacy, a powerful phenomenon dating back to the 19th century, via a radical writing-down of rail securities, which amounted to over 6% of Ireland's GNP. This concludes that institutional advantages retained by investment capital, generated during an earlier era, were to limit attempts at restructuring. The final research paper looks at Irish banking as a source of government capital in the 1950s and explores how incompatible objectives between government and banks were bridged in the 1950s by utilising a mediating institution, the Irish Central Bank. Finally, a concluding chapter is included reflecting more widely on the cases and drawing out preliminary commonalities about how government and business related in the Irish services segment. This finds that theories suggesting business has 'structural power' over states maintains relevance. This leads to the conclusion that states which want to transform services domains may have to 'pay' or offer concessions for such transformations.

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LIST OF ABBREVIATIONS, ACRONYMS AND INITIALISMS

| | |
|-------|--|
| ACC | Agricultural Credit Corporation |
| AIB | Allied Irish Banks |
| CIC | Capital Issues Committee |
| CIÉ | Córas Iompair Éireann |
| ESB | Electricity Supply Board |
| GSR | Great Southern Railways Co. |
| GS&WR | Great Southern and Western Railway Co. |
| IBSC | Irish Banks' Standing Committee |
| ICC | Industrial Credit Corporation |
| IOC | Irish Omnibus Company |
| ISI | Import Substitution Industrialisation |
| LOLR | Lender of Last Resort |
| NACE | Nomenclature statistique des Activités économiques dans la Communauté Européenne |
| NAI | National Archives of Ireland |
| OECD | Organisation for Economic Co-operation and Development |
| ROC | Return On Capital |
| TD | Teachta Dála/Member of Parliament |
| TDR | Treasury Deposit Receipt |
| UCD | University College Dublin |

List of Place Names/Entities

| | |
|----------------------------|---|
| Dáil Éireann | Parliament (lower chamber) of the Republic of Ireland |
| Dublin | Capital of Ireland. |
| Éire | Irish Term for Ireland |
| Eurozone | Currency union. Ireland is a member, United Kingdom is not. |
| Great Britain | England, Scotland and Wales |
| Irish Free State | This is what Ireland was referred to from 1922 to 1937 until a new constitution was passed, sometimes shortened to Free State. |
| Northern Ireland | Official name of the collective of Derry, Armagh, Antrim, Fermanagh, Down and Tyrone, situated in the northeast of the island of Ireland. |
| Republic of Ireland | Legal term for the country of Ireland today, arising from 1948 legislation. |
| Saorstát Éireann | Irish name for Irish Free State which existed until 1937. |
| Seanad Éireann | Second chamber (or upper house) of the Irish parliament. |
| Ulster | One of the four provinces on the Island of Ireland, forms part of Northern Ireland |
| United Kingdom | England, Scotland, Wales and Northern Ireland |

Definition of Important Terms

Government-Business Relations:

This work accepts fully the distinction between ‘government’ and ‘state’, the latter usually referring to permanent institutions such as the army, justice system and administrative/bureaucratic departments, while the former typically means a temporary group of political leaders that make up a particular political administration. This study chiefly concerns governments, but regularly the state will also be invoked where a clear distinction is either not possible, or not relevant, or where a more broad-based claim is being made. Business equally refers to multiple actors, including firms and their managers, investors/shareholders, and general capitalistic interests. Where possible the distinction will be made clear.

Services (or Tertiary) Sector:

There is no internationally agreed definition for what the services sector is. The OECD concentrates on what they are not, suggesting services are a diverse group of economic activities not directly associated with the manufacture of goods, mining or agriculture.¹ There is also no agreement on what activities make up the services sector, although statistical agencies such as Eurostat of the European Union, use systems like the statistical classification of economic activities in the European Community (or NACE) to categorise economic activities as ‘services’. The UN defines services as the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets.²

For most international statistical agencies and supranational bodies the following activities are categorised as service activities: wholesale and retail trade (including hotels and restaurants), transport, government, financial, professional, and personal services such as education, healthcare and real estate.³ For the purposes of this research the definition used is a set of heterogeneous economic activities where the principal output is for the most part an intangible product.⁴

¹ The OECD has issued a number of documents on the international services economy, this definition is taken from their 1999 guide, available here: <https://www.oecd.org/sti/ind/2090561.pdf>.

² John Murphy, “Intermediaries in the Provision of Services and Classification in ISIC,” United Nations Dept of Economic and Social Affairs, Statistics Division (2017).

³ List taken from the World Bank’s official data bank glossary at the time of writing.

⁴ Ronald Shelp, *Beyond Industrialisation- Ascendancy of the Global Services Economy* (New York: Praeger Publishers, 1981), 11

Central Bank Rediscounting:

This involves commercial banks exchanging short term government issued paper (exchequer bills, treasury bills) for advances from a central bank. The government issued paper is accepted as an eligible asset in exchange for funds, which are discounted against the face value of the IOU. The Central Bank usually loans the funds as part of its lender of last resort (LOLR) functions, and in Ireland the General Fund was utilised for such purposes during the period.⁵

⁵ Lender of last resort is a term with multiple meanings to multiple sources. The meaning in this work is that used by the European Central Bank (ECB), meaning a facility banks typically turn to ‘when they cannot get the funding they need for their daily business’.

CHAPTER ONE – INTRODUCTION

1.1 Context of the Research

*“In Ireland as in Britain, public policy has long suffered from a kind of commodity fetishism, alternating its emphasis between agriculture and manufacturing industry as engines of economic growth. The tertiary sector has been the Cinderella of both policy makers and historians”*⁶

This thesis consists of three inter-related papers on the theme of business-government relations in the services sector of independent Ireland (1922 to 1958). The objective across the three papers is to discover the dynamics at play when business and government seek to shape the evolution of this economically vital but neglected segment of the economy. The research, anchored firmly in the discipline of business history, seeks to correct or re-balance the traditional emphasis in Irish economic and general history on manufacturing industry. While this emphasis is marked in Irish historiography, as per the quotation above from one of Ireland’s most prominent economic historians, it can also be identified in historical enquiry in other geographies.⁷

Due to its breadth and span, with activities stretching from retailing to transportation, it is challenging, maybe impossible, to investigate business-government relations simply across a crude non-manufacturing canvass. Services not only possess heterogeneity, but also scale- for example the majority of those working in the modern Irish economy (and most Western economies) work in a services roles.⁸ Many canonical texts on business-government relations have traditionally anchored themselves around manufacturing or industry.⁹ Some of this is a function of periodisation choices, inevitably earlier periods were dominated by manufacturing or agriculture, but it would appear to also result from the diffuse nature of services activities, which can create a definitional challenge that may be dissuasive for researchers and economic historians.¹⁰ Even works on business and government that proceed on a more aggregate level avoid specific treatments of services as

⁶ Cormac Ó’Gráda, *A Rocky Road –The Irish Economy Since the 1920s* (Manchester: Manchester University Press, 1997), 171.

⁷ Studies on the political economy of services are rare, but those who have studied this specific subject assert that the area is not ‘well understood’ and how services are perceived is based on misconceptions and inaccuracies. Such views are found in Shelp, *Beyond Industrialisation*, 8.

⁸ World Bank Country Data Bank (Ireland) suggests 77% of workers are employed in services roles (2019). Available at: <https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=IE> Figures more recently, during the Covid pandemic, are less likely to be reliable due to mass lay-offs in services categories.

⁹ See William H Becker, *The Dynamics of Business-Government Relations Industry and Exports, 1893-1921* (Chicago: Chicago University Press, 1981); William G Roy, *The Rise of the Large Industrial Corporation in America* (Princeton: Princeton University Press, 1999).

¹⁰ Shelp, *Beyond Industrialisation*, 2-9, treats the reasons why researchers and others are likely to avoid investigating services sectors.

bundles of economic activity.¹¹ In Ireland economic and general history has chronicled the development of Irish business sectors periodically, but the looming presence of manufacturing protectionism, introduced by Fianna Fáil in the 1930s, has consumed much of the research output, meaning that historically-based research on government and business in Ireland has often been interchangeable with historically-based research on manufacturing and import substitution industrialisation (ISI). The papers here are aimed at investigating the government role in a different part of the economy, large service categories, but using a case study approach that utilises process tracing. This work aims to make an empirical research contribution and test theories in a historical context, about business and government relations and the influence of political environment in the services (or tertiary) sector of independent Ireland. I also hope the research is of value to those practitioners working in government or public affairs, with an interest in how governments and private industry relate and how these relations shape industries.

1.2 Research Question

The research is conducted by examining three critical juncture episodes- using a purposeful sampling approach- which seeks to illuminate the research question: *How did government-business relations shape the evolution of key services sectors of independent Ireland, between 1922 and 1958?* The three papers examine three significant episodes, what business and management historians call moments of ‘eventfulness’, in an attempt to answer this question. The episodes are:

- **Chapter 4: The restructuring and part nationalisation of the life insurance industry in the 1930s.**
- **Chapter 5: The restructuring of the Irish rail transport sector in the 1930s and 1940s, including the writing down of rail capital (shares and debentures).**
- **Chapter 6: Government loan accommodation from the Irish banking sector in the 1950s and the tripartite agreement on Central Bank liquidity reached in 1955/56.**

While there is a temptation to perceive these papers as dealing with ‘government intervention’ (or for those more ideologically minded, as episodes of government ‘interference’ in the market mechanism) intervention is arguably not a particularly useful term here, as the research seeks to look at the role of *both* government and business, where neither is passive or simply a recipient of interventionist action. It is peculiar that researchers often talk only about government intervention,

¹¹ David Coen, Wyn Grant and Graham Wilson, Eds, *The Oxford Handbook of Business and Government* (Oxford: Oxford University Press, 2010), contains no specific treatment of services industries collectively and does not include the area in its index.

but not business intervention. Here the research concedes agency to both parties in the *relations* in question, accepting that the actions of both sides have a shaping role in the final outcome, it is only in highly command-style economies this does not happen. An important part of the research has been not to just study government archival material, but to utilise triangulation and give weight to the archival material produced by insurance companies, the rail company (GSR) and banks, where available and relevant, as per the research traditions of business history. Some of these archival sources (Prudential Insurance records in Ireland, Irish Central Bank board proceedings) have not been used before by researchers.¹²

There is an reasonable 20th century corpus of research on how governments and business engage, but these are mostly related to geographies beyond Ireland and were given fresh impetus by the events of the Global Financial Crisis (GFC) of the early 21st century. Academic discussions in this area are somewhat bifurcated, with disputes over what the most useful explanatory frameworks are to explain business-government relations and who holds ultimately power in such relationships. Frameworks drawn from political theory tend to either cite structural factors that favour business (control of capital for instance), or instrumental factors, such as lobbying, business donations to political parties to substantiate their knowledge claims. Since the GFC there have been calls for this bifurcation to give way to more subtle and nuanced approaches that talk about business power, but in a flexible way, not just business power ‘over’ government, but also ‘power with’, a reference to mutual or reciprocal dependency-type relationships.¹³ Structural power, as first identified by theorist Charles Lindblom, has been refashioned in more recent decades and is now variable, not constant, dependent on context.¹⁴ It is better seen as a ‘signalling device’ rather than something that dictates government policy and business is not viewed as monolithic.¹⁵ Whether such conditionality applies to business in Ireland is hard to say, as the empirical work has either not been done at all or not in sufficient volume. Business historians are tasked to explore these variants of business power, but in Ireland, in terms of detailed archivally-based historical research, the journey would only be at an early stage. Theories from outside political science that seek to explain how business and government relate are helpful to the work which follows. For example, concepts from public choice theory, such as rent seeking and regulatory capture, will be examined throughout, but much of the theoretical framing will be drawn from political science, as the thesis particularly concerns business and government, not general economic behaviour or agents. It also seeks to ask how relations between government and business shaped specific services industries at times of policy

¹² Some of this access was fortuitous timing. The Irish Central Bank opened up its archive to the public in 2017, while the Sean Lemass ‘tapes’ were made public in 2018, both during the work on this thesis. The researcher has not seen the Prudential archives utilised before in academic research in Ireland.

¹³ Neil Rollings, “The Vast and Unsolved Enigma of Power: Business History and Business Power,” *Enterprise & Society*, Vol 22, no 4 (2021), 893–920.

¹⁴ Rollings, “Business History and Business Power”.

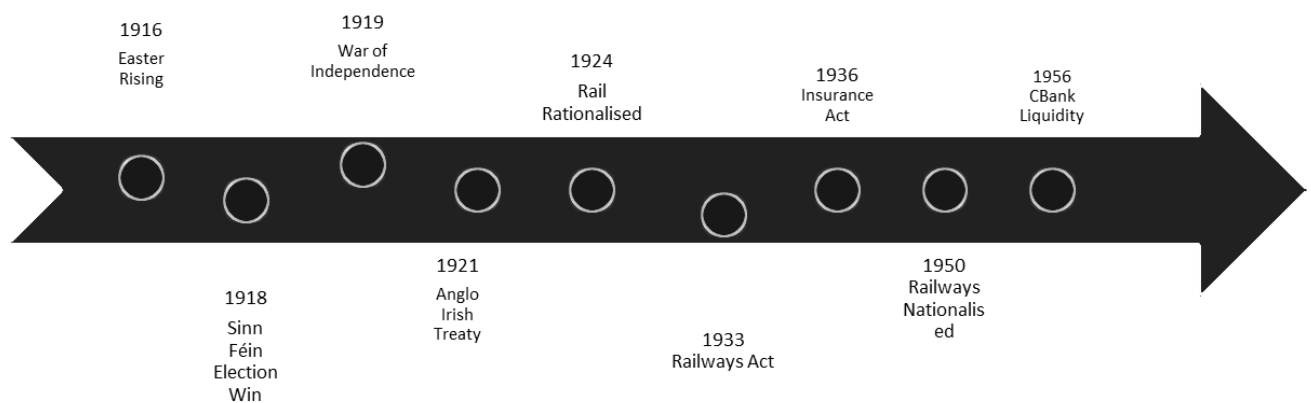
¹⁵ Rollings, “Business History and Business Power”.

disequilibrium. This shaping was often the result of either side pursuing their objectives, with the shaping decided by whether they were successful or not.¹⁶

1.3 Brief Historic and Geo-Political Context of Research

Ireland gained partial, but substantial, independence in 1921 from the United Kingdom via the Anglo-Irish Treaty and secured a strong level of control over economic decision making. In 1925 this was enhanced when it secured a significant debt relief deal from the British government. However, it had been a traumatic and often bloody few decades and Irish income per capita lagged its closest neighbours significantly.

Figure 1.4 Historical & Business Developments Timeline

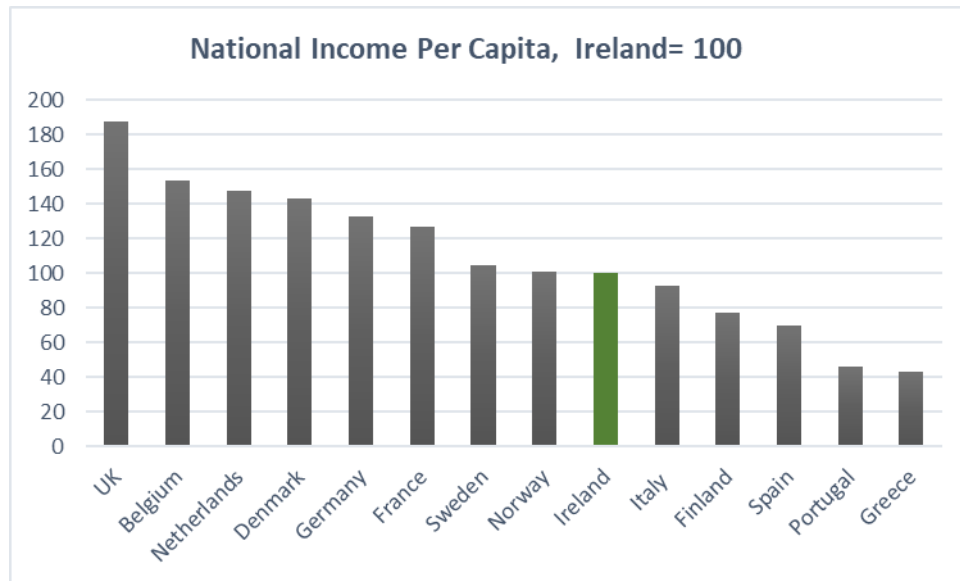


The early governments of the Irish Free State appear to have had little ideological or policy interest in the non-manufacturing segment of the economy, at least in terms of this segment producing employment, exports or opportunities for capital deepening. While there was involvement in individual sectors such as banking, insurance and transport, at an overall national policy level the services sector was not viewed as meriting any form of special unitary focus.

¹⁶ A number of fields have contributed theoretical constructs which aspire to explain how business and government relate. The public choice school is generally perceived as a sub-field shaped by the broader field of economics, with its main practitioners such as James Buchanan, trained as economists. There are a wide range of fields that seek to explain at least some part of business-government relations, including law, business management and business history itself. This work will touch on much of these but devotes most of its focus on political science and economic theories, as these are the most well-established explanatory frameworks in terms of academic debate and pay particular attention to both parties, allowing them significant agency. In addition, they recognise the position of power in the relevant relationships, whereas this is submerged in theories that purely concern self-regulating markets. See an account of theoretical relevance for the study of business-government relations in David Coen, Wyn Grant and Graham Wilson, "Overview," in *Oxford Handbook of Business and Government*, edited by same (Oxford: Oxford University Press, 2010),1-5.

This was surprising in the sense that Ireland, pre-independence, was a significantly poorer country than its near neighbours (although wealthier than Iberia and Greece) and catch-up economic growth, or convergence, was a political objective in the early decades of independence, especially after the traumatic emigration patterns of the 19th century. Industrialisation and more productive forms of agriculture were however seen as the more direct routes for achieving this, rarely services.

Figure 1.5 Ireland Economic Performance (Income Per Capita v European Comparators - 1913)



Source: Cormac O’Grada, “The Irish economy during the century after partition,” *The Economic History Review* Vol 75, Issue 2 (2002), 339.

The period spanning 1923 to 1958 is illustrative of such disinterest. The Fiscal Inquiry Committee of 1923 was specifically established to look at the development of Irish industry and agriculture only, and the main banks declined to participate.

Equally at the tail end of the protectionist era in 1958 when the influential *Programme for Economic Expansion* was written by civil servant T.K. Whitaker the only sectors featured were agriculture, fisheries, forestry, and industry.¹⁷ This was surprising in the sense that services segments had either significant employment footprints, in the case of rail, or financial depth/capital intensity in the case of financial services. A brief overview of balance sheet assets and employment numbers illustrates some of this:

Table 1.6: Selected Assets of Services Companies, As of 1929¹⁸

¹⁷ The section on ‘industry’ had a page on tourism.

¹⁸ National Bank- *Irish Independent*, Feb 1st 1929, “A Satisfactory Record of a Year’s Work”. (This bank also had a British branch network); Bank of Ireland- *Cork Examiner*, Jan 19th, 1929, “Bank of Ireland”;

| Company | Total Assets IR£ |
|-----------------------------|------------------|
| National Bank | 42.8m |
| Bank of Ireland | 42.3m |
| Great Southern Railways Co. | 29.8m |
| Provincial Bank | 17m |
| Hibernian Bank | 13m |

To give an indicative sense of scale, the fledgling new state has a national debt of IR£24m as of March 1929, annual expenditure of IR£25m, and total tax and non-tax revenue of IR£24.1m.¹⁹

Table 1.7: Selected Employment Numbers of Services Employers (1920s/1930s)²⁰

| Company | Employment Number | Time Period |
|---|-------------------|-------------|
| Great Southern Railways Co. | 14,102 | 1929(a) |
| London Midland & Scottish Railway Ltd (LMS) | 523 | 1929(b) |
| Prudential Insurance | 467 | 1932(c) |
| British and Irish Steam Packet Co (B&I) | 404 | 1929(d) |
| Bank of Ireland | 400 | 1927(e) |

a-Return of Railway Companies, March 1929. Employment includes younger 'junior' staff

b-LMS operated cross-channel shipping to the UK, figures published in *Irish Industry Journal*, Jan 1933.

c- *Irish Examiner*, Aug 4, 1932. Data provided by General Manager of Prudential.

d- *Irish Industry Journal*, Jan 1933

e- Source: *Journal of the Institute of Bankers*, April edition, 1927. P, 79.

Great Southern Railways- Great Southern Railways Co, Report of the Directors 1929; Provincial Bank- *Irish Independent*, Jan 5th 1929, "Provincial Bank of Ireland"; Hibernian Bank- *Irish Times*, July 18th, 1929, "The Hibernian Bank Limited."

¹⁹ J.C.M. Eason, "Analysis Showing the Objects of Expenditure and the Sources of Revenue During the Financial Years, 1924-1925 and 1929/1930," (Paper read at the Statistical and Social Inquiry Society of Ireland, Nov 1930). Available at:

http://www.tara.tcd.ie/bitstream/handle/2262/4465/JssisiVolXV1_13.pdf?sequence=1

²⁰ Employment numbers for services companies are not recorded in any central repository and the examples above were collected by the researcher. The Bank of Ireland employment total is likely to be an underestimate as other sources (banking staff union) put the number of staff nearer 500. The shipping numbers concern staff employed directly on company fleets, so adding head office staff are likely to bring these numbers up further. Great Southern was comfortably Ireland's largest employer. For comparison purposes Guinness employed 3,210 in 1929

This apparent policy disengagement should not be confused with hostility or animus toward the tertiary segment of the economy. It was more a reflection that services were viewed during this era as intermediate activities, playing their part in wider production processes. For example, banking appeared briefly in both the Fiscal Inquiry Reports and Whitaker's Programme, but purely as an industry inputting its capital into wider agricultural and industrial production. The employment potential of services in their own right was not identified or addressed by policy makers at either point. Most crucially, the landmark piece of legislation of the protectionist era, the Control of Manufactures Act 1932 (later updated two years later) ignored the services industries. The various services sectors, as they were constituted in the first two decades of independence, also lacked day-to-day political urgency, in the sense that spending on these areas was far smaller than that expended on life's basic necessities. For example, no services made it into the top 10 expenditure categories as assembled by economists for the year 1926, with fees paid to professions such as doctors, lawyers and chemists and entertainment/sports reasonably minor categories of spending at this point.²¹

Leaving aside policy disinterest at this aggregate level, such was the economic criticality of certain services categories that Irish governments of the period were drawn into policy decisions sporadically. This was a function of government-business relations, where certain sectors have political salience beyond their pure economic contribution, sometimes called 'noisy politics'.²² In contrast other times issues are of little interest to most voters, creating ideal terrain for interest groups.²³ In the early years of the Irish Free State while the services sector was rarely seen as a bundled together set of economic activities by policy makers or government politicians, opposition politicians sometimes took a contrasting view. For example, the Labour Party proposed a private members Bill in 1923 that would have established a government department with responsibility for a wide sweep of services activities, including all transport forms (road, rail and canals) and all communications forms (including post and aerial communication), effectively merging two existing departments. The most contentious element of these proposals was the nationalisation of the rail system, with Labour proposing a tribunal to ascertain the value of the existing owner's rail shares.²⁴

1.8 Sectoral Background

²¹ T. J. Kiernan, *National Expenditure of the Irish Free State 1926* (Paper delivered to the Statistical and Social Inquiry Society of Ireland, June 22 1933). Available at: http://www.tara.tcd.ie/bitstream/handle/2262/4720/jssisiVolXV91_103.pdf?sequence=1&isAllowed=y

²² Pepper Culpepper, *Quiet Politics and Business Power: Corporate Control in Europe and Japan*. Cambridge Studies in Comparative Politics (Cambridge: Cambridge University Press, 2010), 5. Culpepper talks about low visibility issues and also the role of the media in showcasing particular issues or sectors.

²³ Culpepper, *Quiet Politics*, 5.

²⁴ These proposals were tabled by the Leader of the Labour Party, Thomas Johnson as the Transport and Communications Bill 1923. The debates around the Bill are contained in Daíl Éireann proceedings, Nov 23, 1923, Vol. 5 No. 16.

1.8.1 Rail Transport Background

While this Labour Party bill was easily defeated, the issue of railways and their economic importance to the fledgling new state could not be so easily neutralised and in 1924 a significant legislative effort was made to address the railway sector's maladies- falling traffic, road competition and fractious industrial relations. This legislation, taken through Daíl Éireann by the President of the Executive Council, W.T. Cosgrave, was a significant public policy intervention, described by one political scientist as an explicit attempt to co-ordinate infrastructural development in the national interest.²⁵

While Cosgrave rejected nationalisation, his answer to the railways financial woes was economy and consolidation. Eventually all the large southern rail firms were merged into the one company, Great Southern Railways (GSR), but the consolidation effort failed to 'save' the railways and the issue re-appeared in the 1930s to confront then Minister for Industry and Commerce, Sean Lemass.

Lemass also eschewed nationalisation but executed policy change of a more radical type than that tried by Cosgrave. His dual approach was to reduce the burden of capital on the GSR by writing down the face value of rail shares and debentures, a move greatly resented by Irish rail shareholder groups, and to permit rail/tramway companies to compulsorily acquire road competitors, subject to the Minister's discretion. While the writing down of rail capital was highly novel, both in Ireland or Europe and drew an angry reaction from London money markets, the approach ultimately failed to stabilise the railways financially and the GSR was eventually replaced by Córas Iompair Éireann (CIÉ) in 1944, initially as a public-private statutory authority with a board consisting of shareholder-directors and a chairperson nominated by the Government. This structure was also found to be unsatisfactory, and the company was taken into full public ownership in the 1950 Transport Act, a settlement that pertains to this day in relation to Ireland's rail network.

1.8.2 Insurance Background

If railways were the subject of highly elongated attention, other service industries were subject to more fleeting policy focus. Insurance had been an industry that Irish nationalists resented long before the birth of the Irish Free State, due to the control exercised over the sector by foreign, mainly British, insurers. The premiums controlled by these firms were seen as leaving the jurisdiction, instead of being put to productive use internally in the Irish economy.²⁶

²⁵ Brian Girvin, *Between Two Worlds* (Dublin: Gill and Macmillan, 1989), 27.

²⁶ This was a charge resisted by overseas insurers, who pointed out that insurance/assurance customers in Ireland ultimately benefitted from the funds when payouts were made, see 'Prudential Assurance Co.,

With the election of a protectionist Fianna Fáil administration in 1932 insurance attracted concerted policy attention, unlike many other services categories. In November 1935 the Insurance Bill was tabled by Sean Lemass, with the specific purpose of making sure that most insurance, if not all, would ultimately be placed with domestic companies. However, the idea of adopting full exclusion of overseas insurance firms via either a ban, or punitive tariffs, was rejected- with Lemass describing this as too great a risk, potentially leaving Irish customers of British companies with inadequate insurance coverage or facing loss of funds.

The Lemass device for creating an Irish insurance base was an amalgamation of the weakest Irish life insurers, using a voluntary scheme but with compulsory powers if required, into two new companies. The first firm used for the amalgamation was called the Industrial and Life Assurance Amalgamation Company Ltd and the second, the Irish Assurance Company Ltd. The first company, known as the ‘terminating company’, was set up for the purpose of taking over the existing business of the Irish life companies (industrial and general life) and working out their assets and liabilities over time. All voting shares in this company were held by the Minister for Finance, giving him control of the company. The companies that transferred their business to this company wouldn’t be given any cash for transferring but were awarded a share in the company’s equity on the basis of the size of premium income. The second company, known as the ‘permanent company’, was set up for the purpose of taking transfer of the staffs of the participating companies and pursuing new life business. This second company was controlled by the terminating company. In effect both entities were state controlled. These structures were put in place via the Insurance Act of 1936, but two years later the Insurance Amendment Act, saw the British companies effectively transfer over their Irish life interests and join the amalgamations.

The net effect of these policy changes was that four Irish life companies and five British life companies effectively left the market and were subsumed into the new state-controlled entities. From these two entities would emerge the Irish Life Insurance Company, initially as a state-owned entity, with ambitions to be a so-called ‘national champion’.

1.8.3 Banking Background

If insurance and rail transport attracted strong policy focus, the banking sector was a more peculiar case. While it attracted no less than two commissions in the 1920s and 1930s, the broad structure and contours of the banking sector were left undisturbed following these two commissions. While the banks were increasingly used by governments for loan facilities, this was the cause of huge tension.

Limited Open Letter to the Irish People’, *Irish Independent*, Jan 18, 1922, accessed via Irish Newspaper Archive.

After an initial period of wariness about the new political dispensation of 1921, the banks embraced the new independence era with Bank of Ireland becoming the official agent of the new Irish Free State government for instance. Despite a submerging of their initial difference and some support for government loans, the Cumann na nGaedheal governments of the 1920s did establish the commission in 1926 and tasked it with looking at what changes, if any, should be made in the law in relation to banking and note issue. This commission, while leaving the main institutional features of the banking industry broadly undisturbed, did support the idea of a specialist agricultural lender, called the Agricultural Credit Corporation (ACC), although it was expected to sublimate its own commercial interests to the existing banks. When Fianna Fáil entered office in 1932 the banking industry were more apprehensive and a second commission was appointed in 1934, taking four years to report.

This Commission arguably revealed its retreat from radicalism when it decided no banking representatives were to be questioned at hearings. Three core pillars for the development of banking in Ireland ran through the commission report. One was that competition in banking, except in a very limited sense, was not to be encouraged as banking competition was not in the ultimate interest of the public either on loans, charges or deposits. The second principle was that Irish banks faced a significant constraint on deposit rates in any event, in that any gap that opened up rates with Britain and/or Northern Ireland would see capital flight potentially threaten the stability of the Irish system (embodied in the so-called 'Fleming Mundell model' in economics). The third pillar was that providing liquidity support to commercial banks- by allowing government Treasury bills to be rediscounted by the Central Bank- should not be supported. While these issues were important and would collide with future government developmental objectives, which wanted cheap money policies and liquidity support for the banks that made this easier, the main concession in the commission report was agreement to set up a Central Bank in the first place, which was eventually done via the Central Bank Act 1942.

The banks throughout the early decades of the new state were cartelised in the Irish Banks' Standing Committee (IBSC). This body agreed vital interest rate pricing issues on loans, government lending and savings. Issues such as the number of bank branches was also mediated internally within this group. The relationship between the banks and the state, while tense at times over issues such as support for government borrowing and the role of state-banks such as ACC and the Industrial Credit Company, was relatively ordered until an ambitious plan for reform of credit allocation was launched by Minister for Finance Frank Aiken, who was appointed in the summer of 1945. However, his cheap money policies failed to get adherence from the Central Bank or the Department of Finance. Later on, the state and the banks would work more collaboratively, although there was significant tension around the issue of government borrowing from the sector, which conflicted with the importance the banks placed on liquidity. But the establishment of the Central bank in the

1940s had provided a mediating institution where these tensions could be resolved. Increasingly this institution would engage with the banking sector and form a key link in the nexus between government and the banks.

1.9 Research Contributions and Research Gaps

“One of the major mechanisms employed in narrative/interpretive explanations of change is the “event”, seen not as a “data point” but as a historical conjunction laden with meaning that must be deconstructed. For historians, significant happenings punctuate and define social life, and there are external stimuli to which actors must respond in doing so, the course of history often changes.”²⁷

This body of research subscribes to the idea of emergent inductive research, where research questions only emerge gradually, as per authorities on research design.²⁸ Those who have studied the differences between quantitative and qualitative research see an inductive v deductive binary as what most crucially divides the research approaches. The inductive approach is described by these authors as a principal orientation.²⁹ Such inductive research revolves around three core processes—data reduction, data display and conclusion drawing.³⁰ Those writing on social research methods talk about inductive research growing from an initial phase of observation that then leads to generalisable inferences.³¹

This researcher was aware pre-field (or pre-archive) study, that economic protectionism was the key overarching governing philosophy for how business-government relations occurred in the manufacturing sector in independent Ireland. In other words, domestic firms would be protected behind tariff walls, permitted to become monopolistic or oligopolistic and given licence to build up market share positions, cutting off new entrants in the process. In exchange for the granting of this accommodative market structure, would be political support and endorsement of political elites, although this would not be explicitly acknowledged. While business for a short time supported free trade in the 1920s, the constituency shifted in the 1930s and made its peace with protectionism and remained loyal to the philosophy for some time.³² This very general awareness then prompted the question of what were influential causal factors in how services industries were shaped by business

²⁷ Stephen Lippmann and Howard E Aldrich, “History and Evolutionary Theory,” in *Organizations in Time*, edited by Marcelo Bucheli and R. Daniel Wadhvani (Oxford: Oxford University Press, 2014), 136

²⁸ Matthew B Miles and A Michael Huberman, *Qualitative Data Analysis* (Thousand Oaks, Cali: Sage Publications, 1994).

²⁹ Alan Bryman and Emma Bell, *Business Research Methods* (Oxford: Oxford University Press, 2015).

³⁰ David R Thomas, “A General Inductive Approach for Analysing Qualitative Evaluation Data,” *American Journal of Evaluation*, Vol 27, Issue 2 (2006).

³¹ Alan Bryman, *Social Research Methods* (Oxford: Oxford University Press, 2012), 26

³² Tom Garvin, *Preventing the Future-Why Was Ireland Poor For So Long* (Dublin: Gill and Macmillan, 2004), 37.

and government in the newly post-colonial state. For many decades, scholars have advanced the view that business desires to control its external environment. Resource dependency theorists such as Jeffrey Pfeffer and others have written about firms managing external ‘constraints’ and having a dependence on government, first in obvious ways like procurement, but more subtly in the area of public policy.³³ This type of work has led to analysing firms and their external environment, through power relationships. Firms in these conceptual constructs, have a dependence on government (or the state potentially by extension) and use a set of tactical ploys (such as co-opting) to shape the environment to their advantage. This may be blocking competitors and achieving monopoly, diluting laws aimed at externalities, changing the legal environment to establish new product lines, or simply getting a more sympathetic fiscal environment that suits their enterprise, or sector. While these tactical gains are theorised through resource dependency work, they also occur in business-government relations theory, but more weight is put on the dependence of government toward capital, not as much in the other direction. Whether studying resource dependence theory (from the organisation studies domain) or business-government relations (from the political science stream), the word dependence features large. The two schools of theory might be described as a dependency-centered, the former from a firm/sector perspective, the second from a government perspective. Which dependence is the most influential, or pre-dominant, may be the key to how industry evolution happens.. But when is the opportune time to study these mutual dependencies, and weigh and measure them convincingly?

The relationship between business and government, like other relationships studied by social scientists, ebbs and flows. For many decades sectors can remain moribund in terms of government interest, whereas other times, usually observed through legislation or changes in regulation, an industry can become a governmental focal point. Some researchers refer to these moments as encompassing political salience or noisy politics, particularly if media attention accompanies the governmental focus.³⁴ Management historians however talk more about eventfulness, a historical conjuncture laden with meaning.³⁵ This can be discovered in other writings on analytical history too. For example, the concept of critical junctures is highly useful for plotting the boundaries of this research. Critical junctures, as associated with historians such as Thomas Kuhn and sociologists such as Arthur Stinchcombe refers to relatively long periods of path-dependent stability and reproduction that are then punctuated by brief phases of institutional flux during which more

³³ Jeffrey Pfeffer and Gerald R. Salancik, *the External Control of Organizations: A Resource Dependence Perspective* (Stanford: Stanford University Press, 2003).

³⁴ Pepper Culpepper, *Corporate Control and Political Salience*.

³⁵ Lippmann and Aldrich, “History and Evolutionary Theory”.

dramatic change is possible.³⁶ These junctures are used commonly by historical institutionalists, who study historical processes and the role of path dependence. Such researchers study real world empirical questions and are not motivated by the desire to press an argument or push a methodology.³⁷ What such scholars want to know is why a certain choice was made and/or why a certain outcome occurred.³⁸ While definitions of such junctures are a moveable intellectual feast, critical junctures are characterised by a situation in which the structural influences on political action are significantly relaxed for a relatively short period, with opening up the range of plausible choices open to powerful political actors. Consequently, the consequences of their decisions for the outcome of interest are potentially much more momentous.³⁹

Much of the work on junctures likes to delineate between settled times and unsettled times and most often a critical juncture usually has a duration that is short relative to the path-dependent process it initiates. While critical junctures are events that historical institutionalists utilise to explain change, they also echo some of the logic used in a separate domain, that of case study research design. Here real-life events and their contextual conditions are studied, often using thick description.⁴⁰

The thesis seeks to make two contributions- one an empirical one and the second a theoretical one in the area of government-business relations. It also hopes the findings, while set in a historical context, can have utility in the world of practice, for those who professionally engage with government, or vice versa. Empirical contribution is an elusive research concept, but those writing about journal publication talk of it encompassing ‘an account of a phenomenon, or details of a phenomenon, not previously covered by research or covered to a limited extent’.⁴¹ The empirical contribution then provides opportunities for generalising to theory and to other empirical representations.⁴² As for theory, it is often presented as a statement of concepts and their interrelationships that shows how and/or why a phenomenon occurs.⁴³ Theoretical contribution meanwhile is said to rest on two dimensions- originality (incremental or revelatory) and utility

³⁶ There are many definitions of critical junctures. This is taken from Giovanni Cappocia and R. Daniel Keleme. “Theory, Narrative, and Counterfactuals in Historical Institutionalism,” *World Politics*, Vol 59, no 3 (2007) 341–69.

³⁷ Sven Steinmo, “Historical institutionalism,” in *Approaches and Methodologies in the Social Sciences*, edited by Donatella Della Porta and Michael Keating (Cambridge: Cambridge University Press, 2008).

³⁸ Steinmo, “Historical institutionalism,” 163.

³⁹ Capocchia and Kelemen, “Critical Junctures- Theory, Narrative, and Counterfactuals in Historical Institutionalism”.

⁴⁰ Robert Yin, *Case Study Research- Design and Methods* (Thousand Oaks, California: Sage, 2003).

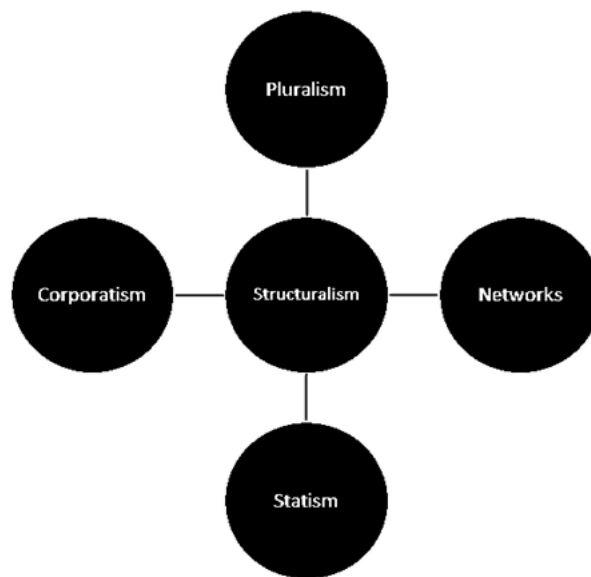
⁴¹ Pär J. Ågerfalk & Fredrik Karlsson, “Artefactual and empirical contributions in information systems research,” *European Journal of Information Systems*, 29:2 (2020),109-113.

⁴² Pär J. Ågerfalk & Fredrik Karlsson, “Artefactual and empirical contributions in information systems research.”

⁴³ Kevin Corley and Dennis A. Gioia, “Building Theory About Theory Building- What Constitutes a Theoretical Contribution,” *Academy of Management Review*, Vol 26, 1 (2011), 12-32.

(scientific or practical).⁴⁴ These two overarching pillars are emphasised in management research, but the theoretical contribution rests on more prosaic foundations according to work in the business and society field for instance, with contributions falling into three categories: theory testing/refinement, theory application and theory generation.⁴⁵ This work aims to fall under the first category of theory testing- a core research approach of business history. How is theory testing to be done? This is an important question as business history, known for its extreme eclecticism, prefers not to provide generic guidance. In management fields, theory testing is generally undertaken one of three ways: reproducibility and replication studies, tests of published theoretical models or assumptions, or tests of competing theories and constructs.⁴⁶ This work rests on progress in the second category, using field-defining theories about business and government interaction, such as structuralism, pluralism, networks and statism and assessing which of these may have the most compelling explanatory power in relation to how key services categories were shaped by business and government in the period (1922-1958), see theoretical framework:

Figure 1.10: Theoretical Framework: Analytical Tools To Explain Government-Business Relations



This aligns with the practice of business history where emphasis is placed on theory testing using rich empirical history, which is commonly archivally based. Widely published business historians

⁴⁴ Corley and Gioia, “Building Theory About Theory Building.”

⁴⁵ Andrew Crane, Irene Henriques, Bryan W. Husted and Dirk Matten, “What Constitutes a Theoretical Contribution in the Business and Society Field?” *Business & Society*, Vol 55, Issue 6 (2016,), 783-79.

⁴⁶ Maria Kraimer, Xavier Martin and Scott Seibert, “What does it mean to test theory?” *Journal of Management Scientific Reports*, 1, 1 (2023), 8–17.

believe that for theory to be effective it needs to be tested adequately and to be tested adequately it needs to 'square with what is available to historians in archives and elsewhere'.⁴⁷ One way to do this is to adopt the idea of critical juncture and eventfulness, and study episodes when government and business engaged intensively and in areas where significant economic resources and power were in play. When this is done one can explore what influential theories on government-business relations have applicability in an Irish historical context. All three cases assembled contain within them preliminary grounding reflections on the theoretical issues and the conclusion of this thesis then draws together threads addressing the applicability question and in particular being sympathetic to the different dynamics found in each industry. While the work aims to make a contribution to assessing government-business relations in the services domain, it does not seek 'representativeness' in the way that a quantitative piece of research would aim for. This approach is typical of business history norms:

“Business and organisational history draws on the genre of historical writing, which is not based on norms for the scientific article and rarely has an explicit section dealing with research methods. When a piece of business history is about a single noteworthy example, typically business historians do not feel the need to mention its lack of representativeness, as the audience, would not assume that it is representative.”⁴⁸

Instead, business history utilises an approach more akin to theoretical sampling, where the cases chosen and researched are relevant to the theory being built, in contrast to strict statistical sampling as found in other fields. In relation to extending or confirming theory one of the most common approaches in business history publishing (although this is less clear for doctoral work) is to frame the article as an empirical article, but with discussion in the earlier sections about relevant theories. The author then uses the historical data and interpretation as the basis for discussing these theories again and showing how their case extends or contributes to the theories discussed earlier.⁴⁹ This is the approach taken in the three chapters here.

1.11 Specific Contributions:

Using this approach, the following contributions, empirical and theoretical, have been aimed at:

⁴⁷ Terry Gourvish, “Business History – In Defence of the Empirical Approach?” *Accounting, Business and Financial History*, 5:1 (1995), 3-16.

⁴⁸ JoAnne Yates, “Understanding Historical Methods in Organizational Studies,” in *Organizations in Time*, edited by Marcelo Bucheli and Daniel Wadhvani (Oxford: Oxford University Press, 2014), 271.

⁴⁹ JoAnne Yates, “Understanding Historical Methods in Organizational Studies,” 282.

Chapter 4: The state-led restructuring of the life insurance sector in the 1930s (Empirical and Theoretical Contribution)

This chapter traces the decision in the 1930s by the Irish government to reform the insurance sector, in an attempt to create a self-sustaining domestic insurance industry. This involved the departure from the Irish life insurance market of Prudential, the largest British insurer of the time, and other British operators. For the first time an empirical account is constructed of the decision by Minister for Industry and Commerce Sean Lemass to institute this change, via the Insurance Act 1936 and the government-business relations that shaped the form of restructuring undertaken and its later effects. The account reveals the reasons for seeking a negotiated rationalisation, first with the Irish firms and then with the British and overseas firms. It uses archives to trace both the policy maker stance and that of the industry. In particular it uncovers suggestions of crony capitalism at work and networks in the design of the policy intervention. It also uncovers the role of external British expertise in vitally shaping that intervention, ironically designed to eliminate British insurance control. It also tests traditional theories of the structural power of business, sometimes described as the weapon of investment veto, and assesses their applicability to states like Ireland in the early stages of post-colonial political independence and economic development.

Chapter 5: The capital reconstruction of the Irish railway system of the early 1930s (empirical and theoretical contribution).

This chapter examines the unprecedented decision of the Irish state to write down the value of rail capital in the 1930s (a critical juncture), as part of a wider attempt to address road competition and its impact on the rail network in the inter-war period. The paper makes an empirical contribution by examining the role of rail shareholders for the first time and assesses their institutional power in a rapidly changing polity, where large scale state intervention was being embraced. It also examines the constraints, legal and arguably structural, negating the overall policy ambition by the Irish state and identifies the reaction and influence of international capital opinion, then represented in London and the Financial Times, as part of this. In terms of its theoretical contribution, it tests theories about structural power of business/rail capital and finds that while contending forces, such as the voice of labour, can weaken this power, legal frameworks of protection are also important in solidifying this structural power.

Chapter 6: State dependence on banks for capital and the tripartite agreement of the 1950s to provide Central Bank liquidity support (empirical and theoretical contribution).

This chapter examines the search for capital by the developmentalist Irish state in the 1950s and episodes of accommodation seeking from the cartelised Irish banking system. This cartelised system privileged balance sheet liquidity and credit allocation autonomy. The chapter makes an empirical contribution by examining in detail the government-business relations of the time and

probes the objectives of both sides and outlines how Central Bank liquidity support, once rejected by policy elites, emerged as a way to meld previously incompatible objectives of government and business together, thereby presaging a new era of central bank dominance of Irish banking policy. It also outlines in detail for the first time how the lending relationship between Ireland's Victorian-style banks ruptured in late 1955 as three banks staged a capital strike and refused to renew government short term lending. It names these three banks and posits that this refusal was the trigger for a substantial expansion of the role of the Irish Central Bank in Irish monetary history. It also tests theories from the structural school of business power (most notably the idea of 'business as capital' or 'business as sector') and assesses how, if such a phenomenon is present, it influences the outcome of the business-government engagements.

1.12 Research Originality

There is a large corpus of literature on what constitutes research originality. For educators' originality can be achieved in many forms, but one educator, focused on PhD research has suggested originality arises when a researcher:

1. one carries out empirical work that hasn't been done before;
2. makes a synthesis that hasn't been made before;
3. uses already known material but with a new interpretation.
4. tries out something domestically that has previously only been done abroad
5. takes a particular technique and applies it in a new area;
6. brings new evidence to bear on an old issue;
7. acts in a cross-disciplinary manner using different methodologies;
8. looks at areas that people in the discipline haven't looked at before;
9. adds to knowledge in a way that hasn't been done before.⁵⁰

Originality differs, as to be expected, across disciplinary boundaries. Those who have studied originality intensively note that humanists and historians clearly privilege originality in approach and humanists also emphasise originality in the data used.⁵¹

Moving beyond strict doctoral research and consulting wider academic opinion produces a seven-strong typology that emphasises: original approach (meaning new framing, approach, perspective

⁵⁰ E.M. Philips and Zuber-Skerritt, "Perceptions of educators and potential employers of the research training needs of postgraduates in business and management", *Journal of Management Development*, 12(5), (1993): 12–20.

⁵¹ Joshua Guetzkow, Michèle Lamont and Grégoire Mallard, "What is Originality in the Humanities and the Social Sciences?" in *American Sociological Review* (2004) Vol 69, 2 (2004): 190-212

or questions asked), understudied area (new geographical area or time period), topic (an area previously neglected or dismissed), theory, method (novel research design or use of data), data (unusual or overlooked data sets) and results (new findings/results).⁵²

Based on the Philips and Skerritt framework, the following table summarises some of the points of originality in the research presented here.

Table 1.13 Contribution Table:

| Research Paper | Point of Originality | As Demonstrated in this Thesis |
|-----------------------|------------------------------------|---|
| Chapter 4 | New empirical work not done before | First detailed examination of government-business relations shaping Insurance Act 1936, including use of Prudential company archives and role of English insurance advisor, structural power of industry and personal compensation won by domestic insurance executives |
| Chapter 4 | Synthesis not made before | Research looking at dependence of state on those managing capital, information advantages |
| Chapter 5 | New empirical work not done before | First examination and findings drawn from archives- company and government- on capital write-down, as encapsulated in Railways Act 1933 and reaction among London money markets and concern over impact on Irish credit and firms. |
| Chapter 5 | Empirical work not done before | Examination of Irish rail shareholders strategy and tactics and rail capital and role in business-government relations. Work on who owned Irish rail debentures. |

⁵² The typology is developed by Guetzkow, Lamont and Mallard, Originality in the Humanities and the Social Sciences.

| | | |
|-------------------------|---|---|
| Chapter 5 | Synthesis not made before | Placing of Irish rail capital in context of similar rail capital holders in other jurisdictions, drawing commonalities and differences. |
| Chapter 5 | Uses already known material but with a new interpretation | Placing the protections for rail capital debentures in the context of path dependency of railways and capitalistic legal advantages left over from the 19 th century. |
| Chapter 6 | Empirical work not done before | Systematic examination of capital crisis of the 1950s, by examining all minutes of Irish Banks' Standing Committee on the issue and production of findings. Identification of three banks who staged a capital strike in 1955 |
| Chapter 6 | Empirical work not done before | Use of archives on liquidity support agreement by Irish Central Bank for first time and mutual assistance on provision of rediscounting facilities, discovery of formal tripartite agreement |
| All inter-linked papers | Adds to knowledge in a way that hasn't been done before | Focused study on government-business relations in Irish services categories- preliminary findings aimed at closing research gap on how services segment of the economy was shaped in the protectionist era of Irish independence and assessment of the structural power of business in a services context, in a post-colonial developmentalist economy. |

1.14 Initial Introduction to Philosophical and Methodological Approach

The philosophical approach of this work derives from the critical realist writings of Roy Bhaskar. These writings allow researchers to safely steer between the Scylla of scientific constriction and the Charybdis of relativism.⁵³ Most historians, whatever their self-description, are not strict positivists, but more akin to critical realists in terms of philosophical stance it is asserted.⁵⁴ Clearly such an argument collides with centuries of contention on the nature of historical inquiry. Historical positivists do exist and follow a long tradition usually believed to start from German historian Leopold von Ranke. Ranke's phrase that history 'only wants to show what actually happened' has been misinterpreted as a call to arms in favour of historical positivism, historians argue, but it was still a crucial intervention.⁵⁵ The traditional binary between positivism and critical realist type approaches run deep through debates about historical inquiry that have erupted over the centuries. In the 20th century historians like G.R. Elton were portrayed as defenders of an 'objective truth' positivist school, while others such as E.H.Carr, were identified as challenging this view from a relativistic stance where history is a product of its own time, biases and ideologies.⁵⁶ Historians, working in whatever sub-discipline, understandably seek to avoid such concrete dualities, although most modern historians would lean towards the Carr view. Critical realism on the other hand, skirts the binaries and rebuts the positivist doctrine of uniform covering laws, while also leaning against judgemental relativism.⁵⁷ History, unlike many other disciplines in social science or humanities, has a preoccupation with the particular and this fits with the idea of critical realism where explanations that rest on particularism are not deficient, but may in fact be more adequate to the "open" and ontologically stratified structure of reality found beyond the experimental laboratory.⁵⁸ All historical writing, whether acknowledged or not, is inevitably theoretical, historians argue.⁵⁹

A strong feature of critical realist approaches is a helpful ontological framework. Critical realism for instance believes that thanks to scientific practice we can conclude that there exists a reality independent of our concepts and knowledge of it.⁶⁰ Second, this reality and the way it behaves are, in important respects, not accessible to immediate observation. If 'everything that is' were in the open, if reality were transparent, there would be no need for science.

⁵³ George Steinmetz, "Critical Realism and Historical Sociology. A Review Article," *Comparative Studies in Society and History*, Vol 40, Issue 1 (1998).

⁵⁴ George Steinmetz, "Critical Realism and Historical Sociology".

⁵⁵ Richard J Evans, *In Defense of History* (New York: Norton, 1999), 14.

⁵⁶ Richard J Evans, *In Defense of History*, 2

⁵⁷ George Steinmetz, "Critical Realism and Historical Sociology. A Review Article."

⁵⁸ Steinmetz, "Critical Realism and Historical Sociology."

⁵⁹ Mary Fulbrook, *Historical Theory* (London: Routledge, 2003).

⁶⁰ Berth Danermark, Mats Ekstrom and Jan Ch. Karlsson, *Explaining Society- Critical Realism in the Social Sciences* (London: Routledge, 2002)

A significant part of a critical realist research design is focused research questions, with an emphasis on how and why things happen, as opposed to whether something did happen and to what extent.⁶¹ The critical realist approach is about searching for clues when the causal process is not directly observable, which is often the case in historical research. Critical realism doesn't demand a specific method but offers guidance for researchers on how to make inferences – using both induction and deduction, but also abduction and retrodution. Abduction is a form redescription and recontextualisation which enables a researcher to look at phenomena another way, seeing new connections and new contexts.⁶² Retrodution concerns moving from empirical observation of events, in this case historical, to identifying mechanisms that produced them.⁶³ It is often summed up as asking the question what must be true in order for this to be possible?

All of these approaches integrate comfortably with the core pillars of historical enquiry, while also distancing the work from naïve empiricism, which now has few defenders, at least in its strict form, within the history profession. Some researchers, working in the history discipline, but immersed in critical realism as a philosophical approach, see history as a necessity to carry out bona fide critical realist research. For example the continuous search for generative mechanisms, which sits at the heart of critical realism, is facilitated by the act of going back in time to look for antecedents.⁶⁴ Such mechanisms can be said to arise from either structure or agency, the traditional duality of the social sciences, and historical writing can assist in determining the ultimate influential force. One of the modern architects of critical realist thinking, sociologist Margaret Archer, is said to have used a historical forms of analysis to study culture and the social origins of educational systems.⁶⁵

1.15 Ethical Considerations

This thesis complies with all ethical requirements as set out by Trinity College Dublin. The researcher participated in workshops on ethics in research as part of the TCD PhD program. In addition, no interviews were conducted with subjects that needed ethical approval.

1.16 Axiology

In terms of axiology, this researcher accepts the influence values have on knowledge and how it is acquired. This researcher sees themselves as following a non-positivistic approach in their research output. In terms of historical research, this means rejecting 19th century forms of historical

⁶¹ J.A.Maxwell, *A Realist Approach for Qualitative Research* (Thousand Oaks, California: Sage Publishing, 2012).

⁶² Danermark et al, *Explaining Society- Critical Realism in the Social Sciences*.

⁶³ Andrew Sayer, *Method in Social Science: A Realist Approach* (London: Routledge, 2012).

⁶⁴ Alistair Mutch, "History and Documents in Critical Realism," in Eds, Paul Edwards, Joe O'Mahoney and Steve Vincent, *Studying Organisations Using Critical Realism* (Oxford: Oxford University Press, 2014), 225.

⁶⁵ Mutch, "History and Documents in Critical Realism".

objectivism, as associated (potentially unfairly) with von Ranke and other historians. But equally this researcher believes constructing empirical accounts of significant events that impact human beings (effectively recognising extratextual reality), has a social importance. While the resulting research may be provisional and partial in many respects, it can be important. But to elevate the research beyond pure empiricism and chronicle, identifying causal mechanisms is also important, as this allows us to arrive at tenable conclusions.⁶⁶ The values motivating this researcher are, as per critical realism, emancipatory, in the sense that the researcher believes studies of government and its influence over business, and vice versa, in a historical setting, have value for democratic citizenship.

1.17 Personal Statement and Research Journey

As a researcher I have been reading in-depth historical accounts of the Irish economy and society since independence for several decades. This started from my time studying Modern Irish History at University College Dublin. While many of the canonical accounts enthrall intellectually and stimulate theoretically and conceptually, I have found much of 20th century Irish historiography to have a bias toward the independence journey, a sense of history as deterministic event. Recent commemorations of the Easter Rising, War of Independence and Civil War, while noble in aim and execution, left this researcher with a sense that for many Irish history is deterministic, a crude contestation event between the forces of colonialism and nationalism. There can be a sense that Irish history is distinguished by a core linearity, a teleological narrative that finds its ultimate destination in the Anglo-Irish Treaty of 1921, where colonial domination is finally shaken off and a new political autonomy takes centre stage, with all its possibilities and contradictions.

For reasons that are all too understandable, this focus on the ‘journey’ of independence, has meant at times other social forces inevitably getting minimised or folded into this sense of a ceaseless journey towards a known end. Among the societal forces arguably minimised is one of the most influential social units of post-independence 20th century Ireland, the company.⁶⁷ How the company influenced Irish lives and and Irish institutions in the 20th century is a sadly neglected field of inquiry, as seen in the business history field itself, which remains somewhat still born in the Republic of Ireland at the time of writing, awaiting even foundational work like adequate periodisation. This researcher has always wondered how firms, which played only a small part in the actual independence events, were impacted by the post-independence dispensation. What ideological or political frameworks governed their destiny once independence was conceded? The answer to this was visible, but only partly.

⁶⁶ The job of the historian is to arrive at these ‘tenable conclusions’, but this must first be built on an empirical bedrock, asserts Richard Evans, *In Defense of History* (New York: Norton, 2000), 217-220.

⁶⁷ This is a subject of inevitable contention, as many many counter with the Church or the State.

1.17.1 Manufacturing Policy Doctrine

By 1932 it was clear that manufacturing firms were to come under the influence of a strong autarchic doctrine, inspired, if not copied directly, from the writings of Friedrich List among others. Due to passing of legislation specifically aimed at manufacturing (Control of Manufactures Act 1932, 1934), a set of institutional structures were put in place for the development of firms engaged in these areas. Firms in these areas might theoretically benefit from tariffs, licencing or exclusivity and employment gains, for a time, were celebrated by Irish governments as the policy of protectionism embedded itself. The targeting of manufacturing specifically was due the centrality of goods in visions of Irish economic nationalism, which echoed the negative image of non-manufacturing to be found within Smithian economics. The 1932 Fianna Fáil electoral pitch included an unambiguous emphasis on industrial development to meet the needs of the new state in manufactured goods.⁶⁸ On one level this approach could be seen purely as a fetishisation of goods over services, a hallmark of classical economics and before that mercantilism. In the first decade of the new state, this was partly understandable- whereas manufacturing employed 29% of the population, services activities only employed 13%.⁶⁹

But the prioritisation of manufacturing and industry seemed more than just a prosaic reflection of economic realities. For example, it seemed there was little interest in finding out even rudimentary details about services industries. The new state for example carried out its first Census of Production in 1931 but performed no such exercise across the services industries (although it did survey the retail sector in a census of distribution). It is hard to assess whether this official neglect was a product of Smithian-inspired hostility (or even a physiocrat view) to services and their impermanence, or a more mercantilist view that trade in goods was a better route to national prosperity. It is also possible an official view was present that Ireland could never climb the ladder of comparative advantage in services categories like banking or insurance but might have the tools to do so in goods manufacture, and certainly in agriculture.

1.17.2 Previous Scholarship Gap

Seeking answers on what government-business relations applied to these industries could be unsatisfying, as there was scant synthesising literature. When I read economic historian *Cormac O'Grada's Rocky Road – The Irish Economy Since the 1920s* this frustration was contextualised, when the author acknowledged both policy makers and historians had neglected the services or

⁶⁸ Mary E Daly, *Industrial Development and Irish National Identity, 1922-1939* (Syracuse: Syracuse University Press, 1992), 60.

⁶⁹ Census 1926, Number of People in Occupational Groups. Available at: https://www.cso.ie/en/media/csoie/census/census1926results/volume2/C_1926_V2_T1.pdf

tertiary industry for a long time.⁷⁰ I reached out to the economist and business historian (and now supervisor) Prof Frank Barry several years ago, to discuss business history in Ireland, as he seemed to be the only academic offering a full time module in the field at that time. He had also started to map out some of the historical contours of the manufacturing sector in Ireland, including employment contribution and firm size. He had also done some work on the religious affiliation of leading business leaders. He advised me that the services sector, a la Ó'Gráda, was grossly under researched, so much so that even a list of the largest firms in the area had yet to be published. Initially some work on this was undertaken (a project that is still ongoing) but increasingly it seemed to me that the most pressing research question to be asked concerned the role of government in the services sector. Put more crudely, I knew that protectionism and autarchy were the governing principles of how the manufacturing sector was mediated by political and bureaucratic elites of independent Ireland, but what principles of approach, if any, applied in the non-manufacturing domain. Extending this further, what theories and explanatory frameworks to be found in the multi-disciplinary field of government-business relations could be relevant in an Irish context, at least at a very preliminary stage.

Originally a wider survey of sectors was pondered, but this was ruled out using purposive sampling techniques. Government-business relations simply did not happen in a lot of services categories (domestic services being the most obvious, but also areas like accountancy) but did happen in ones with strong economic criticality, such as banking, transport, insurance and to a lesser extent retail. Clearly episodes of government-business engagement ebb and flow. While its arguably wrong to suggest these relations ever stop entirely, they tend to group around particular intense temporal settings, which are often described as critical junctures by historical institutionalists. It was these moments, often grouped around legislative reform or significant policy change, which are examined here.

In addition, archival availability was a secondary consideration for examining these junctures, but still one that can ever be ignored fully. To investigate the role of government in the services sector one needed to have access to strong archival material with real utility, both from the government side and the businesses. Fortunately, this was possible in the three sectors chosen via the purposive sampling approach used here, although historians are never satisfied they have sufficient traces to evaluate. While it is deeply surprising, there is no single work that tries to address the business history of Ireland, either pre- or post- independence. While there is a plethora of individual company histories, these are mostly journalistic and often authorised company histories. As a result, business

⁷⁰ Cormac Ó' Gráda, *Rocky Road – The Irish Economy Since the 1920s* (Manchester: Manchester University Press, 1997).

history as a discipline in Ireland remains in its infancy, a modest stream of academic discourse when placed alongside the torrent of academic output considering political developments and the independence struggle. This work, admittedly in a modest way, is seeking to re-address this balance somewhat and could potentially form part of wider patchwork of research on the history of business and firms in Ireland and their external environment, a task for a future generation of researchers potentially.

1.18 Periodisation Choices

Periodisation choices, while the subject of continuous contention, are ultimately indispensable to the study of history. It has been said that all periodisation is arbitrary and artificial, but it is neither entirely arbitrary or artificial.⁷¹ Those working in social sciences talk of both periodisation and temporal bracketing. The first concept forms part of the craft of history and is an indispensable part of any researcher's toolkit, allowing time to be broken into manageable blocks, which in turn allows greater interpretative scope, including theory building and sense making. Periodisation embeds historical accounts in a historical context and historians tend to play 'relatively fast and loose' with clock-time; for example, the 'long' nineteenth century actually stretches up to 1914 for many historians.⁷² Temporal brackets on the other hand are more rigid interpretative tools, they are successive and distinct from each other- they do not overlap and boundaries cannot be fuzzy.⁷³ They are typically defined based on the organisation being studied rather than its broader environment.⁷⁴ Here periodisation is chosen as it is specific to the type of phenomena considered- Irish business history in the 20th century, where broad watersheds can be subsumed from the wider economic context for use in this work.

While fuzzy, historical periods are conceptual tools that make change over time a manageable topic, and therefore history teaching and research feasible.⁷⁵ The choices made in this work are ringfenced by the overall decision to study Ireland in the post-independence phase, which emanates from the wider research journey and resulting research questions outlined above. Essentially this choice is between studying government and firm relations in an active colonial or post-colonial setting. Both are valid research domains, but here agency by domestic politicians and bureaucratic actors, given licence by an independent government apparatus for the first time, is the subject of study. Once this choice is opted for, the 'slice' of independent Ireland chosen for study is the consequent choice. The

⁷¹ William A. Green, "Periodization in European and World History." *Journal of World History*, Issue 3, no. 1 (1992), 13–53.

⁷² Stephanie Decker, "Introducing the Eventful Temporality of Historical Research Into International Business" *Journal of World Business*, Vol 57, Issue 6 (2022).

⁷³ Decker, "Introducing the Eventful Temporality."

⁷⁴ Decker, "Introducing the Eventful Temporality."

⁷⁵ Peter Stearns "Periodization in World History Teaching: Identifying the Big Changes." *The History Teacher* 20, no. 4 (1987): 561–80.

choice is then made to focus on a period when state actors have the most unbounded autonomy and agency, where power is not counter balanced as in later periods by outside bodies such as the EEC/EU or more globally focused supranational bodies. The early decades of the Free State are not just periods where agency by new nationalist elites can be observed and studied, but they are also periods where one can view how the inherited institutional structures, bequeathed by the British colonial establishment, impact the new dispensation, essentially a study in path dependent dynamics.

As a result, the starting point is the establishment of Saorstát Éireann (Irish Free State), a new state set up under the Anglo-Irish Treaty, which was signed in December 1921. This allows me to study the services categories under a new political dispensation, untethered, at least superficially and legally, from previous colonial ideologies and priorities. While all the industries pre-existed the new state, the new Irish Free State had wide-ranging autonomy (a product of any decolonising process) to re-configure the environments of all three, an autonomy not available to later governments operating within a rules-based European Union context and the regulatory state. For example, by the 1960s Ireland is applying for outside loan capital and taking policy advice from outside agencies, shifting the governance of the economy in a new direction.

The period from 1922 onwards was a conservative epoch, both culturally and fiscally, and was defined by economic protectionism from the early 1930s onwards. This policy, which was particularly championed by Fianna Fáil and Taoiseach Éamon de Valera, was driven by a focus on promoting and protecting native industries and while manufacturing was its chief focus, we can see later in this work how parts of the insurance, rail and banking industries were influenced by this policy too.

The end period chosen is 1958, a year when most general and economic historians accept the policy of protectionism formally ended with the publication of *Economic Development*, authored by senior civil servant T.K. Whitaker. While moves toward attracting foreign capital had, in truth, begun slightly earlier, this publication is viewed by historians as a ‘path breaking’ document, from which there was no going back.⁷⁶ Three years later Ireland made its first (and unsuccessful) application to join the EEC. Historians describe this document and its year of publication as a dramatic reversal of rhetoric, but also of policy, with a firm departure observable from everything practiced economically in earlier decades.⁷⁷ Other economic historians describe the 1958 publication year as

⁷⁶ Roy Foster, *Modern Ireland – 1600-1972* (London: Penguin Press, 1988), 579.

⁷⁷ Joseph Lee, *Ireland 1912 -1985* (Cambridge: University of Cambridge, 1989) 344.

giving economic policy making a new 'impetus'.⁷⁸ 1958 is also the period when bank amalgamations get underway as the existing market structure starts to break down and consolidate, starting with Bank of Ireland's purchase of Hibernian Bank. The departure of Taoiseach Éamon De Valera a year later is also significant but is not the primary driver of periodisation choice here.

The periodisation choices in this research are based on looking for clear blocks of time that allow the researcher to control, at least partially, for environment. The choices emanate from historiographical context of the Irish economy, running from a period where self-sufficiency and protectionism were prioritised to a period where Ireland effectively sought to extract benefits from the world of mobile capital from the late 1950s onward. This approach creates a block of time bookended by two stark discontinuities- Irish independence which establishes a new era of economic sovereignty or economic autonomy and a later temporal boundary represented by a departure from autarky toward outward orientation and a dilution of that earlier sovereignty. Essentially the periodisation choices, shaped by the historiographical context, open up fruitful research seams, including to the rich presence of agency (political and ideational as seen through legislative change), path dependence, industry evolution theory, and even post-colonial development dynamics. In addition, they allow the researcher, due to the presence of intense government-business relations activity, to evaluate the corpus of theoretical frameworks that seek to explain and contextualise such engagements.

1.19 Research Outputs

Some of the ideas, research and themes in this work have already led to publication opportunities and outputs. For example, some of the early empirical research was on the sectors chosen were included in:

'The Business of Dublin in the Early 20th Century: An Overview of the Financial and Retail Sector'. *Dublin Historical Record*, Volume 71, No.2. (now available on JSTOR)

In addition, some of the early-stage research on the insurance reforms of the 1930s was presented at a summer school at the Centre for Business History in Scotland (CBHS), University of Glasgow in August 2019. The theme of the Summer School was, "Business beyond the Business Cycle: Crises, Resilience and Risk Management, c.1850-2000. At this conference a paper entitled *Ireland's First Bailout- 'Too Big To Fail' Amid Crisis Conditions In The Insurance Industry* was delivered.

⁷⁸ Kieran Kennedy, Thomas Giblin and Deirdre McHugh, *The Economic Development of Ireland in the 20th Century* (London: Routledge, 1988), 65

Some of the research has also been incorporated into lecture material delivered as part of the Business History Module, offered to undergraduates at Trinity College for the last two years. This module was the recipient of a Teaching Excellence award in 2022.

Post submission of this work all three chapters are intended to be offered to European journals, in the business history and economic history domain. In addition, the idea of turning the literature review into an academic paper in its own right is comprehended.

1.20 Referencing System

Historical research utilises an eclectic range of citation and referencing styles, although traditionally in Ireland footnotes have been used in historical journals (*Irish Historical Studies*) and post-graduate research, similarly in history departments such as Trinity College, Dublin. In terms of journals and publications in the business history field, approaches have differed. For example, the journal *Business History* uses American Psychological Association, Seventh Edition (APA-7) style, while at the time of writing *Business History Review* journal relied upon the 17th edition of The Chicago Manual of Style (2017). Another journal, the *Financial History Review*, stipulates its own footnote-based style, which appears to loosely approximate to Chicago 15th or Chicago 17th style manual. The *Oxford Handbook of Business History* meanwhile utilises the Harvard author-date style. As this work is firmly grounded in historical research, a notes and bibliography system has been used, as opposed to author-date system, more commonly used in the natural sciences. Chicago style has been adopted in the main, though with a departure from US-style spelling. DOIs have not been used in this publication as they are not routinely required in journal manuscripts, but URLs are included where material is online, currently available and easily accessible.

Chicago style was chosen because of its strong presence in historical research and leading journals. Its flexibility is also an attraction for history oriented post-graduate researchers, as it puts primacy on the source itself, while allowing some leeway on precise formatting. This is designed to lead to stronger narrative flow, where the reader can consult the source readily as their reading progresses. A particular issue in historical research is the treatment of archival material and how to reference same. The 1987 edition of the Guide to the National Archives of the United States includes following advice: “The most convenient citation for archives is one similar to that used for personal papers and other historical manuscripts. Full identification of most unpublished material usually requires giving the title and date of the item, series title (if applicable), name of the collection, and name of the depository. Except for placing the cited item first [in a note], there is no general agreement on the sequence of the remaining elements in the citation. Whatever sequence is adopted,

however, should be used consistently throughout the same work.”⁷⁹ This approach has been broadly adopted here, so that title or more usually description of an archive file will appear first, date (where available), followed by the collection in full or abbreviated form (National Archives of Ireland will be shortened to NAI throughout for example) and then a specific reference file number, for other researchers to pursue. In the case of the insurance references used, I have relied on the older TIA reference code for the insurance files of the NAI, but have also included the more updated reference format, which starts with the year the file accession took place etc. e.g. 2008/34/134 etc in brackets.

If a specific file reference is not available, other alternative guidance to location will be included. In most cases the NAI references will refer to a boxfile (code), which in physical form is a folder of archival material. The material inside each folder can be sequential chronologically, but is not always, so the convention here is to refer to the folder itself alone. The railway archives are housed at the Irish Railways Irish Railway Record Society (IRRS) in Dublin and are part of the collection known as the ‘general manager’s files’. Those wishing to consult the facility should contact info@irrs.ie

It should be noted that the bibliography at the end of the work is split into several sections, as this is a thesis of three inter-linked papers. In order to aid students and readers of the work, it was decided to adopt this approach, on the basis that readers may only have an interest in one industry and not the others and the approach should facilitate these readers, but equally not prevent general readers from also accessing the source material as a unitary list. Some sources appear in all three chapters, such as general histories of Ireland for instance. It was also decided to consecutively number all tables, figures and section heads together.

ENDS

⁷⁹ This is taken from the Chicago Style online guide, which is available at: <https://www-chicagomanualofstyle-org.elib.tcd.ie/home.html>

Chapter 2: Literature Review

“Economic theory has little to say about services in general.”⁸⁰

This research is situated within the field of Business History, which concerns the historical evolution of business systems, entrepreneurs, firms, as well as their interaction with their political, economic and social environment.⁸¹ It is this interaction with the political environment that is the subject of this body of research. The influence of political environment in the services (or tertiary) sector of independent Ireland, as examined via three ‘critical juncture’ episodes, using a purposeful sampling approach was driven by the research question: a) *how did government and business relations shape the evolution of key services sectors of independent Ireland between 1922 and 1958?*

As outlined at the start of this work, the services definition used here is ‘a set of heterogeneous economic activities where the principal output is for the most part an intangible product’.

Reflecting the quotation above, much of the literature evaluated here is not drawn from the world of economic theory, but other domains. Literature reviews set in the discipline of general history or business history are slightly peculiar in the sense that a literature review is itself a historical piece of writing. In many respects the prosaic craft of historians simply subsumes the literature review into the overall narrative, not explicitly cordoning it off within. But in wider social science research, reviews are much more heterogeneous, and academic work has identified as many as 14 literature review types.⁸²

2.1 Literature Review Types- Critical Approach Taken

This research has utilised a critical or integrative literature review. While there is some loose agreement on what such reviews should or should not contain, there is far from consensus. But broad stipulations are that such reviews should go beyond pure description of identified articles and include at least a degree of analysis and conceptual innovation.⁸³ Other authorities go beyond this simple definition and suggest that when dealing with mature subject matter, which historical material arguably is, the purpose of using an integrative or critical review is to overview the

⁸⁰ Shelp, *Beyond Industrialization -Ascendancy of the Global Service Economy*.

⁸¹ Geoffrey Jones and Jonathan Zeitlin, *Oxford Handbook of Business History* (Oxford: Oxford University Press, 2007), 1.

⁸² Maria Grant and Andrew Booth, “A Typology of Reviews: An Analysis of 14 Review Types and Associated Methodologies,” *Health Information & Libraries Journal*, 26 (2009): 91-108.

⁸³ Grant and Booth, “A Typology of Reviews”.

knowledge base, to critically review and potentially re-conceptualise, and to expand on the theoretical foundations of the specific topic as it develops.⁸⁴

The Grant and Booth definition suggests a critical review provides an opportunity to ‘take stock’ and evaluate what is of value from the previous body of work and ideally find a launch pad for a new phase of conceptual development. While Business History in the Republic of Ireland is not formally established as a field (at least not in any institutional sense), this deficiency is not a critical obstacle, as literature from diverse alternative sources can be mined for value, including general Irish history, economic history, management, economics, and political science to name but a few. This is the approach taken in the critical literature review below.

This critical review format has its acknowledged limitations, as do all review formats, in the sense it is not heavily systematised, and it functions as a starting point for further evaluation. This second condition is somewhat a function of the fact that, to this writer’s knowledge, no overall literature review of Irish business history has been completed. The work at hand concerns business and government relations in the Irish services sector between 1922 and 1958 and weaves together three episodes, or cases, which illuminate particular facets of such relations. However, what made this literature review challenging was that the field of historically focused government business relations attracts little research interest in Ireland. As a result, the approach taken here was to explore the topic by subsuming empirical findings, theories and concepts from cognate sub fields.

Before reviewing specialist literature sets, it is worthwhile briefly reviewing the historiography of Irish business and enterprise, particularly the first few decades after southern Ireland became an independent economic entity in 1922, known as the Irish Free State (or Saorstát Éireann). This helps to ground the subsequent review.

2.2 Historical Background of the Irish Economy and Its Business Sector

Upon independence the Irish Free State administration emphasised continuity, stability, and comparative advantage for a time.⁸⁵ The Irish economy was set up to produce at this time high quality produce in certain food categories such as meat, eggs and dairy products for export to Great Britain. Due to close links with the British money market it was difficult to stimulate interest in specifically Irish investment opportunities and capital flight (both capital and capitalists) was a very real danger.⁸⁶ This constraint of being contiguous to a much larger economic entity (Britain) emerges as a key theme in literature about the early decades of the Irish economy. This impacted

⁸⁴ Hannah Snyder, “Literature Review as a Research Methodology: An Overview and Guidelines,” *Journal of Business Research*, Vol 104 (2019): 333-339.

⁸⁵ Cormac Ó Gráda, *Economic Development of Ireland Since 1870 (1)* (Aldershot: Edward Elgar, 1994), Introduction, xii.

⁸⁶ T.K. Daniel, “Griffith on His Noble Head: Determinants of Cumann na nGaedheal Economic Policy” in *Economic Development in Ireland Since 1870 (1)*, edited by Cormac Ó Gráda, 61.

bank rate for example, which had to hover 1% above the equivalent rate in Britain, so as to lock in capital in the newly emerging state.⁸⁷ It also meant there couldn't be substantial wage differentials between the Irish Free State and the United Kingdom or else leakage of human capital posed a danger, although often emigration was a socio political safety valve, although this was rarely publicly acknowledged. This presence of Great Britain as a nearby economic competitor (or magnet) meant Ireland could not easily mimic other catch-up growth economies by climbing the path of comparative advantage using low-wage sectors.⁸⁸ The role of wage and cost differentials in achieving competitiveness meant that services to business (so-called producer services) and those supplied to the general public were often viewed as needing to contribute to national competitiveness in order to attract political legitimacy. While clearly Ireland was a post-colonial economy, its native population did at least control much of its exporting sector and banking sector, but insurance and other sectors were different. There was also the issue of 'who' controlled these various sectors, the mainly Catholic population, who supported Irish nationalism pre-1921, or the more embedded Protestant population, who either opposed this political movement, or were ambiguous about it.

The most concerted and thorough investigation of Irish business conditions of the 1920s was the Fiscal Inquiry Committee of 1923 which pointedly foregrounded a series of constraints that mitigated against domestic industrial progress; services were seen strictly in this report as adjunct activities to a nascent industrialisation process and the vastly more established activity of agricultural production. The constraints to industrialisation were however not confined to the industrial sector itself, seeing as they included an inadequate transport system, lack of skilled labour, wage rates above those in Britain and Northern Ireland, lack of readily available capital from banks for business investment and high charges for business support services. Implicit in this was criticism of sectors such as rail transport, banking and other business support services.

However, both the governments of the 1920s, led by Cumann na nGaedheal, and those of the 1930s led by Fianna Fáil were absorbed by issues relating to manufacturing and ensuring it was not foreign controlled. For example, as soon as Fianna Fáil assumed power in early 1932 proposals were requested for legislation to control overseas firms already present in the Irish Free State or those proposing to do so. These proposals were eventually melded into the Control of Manufactures Act 1932, the key pillar of economic protectionism.

2.2.1 Blueprint for Manufacturing

⁸⁷ T.K. Daniel, "Griffith on His Noble Head," 209.

⁸⁸ Frank Barry, *Understanding Ireland's Economic Growth* (London: Macmillan Press, 1999), 26.

This legislation and the determination to create an ‘Irish Ireland’ economically provided a policy and ideological blueprint, however contentious. But even in 1932 it was clear that a governmental blueprint for other business sectors, like the services economy was curiously missing, thereby leaving unanswered policy questions. Political representatives in Dáil Éireann pressed Minister for Industry and Commerce, Sean Lemass TD, on this point however. John Good TD, a unionist businessperson, pointed out to Lemass, sardonically that while some companies manufactured goods, others simply sold them and the manufacturing legislation was not addressing this group.⁸⁹

Lemass himself curiously complained of creeping control of Irish business by overseas, mainly British, interests but acknowledged much of the most egregious cases of this were happening in marine transport and banking, neither of which were covered by his legislation, which excluded services.⁹⁰

2.2.2 Lemass and Retail Protectionism

This research does not focus on the retail sector directly. But unobserved by previous archivally-based accounts, and arguably important in terms of discovering governmental attitudes towards key service industries, is the finding that Lemass had wanted to place *some* services industries behind the veil of protection, via the Control of Manufactures Act.

Speaking in Dáil Éireann on the passage of the legislation, Lemass stated in June 1932 that the government had considered an omnibus bill including the retail sector as well but dismissed this due to impracticality. This may have been a reflection of the sheer size, in terms of firm numbers, of the retail sector, but Lemass was unambiguous that he supported protectionism for sectors beyond manufacturing, but departed from legislating for reasons of practicality.⁹¹ This suggestion of stretching the bounds of protectionism beyond manufacturing has been little explored, but may be an important research stream in exploring what underlying objectives motivated governmental attitudes towards services categories. Certainly, while there was at times official disinterest in the services economy as a whole, there was policy deliberation and most crucially, extensive legislation in many services areas (Table 2.2.3).

⁸⁹ Contribution by John Good TD, Dáil Éireann debate on Control of Manufactures Bill, 14th June, 1932 Vol. 42 No. 9.

⁹⁰ Contribution of Sean Lemass, Dáil Eireann debate on Control of Manufactures Bill, 15 Jun 1932 Vol. 42 No. 10.

⁹¹ Sean Lemass, Dáil debate on Manufactures legislation, 28 Jun 1932, Vol. 42 No. 13. In his contribution Lemass talks about it may be necessary ‘at some time’ to have legislation similar for the retail trade.

Literature on the initial decades of independence rarely address what motivating factors were at play in policy change in various services sectors or what detailed decision-making processes took place.

Table 2.2.3: Legislation and State-Appointed Committees and Commissions in Three Services Categories*

| Rail Transport | Insurance/Assurance | Banking/Building Societies |
|--|--|-----------------------------------|
| Railways Act 1924 | Committee on Industrial Assurance 1925 | Banking Commission 1926 |
| Railway Directorate Act 1924 | Insurance Act 1936 | Bank of Ireland Act 1929 |
| Railways (Existing Officers and Servants) Act , 1926 | Insurance (Amendment) Act , 1938 | Banking Commission 1934 |
| Railways (Road Motor Services) Act 1927 | Insurance Act, 1953 | Central Bank Act 1942 |
| Railways (Amendment) Act , 1929 | The Industrial and Life Assurance Amalgamation Company, Limited (Acquisition of Shares) Act , 1947 | Building Societies Act 1942 |
| Railways (Miscellaneous) Act 1932 | | Savings Banks Act 1952 |
| Railways Act , 1933 | | |
| Road Transport Act 1933 | | |
| Railways Act , 1935 | | |
| Transport (No. 2) Act 1944 | | |
| Transport Act , 1950 | | |
| Transport Act , 1955 | | |
| Transport Act 1958 | | |

This is not an exhaustive list of all legislation in these areas, as much legislation addressed issues outside scope, such as health and safety and issues surrounding social insurance. Annual budget statements and Finance Acts also introduced at times policy change.

This is surprising as policy making in the area of services in independent Ireland did take place, and vigorously so, in the period from 1922 to 1958. Legislation is not the sole form of policy making (there is also budgetary policy, procurement, policy guidance/agenda setting, regulations, moral

suasion, industrial policy etc), but it is arguably the most important, creating important critical junctures.

2.2.4 Multi Sectoral Histories

As part of this review, I reviewed the two chief multi-sectoral economic histories of independent Ireland- Cormac Ó Gráda's *Rocky Road (the Irish Economy Since the 1920s)* and Andy Bielenberg and Raymond Ryan's *An Economic History of Ireland Since Independence*, as both publications contain specific sections on the services economy.⁹² Bielenberg and Ryan acknowledge that services in the Irish economy were historically not always generally recognised by economic historians and policy makers.⁹³

The main concern of policy makers in relation to services was the challenge of improving productivity – as per the classic William Baumol cost disease theory- which becomes more acute as services take up an increasing share of employment and national output. The work by Bielenberg and Ryan is strongly empirical and doesn't focus specifically on the state's role in service industries, or relations between government and business. O'Gráda's account is a little broader in terms of asking why such neglect of the sector by policy makers?

His answer is not presented in detail, but he suggests the lack of productivity gains- from services and a belief that services were simply adjuncts to the manufacturing process (so called input goods) are the most likely explanations.⁹⁴ From the perspective of this research what appears to be missing from both accounts is an explicit treatment of government and business relations in services, particularly the shifting balance of power and the at times conflicting aims. The attitude of firms themselves toward government-led change and intervention in their sector is absent from either account. While neither work probes governmental motivations towards services at an aggregate or firm level, other work looks at what Irish policy makers' aims and capacities were – at least in relation to industrialisation- in the early decades of Irish independence.

The continuity of a business elite post-Irish independence is a theme identified by historian Mary Daly, who suggests this elite's information advantages were a significant shaper of the balance of forces between business and government in the early decades of independence.⁹⁵ Offsetting this was minimal radical advice from the various commissions of the 1920s- with these bodies generally

⁹² Cormac Ó'Gráda, *Rocky Road, the Irish Economy Since the 1920s* and Andy Bielenberg and Raymond Ryan, *Economic History of Ireland Since Independence* (Oxford: Routledge, 2013).

⁹³ Bielenberg and Ryan, *Economic History of Ireland Since Independence*, 96.

⁹⁴ Ó'Gráda, *Rocky Road*, 171/172

⁹⁵ Daly, *Industrial Development and Irish National Identity*, 15.

stressing financial and fiscal continuity, free trade and a focus on agricultural exports. While individual civil servants in departments like Industry and Commerce, struck a different tone, including talking about currency devaluation and giving the state a more prominent role in the economy, these voices were generally drowned out by more conservative forces.⁹⁶

This position was moderated significantly upon Fianna Fáil taking power in 1932, with the state taking a larger role in a broadly mixed economy configuration. Interventionist industrial policy with real tangibility was observed during this period, with factories often located according to government diktat and a system of tariffs, quotas and credit put in place. The aim of industrial policy and the broader protectionist drift was to increase industrial employment, but the objectives were set by inexperienced people and achievements often fell sort of aspirations.⁹⁷

A weak state was a relevant factor behind this underachievement, asserts Daly, although she concedes that dependence on the state was also present in these decades, a legacy from the latter stages of British rule, which sought to kill Irish nationalism with ‘kindness’ often in the shape of investment in piers, rail lines and land reform.⁹⁸ This so-called weak state was ultimately what protected financial interests such as the banks, the writer claims, but she adds that much of the decision making in relation to economic development was the product of more prosaic constituency prerogatives, Government department priorities or individual politicians’ priorities rather than any ‘clearly articulated position on the role of the state’.⁹⁹ While Daly and others have claimed that in the early decades of Irish independence, economic development was not thought out in any systematic fashion, its worth remembering that decisions still had to be made, resources allocated and sectors either mollified or contended with.¹⁰⁰ While the manufacturing sector had a policy road map set for it via tariffs and protectionism, services were somewhat detached and left floating in a policy orbit. But can significant historical episodes bring some light on the nature of this orbit?

Historians researching in the main streams of Irish historiography have eschewed detailed examinations of such moments. For example, a leading study of this period briefly mentions the reorganisation of the insurance sector of the 1930s and suggests it was an example of Lemassian state interventionism expanding beyond its normal reaches, but at that the topic is left unexplored.¹⁰¹

⁹⁶ Daly, *Industrial Development and Irish National Identity*, 57

⁹⁷ Daly, *Industrial Development*, 75

⁹⁸ Daly, *Industrial Development*, 176.

⁹⁹ Daly, *Industrial Development*, 177.

¹⁰⁰ Girvin, *Between Two Worlds*, refers to the lack of organised policy processes.

¹⁰¹ Girvin, *Between Two Worlds*, 98

While there was a low level of active sectoral policy making in the early period of the Irish Free State, the early governments of the new state did appoint commissions/committees to look at the economic potential and operation of canals/waterways, industrial insurance, the post office network, banking and horse breeding. But agriculture and manufacturing were the key economic sectors, and no overall policy document or strategy was published in relation to the tertiary or services sector. In fact, there was overt hostility toward economic development in cities and towns, the traditional crucibles for the development of service activities.¹⁰² Services activities were often viewed as purely intermediate, an adjunct to the production process and not activities that had economic potential of their own, including in growing employment.

2.2.5 Ad Hoc Services Focus

With no overarching policy doctrine to guide them (apart from a vague sense that industries should ideally be Irish owned), ministers and their bureaucratic advisors were faced with managing individual service sectors on an ad hoc basis, often influenced by: special interests, developments in Britain or the simple and often unquestioned nostrums of Irish nationalism. Whereas strong willed politicians like Patrick Hogan, Minister for Agriculture (1924-1932), had strong ideological convictions about how the food production sector should evolve, this was less clear in the tertiary sector. Consequently, there is little, if any literature, addressing what guiding assumptions or ideological direction policy makers were operating under when dealing with individual sectors such as insurance, banking, transport etc. While the 1930s saw import substitution industrialisation (ISI) pursued vigorously in much of the Irish economy, certain simple questions from the services area were not as easy to answer. How does one make sure an insurance policy is Irish owned? Or that funds only end up residing in Irish bank account in every circumstance?

The neglect of the services part of the economy is also reflected in Irish historical writing, with leading economic historians identifying it as a research, and in many ways, an intellectual gap. While economic historians have explored knotty issues such as making productivity gains in services and whether the sector's activities can be truly tradeable, detailed historical research on specific sectors- and the firms within those- are parsimonious.¹⁰³

¹⁰² Aodh de Balcam, *What Sinn Fein Stands For* (London, 2018: Forgotten Books), 151. This contains a reference to all Irish citizens preferring farming to business activity in cities.

¹⁰³ As per the date of publication of this thesis, no account of the post WW2 Irish insurance industry has been published, nor has a business history of the Great Southern Railways Company been published. In relation to banking, an authorised history of Bank of Ireland has been published, but no company history of any other retail banks in the Republic of Ireland have been published.

In fact, one prominent Irish economic historian has described the tertiary sector as the Cinderella of both policy makers *and* historians.¹⁰⁴ Study of the services sector in Ireland during the initial decades of independence in many respects involves study of embedded business power. Embedded in the sense that the key sectors (in the sense of economic centrality as measured by either scale of employment or capital intensity) were dominated in their upper managements by the Protestant business establishment. Railway companies were dominated by Protestant unionist executives, while the largest insurance companies were controlled by British companies, headquartered outside Ireland. Banking was slightly more diverse, but the majority of banks were run by figures from the Irish Protestant business community.¹⁰⁵ While a cadre of nationalist leaders took power from 1922, their ability to command the private sector was constrained by path dependent factors. There were few outright Irish nationalists among the prominent Irish business leaders of 1922. As a result, relations with the new Irish political elite were initially wary and sometimes outright hostile, a feature of business-government relations not reflected in the prevailing literature. The tone of the new Irish political elite toward the business sector as inherited from era of British rule was one of sullen resentment, borne of a sense that the business establishment had either openly - or surreptitiously – tried to thwart the nationalist project in the pre independent phase. Describing business leaders as sourly as ‘antique furniture’ in 1924 as he introduced the Railways Bill, President of the Executive Council, W.T. Cosgrave was giving more than a personal view one suspects.

While Cosgrave’s exasperated tone was in the context of intense questioning of his motives in consolidating the railway network at this time from assorted business representatives, it nevertheless encapsulated a genuine frustration with the controllers of capital in the early decades of a post-colonial state trying to find its feet.

The enmity of Cosgrave, and later of Fianna Fáil, toward entrenched business interests was reciprocated by those interests themselves who favoured economic orthodoxy and the primacy of shareholder’s rights. On the lips of these individuals at times were dire warnings about confiscation, an overly activist state and even expropriation. This group went as far as setting up a political party to advance their interests, known as the Businessman’s Party, which managed to get some candidates elected to parliament in the early 1920s.

¹⁰⁴ Cormac O’Grada, *A Rocky Road- The Irish Economy Since the 1920s*, 171

¹⁰⁵ The largest firms in southern Ireland and the religious affiliation of their executives and board members are captured in Frank Barry, “Business Establishment Opposition to Southern Ireland’s Exit from the United Kingdom.” *Enterprise & Society* 23, no 4 (2022).

This work utilises a purposeful sampling method to answer the key research question. The strategy involves mining information rich cases, those that manifest the phenomenon of interest intensely.¹⁰⁶ This method relies on some prior information and judgement, according to research design authorities. While not relying exclusively on a criterion sampling method, the research does centre on defining the idea of intensity firmly. In other words, the phenomenon to be researched is government and business relations in the services sector of independent Ireland (1922-1958) and in order to address the necessary intensity, the cases included are those that manifest a richness of engagement between government and business (most commonly seen around legislative change, or significant public policy change), that involve a significant level of resources ‘at stake’ (mainly financial, but not exclusively) and finally where there is sufficient availability of archival records to capture the richness and intricacy in the first place.

From searches of Irish Oireachtas (parliamentary) data, it is clear that legislation in the services sector in the relevant period of 1922 to 1958, were most active across the three sectors studied. For example, rail transport (and its accompaniment of road competition) was subject to a large amount of legislative interest, banking/building societies were subject of five acts or commissions, while insurance was subject to five acts and commissions. In contrast hotels and restaurants were subject of no Acts, auctioneering just one, legal firms just one, bookmaking/betting was subject of four acts, while retail was not subject to any industry-wide legislation, although there was narrow legislation concerning shopping hours and shop assistant hours during the Emergency.¹⁰⁷

2.2.6 Government-Business Relations Research in Ireland

Despite the richness available in such accounts, government-business suffers from a wider research deficiency in Ireland. A Scopus search for ‘business-government relations Ireland’ returned two relevant scholarly pieces of work, one a journal article on business financing of politics in Ireland and a book chapter on business, politics and revolution in early twentieth-century Ireland, which addressed how business navigated political violence preceding Irish independence.¹⁰⁸ Using the search terms ‘state-business relations Ireland’ yields little germane research, apart from reflections on corporatist pay agreements in Ireland. However, the structural power of business in Ireland in

¹⁰⁶ Michael Quinn Patton, *Qualitative Research Evaluation Methods* (California: Sage Publications, 2002), 234.

¹⁰⁷ The Oireachtas search service can be controlled for period and sector, via keywords. Definitions are inexact however. Excluded here is legislation concerning the Voluntary Health Insurance company and other forms of social insurance, as opposed to that provided by commercial entities. Shipping was also excluded due to the prevalence of operational/safety shipping legislation and international convention agreements.

¹⁰⁸ Iain McMenamin, “Business Financing of Politics in Ireland: Theory, Evidence and Reform,” *Irish Political Studies* 28(1), (2013): 20–38; Philip Ollerenshaw, “Business, Politics and Revolution in Early 20th Century Ireland”, In, Ed, Terry Gourvish, *Business and Politics in Europe 1900-1970* (Cambridge: Cambridge University Press, 2011).

the shape of trade associations is addressed by researcher Dermot McCann who looks at the role and track record of employer's group, the Confederation of Irish Industry (CIF) between 1970 and 1990. His conclusion is that not all firms are equally powerful in respect of policy and there is variability not just between firm types, but also sector.¹⁰⁹

In particular this review will focus on **four** distinct but linked literature sets. Each one provides a potential explanatory framework for what took place in the period in the Irish services sector. The first of these will be from business history genre itself and seeks to critically evaluate what it can offer researchers on the relationship between states and business/firms. The second will be examining the business-government relations literature canon more generally and the third stream of evaluation will involve probing the stream of research on industrial policy and developmentalism more generally. The final assessment will seek to critically review literature about services and in what way it specifically engages with the state. While there are exceptions, the first set is work produced by business historians mainly internationally, the second by business-government researchers and theorists working exclusively in that field, the third by political scientists, economists or sociologists, while the fourth is work produced by an eclectic group of economists and political economy researchers.

2.3 Business History Literature Review

Business history as a field is concerned with the evolution of entrepreneurs and firms, but also with interaction with their political, economic and social environment.¹¹⁰ The interaction with the latter is a critical focus of this work. Business historians simply cannot overlook the role of the state without a 'loss', as its the foundational condition for economic and institutional development, those shaping the discipline have asserted.¹¹¹ Business history as a disciplinary field must address states because of the role they play in building the markets and institutions necessary for enterprise.¹¹² Some of the leading paradigms of business history or economic history concern the role of the state in industrialisation, with people like Alexander Gerschenkron offering a hypothesis that the state substitutes for private initiative in accelerating late industrialisation.¹¹³ In more recent years a similar but broader hypothesis has emerged which suggests the state is far from inert, but is a key actor in the wealth creation process and often a daring one taking risks where the private sector fears to thread.¹¹⁴ While many researchers do acknowledge centrality of government or the state,

¹⁰⁹ Dermot McCann, "Business power and collective action: The state and the confederation of Irish Industry 1970–1990," *Irish Political Studies*, Vol 8, Issue 1 (1993).

¹¹⁰ Geoffrey Jones, Jonathan Zeitlin, Introduction to *Oxford Handbook of Business History*.

¹¹¹ Philip Scranton and Patrick Fridenson, *Reimagining Business History* (Baltimore, John Hopkins University Press, 2013): 17.

¹¹² Scranton and Fridenson. *Reimagining Business History*.

¹¹³ This is treated in Steve Tolliday, ed, *Government and Business* (Aldershot, Elgar Publishing, 1991).

¹¹⁴ See Mariana Mazzucato, *The Entrepreneurial State* (Harlow, England: Penguin, 2018).

they can be overly pre-occupied with the performance and effectiveness of government interventions in business, neglecting issues beyond performance and capital accumulation alone.¹¹⁵

2.3.1 International Differences on Role of State

This is due to market failure being rationalised as the sole, clearly defined, reason for intervention. For highly influential US business historians like Alfred Chandler the state was purely night watchperson, setting legal and regulatory boundaries and then withdrawing once this work was complete. Any transitioning beyond this, via say state-owned companies, was generally viewed negatively by business historians of his era. Much UK business history has offered off-setting commentary though, suggesting more interventionism was merited throughout the 20th century in particular, than less.¹¹⁶ A key task for business historians is to shed the perception, held in the main by Anglo-American scholars, that laissez-faire traditions are more worthy of study than traditions with a central governmental role.¹¹⁷ Japan for example, since opening up its economy in mid-19th century, has been one of the laboratories for studying the role of government in the economy. As far back as the Meiji period Japanese governments have experimented with infant industry protection, sectoral promotion and subsidisation.

This was later echoed in the 1950s when that country set up a Ministry of International Trade and Industry (MITI), which played a strongly directive role in relation to Japanese business. Business historians have sought to bring nuance to the relationship between government and business by pointing out that mixed economies have been the norm since at least the Second Industrial Revolution, with France, Germany and Japan three particularly notable examples of where government has been involved in economic development, going beyond the minarchism of the United States. Among intervention types, as per France, has been planning, price controls, and the already mentioned public ownership of companies. But business history has often been less about institutional structures and interventions and more about in-depth analysis of decision-making processes involving actors from the public and private spheres.¹¹⁸ Such exercises show there is little proof for the idea of all powerful states or all-powerful companies and instead researchers should seek to measure the complex interactions between business and government at any one time.¹¹⁹ Often vital to this complexity will be intermediary institutions such as central banks or regulators. The impact of geopolitical strategies has often been identified by business historians as crucial to the relationship. For example, the states' attitude to coal or railroads was radically

¹¹⁵ Matthias Kipping, "Business Government Relations- Beyond Performance Issues," in Eds, Franco Amatori and Geoffrey Jones, *Business History Around the World* (Cambridge, 2003): 374

¹¹⁶ Kipping, *Business-Government Relations*, 378.

¹¹⁷ Geoffrey Jones and Maurice Kirby, *Competitiveness and the State* (Oxford: University Press, 1991)

¹¹⁸ Kipping, 386

¹¹⁹ Kipping, 386

transformed in the event of war or encroachment from a geopolitical rival, as occurred in 19th century Europe.¹²⁰

2.3.2 Business Sectors as ‘Strategic’

This idea of an industry having ‘strategic’ significance salient to those holding political power has strong temporal influence at the time of writing. For example, access to vaccination stockpiles to combat respiratory disease was not ‘strategic’ for those in political power pre-2020 but became dramatically so for political elites and the pharmaceutical industry once the pandemic of that year erupted.

The idea of business and state being yoked together most tightly in so-called ‘strategic’ sectors is supported by the business history literature; hence case study work tends to stretch out over sectors such as mining, transport, telecommunications, energy and of course defense. Sometimes states delegate public functions to private business actors and due to lock-in effects business acquires a strong position as a result, a type of institutional power. As the private actors take on more responsibility on behalf of the State, their power grows and the state often allows its own capacities to decay, strengthening the position of business as a provider of public services. This type of slowly evolving power drain occurs in mainly corporatist European economies.¹²¹

The role of business is often depicted as a choice between two negatives. Business either wields instrumental *power over* the state, via observable and organised activity (such as lobbying or regulatory capture) or it wields more subtle structural power, which arises because business controls production, employment, and investment. Any withdrawal of these (or capital strike) is a threat to the power of the state or government. While different both these varieties of business power similarly pivot around the idea that business has power ‘over’ the state or government. But business historians must not fall into a trap of simplicity, as much research uses different descriptors- the idea of mutual or reciprocal dependency-type relationships between business and the state, or *power with* the state. Ireland and its multinational base, ironically, is often cited as an example of such relationships.¹²² Structural power is quite different from the overly abstract and general concept put forward by Lindblom in the 1970s, these business historians have argued. It is variable, not constant, depending on context; it is a signalling device rather than something that dictates government

¹²⁰ Robert Millward, “Business and State,” in the *Oxford Handbook of Business History*, Edited by Geoffrey Jones and Jonathan Zeitlin (Oxford, Oxford University Press, 2007): 529-558.

¹²¹ Marius R Busemeyer and Kathleen Thelen. “Institutional Sources of Business Power,” *World Politics* 72, no. 3 (2020): 448–80.

¹²² Neil Rollings, “The Vast and Unsolved Enigma of Power’: Business History and Business Power,” *Enterprise & Society* 22, no. 4 (2021): 893–920.

policy, and business is not viewed as monolithic.¹²³ How business and government relate, as tracked through business history research, often relates to the issue at hand and its salience. If the wider public are not engaged by an issue, the ‘field’ of contestation becomes more accommodative for business. One influential business historian has argued that if an issue has low traction with the public then business is more likely to achieve its aims.¹²⁴ This is sometimes termed discursive power, being an ability to frame a public issue a certain way that can prove advantageous to ultimately influencing government policy.

2.3.3 Reasons for Intervention

Business history at times focuses overly on the phrase ‘business-government’ rather than ‘relations. The interesting fruitful facet of the disciplinary field is not business or government per se, but the interaction of their aims, the so-called ‘relations’.¹²⁵ Temporally and spatially we know governments are often the initiators of business-government relations, when they ‘intervene’ in a market. The canonically cited reasons for such interventions are:

- Market failure- This is an instance where the allocation of goods and services by a market is not Pareto efficient (the optimum use of resources) and such failures provide a rationale for government intervention.¹²⁶ This arises where a market has failed to allocate its goods and resources to the maximum level of efficiency. The provision of public goods is often cited as an example under this heading, where states must intervene to provide goods that utility maximising members of society are not prepared to provide or fund, if not missing markets can arise. Equally simpler situations where markets are deemed non-competitive or monopolistic may call for intervention to safeguard the optimum output from an industry and eliminate deadweight costs to society. Intervention may also be needed to eliminate externalities where a private company or individual is imposing costs socially and government intervention is required to eliminate these entirely or allocate a cost to them and compensate wider society.
- Another rationale for intervention is that free markets will not produce so-called merit goods- that is goods that that have benefits societally but are unlikely to be profitable (or only modestly) for utility maximising firms or individuals. Examples of this would be health services.

¹²³ Rollings. “The Vast and Unsolved Enigma of Power.”

¹²⁴ Pepper Culpepper, *Quiet Politics and Business Power*.

¹²⁵ Martin Chick, *Government, Industries and Markets*, 1.

¹²⁶ The precise meaning of market failure continues to prompt academic debate, but this definition is drawn the OECD economic glossary. See <https://stats.oecd.org/glossary/detail.asp?ID=3254>

Business historians correctly delve below the theoretical and have discovered a variety of market failures that governments point to for intervention rationale. These can include unemployment, balance of payments, breakdown of basic services, financial crashes, and distribution of wealth.¹²⁷ As historian Martin Chick has said curtly interventions are not necessarily staged to eliminate market failures, but to address markets that are not producing outcomes desired by politicians.¹²⁸

In many cases government and business may have aims that are in accord, or in other cases one side can achieve their aims without securing the co-operation of the other, but the most fascinating relationships are those where each party attempts to influence both the formulation and implementation of a particular set of aims by the other party. Who is able to do this most effectively often rests on the distribution of information, which often favours market incumbents. One of the biggest dilemmas for all governments and a theme explored regularly by business historians is the issue of how to regulate monopolies or nationalised industries. Sometimes bureaucrats are satisfied with the ‘order’ that comes from monopolies or nationalised industries and will permit these firms to keep their market power in exchange for stability. This desire for control and stability has also been uncovered by business historians who’ve studied business-government relations in a British context, mainly post WW2. “British governments prized stability and consensus above all, preferring stagnation to painful change,” two leading British business historians have written.¹²⁹ This was motivated by a fear of provoking the wrath of vested interests. Japanese governments on the other hand were chiefly motivated by co-ordination and competition and happy to choose between either, but choosing nevertheless. In Ireland’s case the situation was different in the sense that for most of the early decades of the new state, there was almost overwhelming policy consensus that economic performance was sub-standard and ills such as poor growth and emigration had to be addressed by some new economic paradigm. That put governments on a collision course with one of the key actors controlling economic resources, business. Potential causes of sub-par economic growth in Ireland in the 20th century are so widely discussed that thematic books have been published on this question.¹³⁰ While most accounts focus on the multi-factorial, a lack of capital for deployment to back entrepreneurship is often instanced, as at least relevant to this debate. Irish economic historians have come to the view that while Ireland had a large savings pool in the 20th century, the close integration of the UK and Irish economies simply meant investors had a wider selection of capital growth opportunities available in Britain.¹³¹

¹²⁷ Martin Chick, *Governments, Industries and Markets* (Aldershot: Elgar Publishing, 1990).

¹²⁸ Chick, *Governments, Industries and Markets*, 2

¹²⁹ Geoffrey Jones and Maurice Kirby, *Competitiveness and the State*, 17.

¹³⁰ Tom Garvin, *Preventing the Future. Why was Ireland so poor for so long?* (Dublin: Gill and Macmillan, 2004).

¹³¹ Cormac Ó Gráda, *Ireland : A New Economic History 1780-1939* (Oxford: Oxford University Press, 1994), 350.

While this conclusion is incontestable, more interesting is could the Irish state have done anymore to tilt the balance in favour of domestic investment against the alternatives or should it have done this at all? Stretching beyond this question is an even more fundamental one- is there any causal relationship between political independence and economic success?¹³² For example in a world where Irish economic performance for most of the independence period has been described as the 'least impressive' in western Europe, perhaps in all of Europe, by one prominent historian, that relationship, if its exists at all, may be negatively correlated.¹³³ While countries may acquire independence and sovereignty, as Ireland did in the early 20th century, the possibility for independent action may remain limited even in that circumstance and autonomy is a very different condition than that of independence or sovereignty.¹³⁴

2.3.4 Ireland- Why Poor For So Long?

Either way, Irish historians, economic historians and sociologists have produced a raft of explanations as to why Irish economic performance was poor for much of the period before the so-called Celtic Tiger of the 1990s. Space prevents a full exploration of these various rationales, but often recited are the failure (or excessive persistence with) of economic protectionism pre and post-WW2, the baleful influence of the Catholic church on intellectual thought, an excessive prioritisation of agriculture as the crucial engine of growth and a failure to develop human capital.¹³⁵ Much of this terrain is politically and intellectually charged, and other more mundane hypotheses are often neglected- for example Ireland's failure to absorb the lesson of smallness, that modestly sized geographical units simply must specialise and be selective and avoid spreading their limited entrepreneurial and managerial talent over a wide range of activity.¹³⁶ Business history in an Irish context has an opportunity to substantiate some of these ideas, but far from all, due to their scope. Where business history can make the most acute contribution is in the area of business and economic growth. If one accepts canonical assumptions from writers such as Charles Lindblom that business occupies a privileged position in market-oriented societies, controlling jobs, prices,

¹³² Brian Girvin, "Political Culture, Political Independence and Economic Success in Ireland," *Irish Political Studies*, Vol 12 (1997): 47-77.

¹³³ Joseph Lee, *Ireland 1912-1985: Politics and Society* (Cambridge: Cambridge University Press, 1989)

¹³⁴ Girvin, *Political Culture*.

¹³⁵ The idea that Ireland persisted with protectionism for too long and this was ultimately a cul-de-sac is explored in Cormac Ó'Gráda, *A Rocky Road- The Irish Economy since the 1920s* (Manchester: Manchester University Press, 1997), 229. The Catholic Church's 'dislike of commerce' is aired in Garvin, *Preventing the Future- Why Was Ireland Poor for So Long*, 42. The lack of attention given to human capital development and skill development is addressed forcefully in Kieran A. Kennedy, Thomas Giblin and Deirdre McHugh, *The Economic Development of Ireland in the 20th Century* (1988, Routledge, London), 262. That Irish agriculture was given excessive policy priority at the cost of other developmental ideas is explored by Brian Girvin, "Political Culture, Political Independence and Economic Success in Ireland."

¹³⁶ The idea of population size being a constraint unless confronted is addressed in Kennedy, Giblin and McHugh, *Economic Development of Ireland*.

production, growth, the standard of living, government cannot be indifferent to how business performs its function.¹³⁷ While the word ‘control’ possesses great elasticity in such framing, there is little doubt that business plays a vital role in capital accumulation in any mixed economy. How this role plays out and how important it is is a subject of endless academic discourse, particularly among those who advocate for endogenous growth models and those who don’t.

What is more important for this piece of work, is that Irish policy makers *believed* that the allocation of business resources was a significant influence on growth performance, possibly more than other factors such as demography or the presence/absence of natural resources. The question of whether collective business decisions were positive or negative for Ireland’s economic growth performance in the first couple of decades of Irish independence has drawn few answers from researchers, albeit the question has been too rarely posed. This is possibly because economists are too broadly focused on the level of aggregates, whereas business historians are too narrowly focused at firm level to stare upward and formulate a wider view.

2.3.5 Business Sector Minimised in Historical Writing

Economic historians have been reasonably complimentary about what the Irish Free State inherited in terms of its business sector. For example its banks were said to be well developed, its rail network extensive and communications network satisfactory by contemporary standards.¹³⁸ As for the business community itself and its ideological stance, it has been said this group shifted from the 1920s when they supported the free trade and low tax policies of Cumman na nGaedheal to the protectionist walls they could operate behind in the 1930s, erected as they were by Éamon de Valera and Sean Lemass.¹³⁹ While fleeting broad brush analysis of where Ireland’s business community stood coming into the independence era can be sporadically located, the fact that the term ‘business’ merits no presence in the indexes of the canonical texts of 20th century Irish historiography is somewhat peculiar.¹⁴⁰ For business historians raking over historical coals in Ireland is best done via primary data, where this sense that Ireland’s business sector was broadly healthy, adequate and likely to be a contributor to intensive growth is far from obvious.

Just a few fundamental examples bear this out- Ireland’s business sector profitability was poorly remunerative in the early decades of Irish independence with dividend yields below those available

¹³⁷ Lindblom, *Politics and Markets*, 172.

¹³⁸ Kennedy, Giblin and McHugh, *Economic Development*, 257.

¹³⁹ Garvin, *Preventing the Future*, 37.

¹⁴⁰ Roy Foster, *Modern Ireland 1600-1972* (London: Penguin, 1988). Joseph Lee, *Ireland, 1912-1985 Politics and Society* (Cambridge: Cambridge University Press, 1989).

on government stock issues.¹⁴¹ Secondly, and more starkly, was the diminutive scale of the Irish business sector- for example there were only a few hundred accountants in the Irish state in 1926 and a similarly modest number of business support professionals.¹⁴² Ireland did not establish a specialist institution for management training until the 1950s. On top of scale and skill development issues, was the spectre of sectarian control of the sector. While non-Catholics made up only seven per cent of the Free State population in 1926, they were overrepresented in the higher echelons of all business activities.¹⁴³ The presence of this group, counterposed against a prevailing Catholic political elite, led to mutual suspicion on both sides.

This was the sector Irish political elites hoped to ‘command’ upon taking power in 1922. Ireland then underwent a destructive Civil War which lasted between June 1922 and May 1923. As a result, any notion of using political independence to spur economic transformation was put to bed. What any transformation would have looked like was hard to discern in any event. The vehicle for Irish independence, the Sinn Fein party, had crafted its political appeal around the idea that independence from Britain alone would be pivotal in reviving Irish economic fortunes. Independence would allow Ireland to cure specific economic maladies, with many of these centered around the ‘commanding heights’ of the economy. Ireland was firstly over taxed, secondly it had a rail system run by extractive companies charging rates not conducive to the requirements of domestic business, and thirdly had a banking system that collected savings from Irish depositors that were then placed out of the reach of Irish investment vehicles and converted instead into British government bonds and consols.¹⁴⁴ Deep dissatisfaction with the configuration of Irish transport and banking was matched by a deep uneasiness with the insurance sector too, where the scale of mobile capital was very large in the context of the Irish economy. The nationalist newspaper, *Nationality*, was a particular vehicle for adverts by Irish insurance companies, where customers were reminded that annually that close on £2m of premium income left Ireland annually.¹⁴⁵ The isolation of transport (rail and shipping), banking and insurance in commentary by Irish economist nationalists, via the broad Sinn Fein movement would guarantee these sectors would be the foci of nationalist economic attention once independence was secured and so it proved. Even before independence was secured,

¹⁴¹ Data on dividend yields and profitability for quoted Irish companies, pre and post WW2 are to be found in F.G. Hall, *The Inadequacy of Irish Commercial Profits* (Dublin: G&F Healy Publishers, 1954). Author’s own copy.

¹⁴² 1926 Census of Population, Department of Industry and Commerce, (Industries). This puts the number of accountants in the Irish state at 729.

¹⁴³ Frank Barry, “The Life and Death of Protestant Businesses in Independent Ireland,” (2017), *Irish Economy Website*, <http://www.irisheconomy.ie/wp-content/uploads/2017/09/The-Life-and-Death-of-Protestant-Businesses-in-Independent-Ireland.pdf>

¹⁴⁴ These critiques were most influentially voiced in the work of Arthur Griffith, editor of the Sinn Féin journal and founder of the party of the same name. The views of Griffith on banking, rail transport and taxation are captured at various junctures in Owen McGee, *Arthur Griffith* (Kildare: Merrion Press, 2015).

¹⁴⁵ *Nationality*, April 19, 1919, page 4. Can be accessed via Irish Newspaper Archive.

nationalists were taking very practical steps to reconfigure these segments of the so-called commanding heights- with Sinn Féin setting up its own bank, the Sinn Féin Co-operative People's Bank, in 1908 and other nationalist figures setting up Irish-owned insurance companies between 1919 and 1925.

While railway development, due to its capital intensity, could not be paralleled by enthusiastic nationalist activists, there were calls for the nationalisation of the sector and key Irish nationalist voices in the debate over railway ownership, such as rail shareholder John Sweetman, suggested the railway system be brought under one management, a model that would be adopted in 1924 by the Cumann na nGaedheal party, an example of how the inchoate nationalist ideas of the pre-independence era would crystallise into hardnosed legislative form in the early years of the new state.¹⁴⁶ What is lacking in the business history literature of Ireland in particular are strong empirical accounts of how this process took place and how the reconfiguration of the commanding heights was to occur and what role the state would play in this.

Much of this would of course depend on what kind of economic dispensation or developmental path the Irish state would opt for. Categorising these options is not a simple matter in an Irish context. For example, the governments of the 1920s in Ireland are often described as a free trade, but there was some protectionism, equally the protectionist administrations of the 1930s, refused to impose tariffs at all in some areas, for example insurance policies of non-domestic firms. The now canonical 'varieties of capitalism' typology presents a framework for business historians to utilise in their research on economy types, with the simple reminder that there are multiple paths to economic success.¹⁴⁷ Among the arenas where government and business might intersect typically, would be industrial relations; training and education; corporate governance; inter-firm relations; and employee relations. Examining interactions across these plains, Hall and Soskice arrived at two 'ideal types' of market economy, the 'liberal market economy' (or LME), and the 'coordinated market economy' (CME). The former was found in the United States, Britain, Australia, and Canada, while the latter was the mould befitting Germany and the Nordics. Ireland was included in the LME category, albeit a somewhat awkward fit. For example, in an LME economic configuration, economy-wide wage co-ordination were said to be difficult to achieve, but Ireland has created such a tripartite model, via a series of corporatist style social partnership national agreements which date back to 1987. This work does not aim for the ambitious goal of explaining the full emergence of the capitalist system in Ireland (whether that be LME, CME, or

¹⁴⁶ McGee, *Arthur Griffith*, 101, deals with Sweetman's ideas.

¹⁴⁷ Peter A Hall, David Soskice, *Varieties of Capitalism* (Oxford: Oxford University Press, 2001).

hybrid), but does seek to make an important, but narrower contribution, which considers how government-business relations in economy wide services categories evolved historically.

2.3.6 Business History Potential in Irish Historical Research

Much of the business history literature, particularly that of smaller European countries, talks of political pragmatism and avoiding deeply ideological choices.¹⁴⁸ Situating government-business relations within a drive for competitiveness (however defined) has been a feature of business history research.¹⁴⁹ Others have suggested taking a strict sectoral approach, backed by strong archival integrity, rather than reaching for simple generalisations.¹⁵⁰ Whatever the approach, business history in the Republic of Ireland has few concrete institutional pillars. There is no formal institutions devoted to its study and while there has been some journalistic attempts, there is no definitive academic account of Irish business history, with what work has been done skewed towards manufacturing over services (or ‘commanding heights’ type categories).¹⁵¹ In the view of this author, business history with its analytical power and close attention to data and historic integrity, represents an ideal tool for describing the growth and development of the Irish economic model, albeit such work is building on shallow foundations.

2.4 Government-Business Relations Specific Literature

Moving outside the business history domain, it is worthwhile reviewing what general theory on business and government relations has to offer researchers. Much of this work exists within the field of political science, although economics and sociology can also be hosting disciplines. While this work has many perspectives, a core question observers suggest is always worth asking is – is business dominated and controlled by the state, or are states dominated and controlled by business?¹⁵²

¹⁴⁸ Pasi Nevalainen & Ville Yliaska, “From state-owned smokestacks to post-industrial dreams: The Finnish government in business, 1970–2010,” *Business History*, 63:8 (2020): 1327-1356

¹⁴⁹ Carlo Joseph Morelli, Jim Tomlinson & Valerie Wright, “The managing of competition: Government and industry relationships in the jute industry 1957–63,” *Business History*, 54:5 (2012): 765-782.

¹⁵⁰ Andrew Jenkins, “Government intervention in the British gas industry 1948 to 1970,” *Business History*, 46:1 (2004): 57-78

¹⁵¹ Work on services in Ireland, in terms of industry evolution, is also said to be spartan, but has been addressed in the area of Irish retail wholesaling, see Jim Quinn and Brian Leavy, “The Drivers of Industry Evolution

A Study of Irish Wholesaling,” *Journal of Marketing Channels*, Vol 13, Issue 1 (2005): 37-62.

¹⁵² David Coen, Wyn Grant and Graham Wilson, “Perspectives on Business and Government”, in *The Oxford Handbook of Business and Government*, edited by David Coen, Wyn Grant, Graham Wilson (Oxford: Oxford University Press, 2010), 24.

While there are almost limitless explanatory frameworks that address the relationship between government and business, the structuralist framing of such relationships remains the most influential, but this set of ideas acts as something of a polarising boundary line.

2.4.1 Structural Ideas of Business Power

Such ideas emanate originally from US writer Charles Lindblom and his 1977 work, *Politics and Markets*. Lindblom asserted that in modern Western mixed economies, governments were prisoners of business, as business controlled jobs, investment, production and financial capital, thereby removing or greatly constraining policy choice as politicians, who seek election, would logically be slow to endanger such economic resources. This view was given added force through globalisation, which intensified in the years after publication, as it seemed to bestow upon business additional power to constrain governments, purely by re-locating production to competitor geographies, a process often described as ‘exit’. The Lindblom thesis has come packaged in other forms, from outside political science. For example, foundational economic theories like Mundell–Fleming model echo Lindblom, in the sense that they speak of how small open economies are constrained by the reaction and anticipated reactions of private capital, in that case by forced within currency and capital markets. Equally those who track modern political parties talks of the ‘political business cycle’, where governments shape fiscal policy according to political timings, but again this is dependent on private actors complying, whether that is via investment or support for government borrowing programmes.

The Lindblom thesis nestled beside a Marxist accompaniment, with many from this school suggesting that governments are simply the expression of class interests, and these interests are primarily capitalist. In reality however this Marxist analysis pre-dates Lindblom. Its most enthusiastic advocate, Ralph Milliband, suggested in 1969 that the state acts to serve capitalist interests and in most cases governments are drawn from the the social elite, whose intention is to reproduce and preserve the capitalist mode of production.¹⁵³ In his own 19th century writing Marx himself addressed the idea of the economic dependence of the state on the bourgeoisie.¹⁵⁴

2.4.2 Pluralist Critique

The Lindblomian view, and its Marxist variants, has been challenged vigorously from multiple vantage points. First, from a traditional view that relations between government and business are strongly situational and involve continuous contestation, with business often counter balanced by

¹⁵³ Ralph Miliband, *The State in Capitalist Society* (London: Weidenfeld & Nicolson, 1969).

¹⁵⁴ Karl Marx, Friedrich Engels and C. J Arthur, *The German Ideology* (London: Lawrence & Wishart, 1974).

groups such as consumers and activist NGOs. This so-called pluralist school, which revolves around contestation of interest groups, was popularised in the writing of political scientist Robert Dahl. While its utility is clear in the modern economy, where mass media attention creates salience around a range of issues, its applicability to earlier historical eras can be plausibly questioned. For example, the modern organised consumer movement did not exist in pre-WW2 in most western societies and certainly not in Ireland, where the move to protectionism essentially meant they were invisible. The environmental or green movement is also a product of post-WW2 societies, so when Dahl and others talk about contestation among interest groups, one can question how intense such contestation was or its true range. Separately, Lindblom and his structural reading of economic organisation has also been challenged by counter narratives that emphasise not the power of business, but the power of consumers over modern states.¹⁵⁵

But the main critique of structural readings of business-state relationships is that often scholars who've looked carefully haven't found evidence of the privileged position of business. Crudely business has been characterized as an interest group like any other, winning some conflicts, losing others.¹⁵⁶ Another critique mounted concerns instrumental power held by business. Does business win not because of structural embedded economic power, but due to pre-active lobbying, access, donations etc. When business 'wins', does one attribute this to structural power or instrumental power or a combination?¹⁵⁷ Another challenge in attributing outcomes to structural power is to show that structural power is distinct from the very real preferences of the electorate.¹⁵⁸ A terrifically knotty challenge is to disentangle the effects of business power from public opinion-if a government lowers taxes for instance is this because of the structural power of business or because it reflects shifts in public opinion or both?

Such critiques meant structural power arguments languished for two decades, but the global financial crisis re-enlivened them, particularly the idea of 'too big to fail' as it applied to financial institutions. These instances appeared to prove that government policy choice was dramatically narrowed by the political reality that such systemically important institutions 'had' to be rescued. But the 'too big to fail' concept, should not lead researchers toward the idea that structural power relationships are unidirectional. Researchers now talk more crucially about reciprocal dependence. For every bank bailout that governments are compelled to initiate there is counter balancing instances where power is exercised *over* banks by states, for instance large international banks need controlled access to the dollar-based financial system, thus giving the US structural power in a

¹⁵⁵ Kenichi Ōhmae, *The End of the Nation State* (New York: The Free Press, 1995).

¹⁵⁶ Pepper Culpepper, "Structural power and political science in the post-crisis era," *Business and Politics*, Vol. 17, No. 3 (2015): 391-409.

¹⁵⁷ Culpepper, "Structural power."

¹⁵⁸ Culpepper, "Structural power."

contraflow sense.¹⁵⁹ In addition at the time of writing a range of windfall taxes are imposed upon sectors of strategic importance like banking and utilities, as part of a return to high inflation.

All such frameworks above are useful for business historians. A more recent addition to lexicon of business influence is the idea of institutional business power. This occurs when states delegate public functions to private business actors and over time, through policy feedback and lock-in effects, a dependence of the state on the continued commitment of private business actors gets embedded.¹⁶⁰

2.4.3 Public Choice School- Rent Seeking, Capture

While coming from the public choice school and hence strictly outside the domain of political science, traditional concepts such as rent seeking and regulatory capture can be relevant to teasing out the relationship between business and state. Rent seeking as devised by its leading promoters, Gordon Tullock and Anne Krueger is a situation where the state creates, via various policy instruments, economic rents that business, or private interests at least, can compete for and receive. An import restriction or import licence for example would be examples of when ‘rents’ can be collected. Some political economy sources explain that rent seeking includes all of the various ways by which individuals or groups lobby government for taxing, spending and regulatory policies that confer financial benefits upon them at the expense of taxpayers or consumers.¹⁶¹ This dynamic of business exploiting an advantage or opportunity (rent seeking according to its promoters can span both legal and illegal behaviour), identified in the 1960s, eventually led to a reflexive hostility to state interventions of any kind, thereby entirely eliminating the threat of rent seeking.¹⁶² But how was rent seeking by business ever possible?

While starting from an alternative starting place, influential figures such as George Stigler, several years before Lindblom, were enunciating the idea that ‘every industry or occupation that has enough political power to utilize the state will seek to control entry’.¹⁶³ Stigler suggested various political ‘boons’- including tariffs, control over entry, subsidies, and price fixing- are sought by business. Stigler then rhetorically asked the question, how does business secure these things, many of which

¹⁵⁹ Patrick Emmenegger, “The long arm of justice: U.S. structural power and international banking”. *Business and Politics*, 17, 3 (2015): 473-493.

¹⁶⁰ Marius B Busemeyer and Kathleen Thelen, “Institutional Sources of Business Power.” *World Politics* 72, no. 3 (2020): 448–80.

¹⁶¹ Glossary of Political Economy Terms, Auburn University, Department of Political Science. Available here: http://webhome.auburn.edu/~johnspm/gloss/rent-seeking_behavior.phtml

¹⁶² David Coen, Wyn Grant and Graham Wilson, “Perspectives on Business and Government,” in *Oxford Handbook on Business and Government*, edited by Coen, Grant and Wilson (Oxford: Oxford University Press, 2010), 11.

¹⁶³ G.J. Stigler, “The Theory of Economic Regulation”. *The Bell Journal of Economics and Management Science*, 2, 3-21 (1971).

are inimical to consumers and the public? His answer was democratic processes are infrequent, universal and voters are unlikely to acquire information on issues of little or no direct concern to them. As a result, business can utilise regulation and the state in the absence of strong engagement from the electorate. The gains for business can be material of course, so-called materialist capture, but Stigler and other modern writers, also talked of cognitive capture, where regulators and state agencies start to think like the firms and industries they regulate.¹⁶⁴ Ultimately the outcome as described by public choice scholars is sub-optimal societally. But the limitations of regulatory capture are not dissimilar to those uncovered in the structural power argument. Business loses often and does not capture, so what accounts for variance? In addition, in many instance regulation, whatever its original intention, results in the imposition of costs on business due to what some writers call "regulatory unreasonableness". This is when governmental requirements, which seem sensible in principle but make little sense in particular contexts, are persisted with causing a waste of resources.¹⁶⁵ At the very least, such work muddles a picture that Stigler and others suggest is clearer.

When dealing with ideas of ‘onerous’ regulation, Stigler suggests these are exceptional cases and ventilates the subject very little beyond this in his signature work. When it comes to explaining why states and their agencies are subject to capture and decide to distribute rents, Stigler cites votes and resources directly to political parties. These resources may be provided by campaign contributions, contributed services (business people heading fund-raising committees) and more indirect methods such as the employment of party workers.¹⁶⁶ This form of instrumental power would either be unethical or potentially corrupt in the 21st century, but donation patterns from history are occluded in an Irish context, although a political scandal about gifts to politicians erupted in 1947.¹⁶⁷ What is missing from Stigler’s work on regulatory capture is a full sense of why regulators or state agencies would concede to capture, if aware that the capture is producing net social losses. In the Stigler view, the state, agencies and politicians concede to capture in a passive way, without agency, which is a view sharply countered by another group of theorists who have analysed the relationship between states and business.

While public choice has bestowed a crisp range of theoretical ideas, many political theorists point to its limitations. For example are all relevant actors utility maximisers? The school also has ‘poorly

¹⁶⁴ David Freeman Engstrom, “Corralling Capture”, *Harvard Journal of Law and Public Policy*, Vol. 36, (2013).

¹⁶⁵ Eugene Bardach and Robert A Kagan, *Going by the Book: The Problem of Regulatory Unreasonableness*. (Philadelphia: Temple University Press. 1992).

¹⁶⁶ Stigler, *Theory of Economic Regulation*.

¹⁶⁷ This was the so-called Lockes Distillery scandal which concerned a gift to then Taoiseach Éamon De Valera from a group of private investors. See an account here: <https://www.historyireland.com/the-locke-family-and-the-distilling-industry-in-kilbeggan/>

developed explanations' of how institutions initially emerge and evolve over time and rarely is able to explain why change happens.¹⁶⁸

2.4.4 Statist Perspective and the Bureaucratic View

Another group of theorists, usually referred to as statist, believe the state is the ultimate determinant of the structure of markets, not business. In this view the state makes the rules and determines the organisation of businesses and the structure of markets. Where other theories suggest the state plays a subsidiary role, in the statist perspective the state is restored to primacy, and this is outlined in the work of Theda Skocpol and Stephen Krasner. Other theoretical stances render the state as simply an 'instrument' to be utilised by groups to achieve private ends and the state is nothing but a dependent variable. But statist see things differently- citing the idea of 'state autonomy'- where the state has the ability to define and pursue an agenda, not defined for it by private societal interests.

This does not mean society is irrelevant, but that it does not uniquely determine state action. Often the state 'wins out' against the societal forces reigned against it, as it may have its own ends and interests. Clearly there are 'strong' states and 'weak' states, based on whether they cave into economic interests. Added to this is other work suggesting individuals holding public officials have preferences and are not simply malleable figures manipulated by sectional interests.¹⁶⁹ A range of factors can shape the preferences of public officials, including the official's career interests, organisational loyalty and professional knowledge.¹⁷⁰ The basic needs of states to maintain control and order may spur state-initiated reforms and these are often prosecuted by career officials relatively insulated from ties to currently dominant socioeconomic interests. These officials are likely to launch distinctive new state strategies in times of crisis.¹⁷¹ Much of the argumentation in this area revolves around the idea of 'state autonomy', which is defined as the ability of states to formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes or society.¹⁷²

This state autonomy, which inevitably faces ideological resistance, clearly can exist, at certain times and places. Some authors go further and talk of an entrepreneurial state, which is not only an administrator and regulator of the wealth creation process, but a key actor in it, willing to take the

¹⁶⁸ These critiques are all made by Michael Trebilock, *Dealing with Losers* (Oxford: Oxford University Press, 2014), 19.

¹⁶⁹ Eric A Nordlinger, *On the Autonomy of the Democratic State* (Harvard: Harvard University Press, 1982)

¹⁷⁰ Nordlinger, *On the Autonomy*, 15.

¹⁷¹ Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in *Bringing the State Back In*, edited by Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (Cambridge: Cambridge University Press:1985), 3-44.

¹⁷² Skocpol, *Bringing the State Back In*, 9.

risks business will not.¹⁷³ This often translates into transformational public investments, so-called moon shots, which can be viewed in the context of Silicon Valley and the iPhone, it is argued.¹⁷⁴ This argument suggests that state intervention is not bounded purely by instances of market failure, but can go beyond these instances. For example, the state was the first to ‘fathom’ and invest in the internet and its potential, the same for nanotechnology.¹⁷⁵

This is an important observation, in the sense that it adds depth to what can be a sterile debate where all state interventions, regardless of space or time, are fenced in by the three traditional types of market failure- the provision of public goods, imperfect competition and externalities. Of course, debate over what can be truly considered a public good (non-excludable and non-rivalrous) is boisterous, with many arguing that the internet is an example. These debates while important should not detract from the more important point, that states do (and have) get directly involved in activities aimed at stimulating economic growth, innovation and capital accumulation. This is often about breaking out of factor endowment and comparative advantage shackles. When government directly seeks to adjust economic performance, beyond the autonomy of the free market, a range of terms are utilised for this, including developmentalism, *dirigisme* and industrial policy. These debates among statist, Lindblomian structuralists and those who occupy a pluralist middle ground are useful in providing a theoretical backdrop to the work studied here. But too often the theorists who champion these contending frameworks do not anchor their work upon strong historical research bedrocks. For example, Lindblom’s work of 1977, *Politics and Markets* does not rest its knowledge claims upon historical or archival work, but on theoretical constructs and contemporary political observation.

2.5 Developmentalism and Industrial Policy Literature

As the two core pillars of economic management and macroeconomics itself, it is said by influential global organisations that it is vital monetary and fiscal policy be co-ordinated.¹⁷⁶ It is vital as they both in their own way exert centrifugal force on the economic entities they surround. These twin levers, pulled by the state directly or via mediating institutions (such as central banks), usually have fast acting effects, designed as they are to address mainly short to medium term threats to financial stability and/or economic prosperity. But what of their more gradualist and diffuse cousin, industrial policy? This form of state intervention, whose very utility is called into question by

¹⁷³ Mariana Mazzucato, *The Entrepreneurial State* (London: Penguin/Random House, 2013), 4

¹⁷⁴ Mazzucato, *Entrepreneurial State*, 4.

¹⁷⁵ Mazzucato, *Entrepreneurial State*, 28.

¹⁷⁶ Bernard Laurens and Enrique G. de la Piedra, “Coordination of Monetary and Fiscal Policies”, (1998), International Monetary Fund Publication. Available at: <file:///C:/Users/Emmet%20Oliver/Downloads/1018-5941-article-A000-en.pdf>

economists who question endogenous growth theories and the power of state policy decisions, is arguably of high relevance to relations between businesses and the state. The precepts of industrial policy, if implemented rigorously, can theoretically upend whole sectors, drive businesses out of existence, while making others ‘national champions’ and at least potentially globally dominant.

While in many ways industrial policy is a method, it springs often from a wider philosophy commonly termed developmentalism. This sometimes-mercurial term is as malleable as the word development itself. In the international domain of development economics the term refers to the way political power is exercised to promote sustained accumulation, a process of capitalist development that usually takes place over decades and involves a systemic transformation in the political economy of a country.¹⁷⁷ More locally in Ireland the term is used more amorously to refer to a specific state-focus on economic growth, that is viewed as relying on industrialisation and on an overall modernisation of society and its economic infrastructure.¹⁷⁸ Its probably also worthwhile to consider the term Keynesian in this context. While this is a specific economic philosophy, it leads to arguments in favour of government policies aimed at bringing about a stable process of reproduction and adequate levels of employment than pure self-regulating markets.¹⁷⁹ One of the cornerstones of Keynesian economics, demand management, is sometimes portrayed as a purely technical act or tool, but any active influence sought over the business cycle has political implications, including in how elections are won or lost.¹⁸⁰

While developmentalism has almost endless intellectual aspects and sub-variants to it, all worthy of considerable discussion, the hard pragmatic way it is most commonly executed, outside of fiscal or monetary policy, is industrial policy.

2.5.1 Industrial Policy and State-Led Development

While the phrase ‘industrial policy’ occurs mainly in writings of the 20th century, its genesis reaches back to Jean-Baptiste Colbert, Controller-General of France in the 17th century and stretches right through to the 18th century and the ideas of US Treasury Secretary Alexander Hamilton. Hamilton in particular in his *Report on the Subject of Manufactures* (1791) foregrounded ideas such as protectionism via tariffs and subsidisation of selected industries. In an Irish context Georg Friedrich

¹⁷⁷ Graham Harrison, *Developmentalism: The Normative and Transformative Within Capitalism* (Oxford: Oxford University Press, 2020), 13-15.

¹⁷⁸ Various strands of Irish developmentalism and its historical aspects are reviewed in a special edition of the *Irish Economic and Social Review*, Vol 41, Issue 3.

¹⁷⁹ James A Caporaso and David P. Levine, *Theories of Political Economy* (Cambridge: Cambridge University Press, 1992), 103.

¹⁸⁰ The embracing of John Maynard Keynes by Irish politicians has been addressed by a number of writers, but many of these accounts suggest the embrace was partial in the 1930s but more pronounced post-WW2. See Cormac Ó Gráda and Kevin O'Rourke, “The Irish economy during the century after partition,” *Economic History Review*, 75 (2022): 336–70.

List, an economist born in modern day Germany, was more relevant to development of economic ideas by Ireland's leading nationalist figures, most prominently the founder of Sinn Féin, Arthur Griffith.

Griffith, who stands out as the most influential shaper of Irish nationalist economic thought pre-independence mainly through his writings rather than his political activities, selectively used List's views to prosecute the case for Irish protectionism, although this was strongly qualified.¹⁸¹ Protection would not mean the exclusion of foreign competition, Griffith argued at public meetings, but ensuring that native manufacturers were able to meet foreign competition on an equal footing. Griffith's trigger for protectionist intervention was ambiguous but would only apply he argued where the sole advantage enjoyed by the overseas manufacturer was a recourse to larger capital levels than their Irish commercial rivals.¹⁸² Griffith's prescriptions would later be implemented (with qualifications) in the 1930s and beyond by Fianna Fáil, especially in the manufacturing sphere. But Griffith's autarkic vision was just one of three economic paths the newly independent state might have taken. Also intellectually available were those of James Connolly, who promoted a worker's socialist republic built on syndicalism model and those of barrister, academic and poet Tom Kettle, who championed the idea of Ireland integrating into a wider European economy and choosing liberal free trade as the vehicle to tap these opportunities.¹⁸³ While Griffith is most linked with List and the broad contours of industrial policy, the evocation of List was chiefly about protectionism, infant industry arguments and tariffism, but not about more prescriptive components of industrial policy, which are worthwhile rehearsing. Industrial policy has a plethora of definitions but those researching most intensively in the area call it a policy aimed at particular industries to achieve outcomes that are perceived by the state to be efficient for the economy as a whole.¹⁸⁴ Sometimes a more crude definition, with a dose of disapproval attached, is 'picking winners' and/or helping losers. Researchers at organisations like the World Bank adopt a broader definition, describing industrial policy as any type of selective intervention that attempts to alter the sectoral structure of production toward sectors expected to offer better prospects for economic growth than would occur in the absence of such intervention.¹⁸⁵

¹⁸¹ Colum Kenny, "A Man Who Has Both Arms: Arthur Griffith, the Economy and the Anglo-Irish Treaty Agreement 1921," *Irish Economic and Social History*, Online First (April 2022).

¹⁸² Kenny, "A Man Who Has Both Arms".

¹⁸³ Patrick Honohan, "The Old Connection Sundered? Ireland and the UK Since 1916", Trinity Economic Papers, Working Paper No. 1416 (2016) Available here: <https://www.tcd.ie/Economics/TEP/2016/tep1416.pdf>

¹⁸⁴ Ha-Joon Chang, *The Political Economy of Industrial Policy* (Hampshire: Macmillan Press, 1994), 60.

¹⁸⁵ Howard Pack and Kamal Saggi, "The case for industrial policy: a critical survey," *World Bank Policy Research Working Paper*, 3839 (2006).

The taxonomy of industrial policy initiatives is immensely wide ranging, but core policies observed across country and era that can be usefully split into hard and soft interventions, the former containing tax concessions, subsidies/state aid, low cost loans, import protection and the latter containing the creation of national champions, provision of education/training and R&D, agglomeration creation or state encouraged clustering. Beyond this is more diffuse state action, often described as co-ordination or a framework for public action, which includes encouraging restructuring, diversification and technological dynamism within sectors and by extension across the economy in ways not possible via the private sector.¹⁸⁶ It is worthwhile considering that industrial policy is a not just product of the Anglophone world and *dirigisme* is used to describe a cluster of policies adopted firmly during the post-WW2 period in the Francophone world.

In France this dirigiste model was designed to incubate a new capitalist class, after the failures of French business pre-WW2, including collaboration with the Nazis. The new model would see state intervention across a broad spectrum, including educating a new generation of bureaucrats with business knowledge who could engage with companies, the transfer of technology from publicly funded research labs to commercial exploitation by firms, protection from foreign competition and subsidised credit via the banking system.¹⁸⁷ In this way state officials not only ‘chose winners’ they often created these so-called ‘national champions’ in the first place through state-sponsored mergers and takeovers.¹⁸⁸ However this dirigiste model was also anchored around keeping wages for labour low and it was this element of the policy mix (including keeping taxes low for business) which eventually triggered political opposition, making such policies no longer politically acceptable in France.

Whatever about specific policy instruments and their deployment across geographies, industrial policy remains a crucial arena where objectives of government are enjoined on business. While opponents of industrial policy charge that it results in rent seeking and economic wastage, its proponents believe it is a force for development. In more recent decades such binary framing has been relegated with a middle ground emerging which advocates a strategic collaboration between the private sector and government with the aim of uncovering where the most significant obstacles to restructuring lie and the best interventions to remove them.¹⁸⁹

¹⁸⁶ Dani Rodrik, “Industrial Policy for the 21st Century,” Centre For Economic Policy Research (2004).

Available at: <https://repec.cepr.org/repec/cpr/ceprdp/DP4767.pdf>

¹⁸⁷ Jonah D. Levy, “From the Dirigiste State to the Social Anaesthesia State: French Economic Policy in the Longue Durée,” *Modern & Contemporary France*, 16:4 (2008): 417-435.

¹⁸⁸ Levy, “From the Dirigiste State,” covers in detail the various policy planks of this era.

¹⁸⁹ Rodrik, “Industrial Policy for the 21st century,” 3.

Industrial policy is needed to cure two key externalities, the first being an information externality. This is where entrepreneurial ‘self-discovery’ takes place, where entrepreneurs get an opportunity to experiment with new product lines and tinker with technologies from established producers abroad, adapting them to local conditions. Subsidisation of such activity is justified as whole industries arise out of such ‘experimental’ efforts.¹⁹⁰ The second is a co-ordination externality. Co-ordination efforts by the state are slightly different, often coming at no (or low) cost, but they are required because new industries can fail to develop unless upstream and downstream investments are co-ordinated simultaneously and planned out.¹⁹¹

For example an individual producer contemplating whether to invest in a greenhouse needs to know that there is an electrical grid they can access nearby, irrigation is available, the logistics and transport networks are in place, quarantine and other public health measures have been taken to protect his plants from his neighbours’ pets and so on. The private sector is unlikely to provide this unless it has a guarantee there will be enough greenhouses demanding these services in the first place, a classic co-ordination problem.¹⁹² But those advocating this form of industrial policy concede that industrial policy is open to corruption and rent seeking. Any system of incentives designed to allow business move into new activities can end up as a mechanism of rent transfer to unscrupulous business figures and self-interested bureaucrats.¹⁹³ Ultimately the issues in this area are best framed as a form of the principal-agent conundrum - the government as the principal, the firms as its agent. Putting the correct institutional structures to manage this type of relationship is what industrial policy should ultimately make happen.¹⁹⁴

2.5.2 Irish Industrial Policy Dynamics and Literature

In an Irish context, the developmentalist urge of the 1930s onwards, lacked such structures, with the emphasis not on industrial development per se, but on Irish industrial development.¹⁹⁵ But industrial policy did take place, with the aim of a strategic switch from the export of primary products (mainly to Britain) to one of industrialisation, albeit protected and domestically-owned. While tariffs were a cornerstone of this industrial policy from the 1930s onward, the setting up the Industrial Credit Company (ICC) in 1933, was also relevant, its task to fund and/or underwrite ‘experimental’ new industries, that would not draw support from the private sector without risk-

¹⁹⁰ Rodrik, ”Industrial Policy,” 10.

¹⁹¹ Rodrik, 11.

¹⁹² Rodrik, 13

¹⁹³ Rodrik, 17

¹⁹⁴ Rodrik, 18.

¹⁹⁵ John Bristow and Alan Tait, *Economic Policy in Ireland* (Dublin: Institute of Public Administration, 1968), 154

sharing by the state.¹⁹⁶ Aside from these measures, little attention went on the competitive structure of industry, the degree of monopoly, nor the scale of efficiency.¹⁹⁷ This latter set of activities are a core plank of industrial policy. For example, scholars talk about modifying the ecological environment via industrial policy.¹⁹⁸ That is fostering technical progress and supporting innovation often by research and development spending or importing technology and knowledge from outside the country. While some of this was to be seen in the handling of Prudential's insurance presence in Ireland in the 1930s (the so-called 'block system' of selling insurance was bequeathed to Ireland by Prudential), overall there is little evidence these issues were given much consideration in the early decades of Irish independence and rarely in the services sector.

The importance placed on country of ownership, particularly to be viewed in the insurance reforms of the 1930s, appears to have placed these other considerations into the margins. Too often the importance of an enterprise was judged on its domestic origins, not on what it did or future potential. Industrial policy, in its most efficacious form, should concern new or ex-ante co-ordination, but much of the policy focus of the 1920s was on existing sectors such as flour milling and of course agriculture. While much of the literature that has studied Irish industrial policy focuses- partly understandably- on protectionism, there has been little concentration on what industrial policy (whatever there was) looked like in individual sectors, particularly outside manufacturing. This is possibly explainable, in the sense that business often had little inclination to seek state involvement. For instance the Fiscal Inquiry Committee, an important body which looked at potential ways to foster development in the early independence years, failed to get the Irish banks to appear before it, while the insurance industry was not mentioned once in final reports.¹⁹⁹ While the issue to the foreground when one overviews the literature of the period on industrial policy in Ireland is protectionism, a more productive seam might have been what happened to the structure, productivity and output of the domestic industries that were given protection and what did industrial policy look like, outside of strict protectionism. While a so-called 'Treasury view' is said to have gripped senior bureaucrats in the early years of the state, such as J.J. McElligott and Joseph Brennan, there were counter balancing forces, who championed an inter-war version of industrial policy. The Irish Department of Industry and Commerce was chief among them in its belief in reaching out to business, assembling granular sectoral information, and championing, where appropriate, sectoral transformation. The largest of these transformations was arguably in the rail

¹⁹⁶ The reasons for setting up ICC and its backing of 'experimental projects' were enunciated in Dáil Éireann debate, Jul 4, 1933, Vol. 48 No. 12.

¹⁹⁷ Bristow and Tait, *Economic Policy*, 154.

¹⁹⁸ James Foreman Peck and Giovanni Federico, *European Industrial Policy- The 20th Century Experience* (Oxford: Oxford University Press, 1999), 4.

¹⁹⁹ Final Reports of the Fiscal Inquiry Committee, Government Stationery Office, 1923. Available at <https://opac.oireachtas.ie/AWData/Library3/Library2/DL063702.pdf>

industry, with the Railway Act of 1924, a large undertaking by standards of the time, merging a plethora of regional railway companies into effectively one firm, the Great Southern Railways (GSR) company, which is covered by one of three papers in this work.²⁰⁰

2.5.3 Embedded Autonomy Literature

Those who study industrial policy and state-business interactions talk of the state having embedded autonomy, a set of institutionalised channels where the state and the private sector continually interact to foster economic development. While clearly the Department of Industry and Commerce of the 1920s was pushing towards this type of autonomy, it was a milder form they envisaged. Full embedded autonomy, as described by political sociologist Peter Evans, involves a group of highly competent state managers, with their own capabilities, directly taking a role in different sectors and seeking their transformation.²⁰¹ What emerges from the work of Evans is a sharp contrast, on the one hand states can opt for what he calls a ‘mid-wife’ role, where the state steers, induces and assists private firms in attempting new production challenges in high priority areas, switching from less rewarding areas to more rewarding ones, classic industrial policy. But a more radical choice is where a state takes on a producer or demiurge role, which can mean producing its own goods directly through state companies, and even replacing or competing with private producers. This is done because local capital is presumed to be inadequate and transnational capital disinterested, meaning this form of demiurge is seen as the only way to move development forward in that context.²⁰²

This form of producer role is a strong descriptor for the type of more assertive industrial policy employed by Sean Lemass in the 1930s and later, essentially taking the more sedate Department of Industry and Commerce ambitions of the 1920s (akin to the mid-wife role of Evans) and adding a new bold aggressive impetus. Scholarly work on Irish industrial policy, outside the protectionist sphere, is sparse. Minister for Industry and Commerce, Sean Lemass, was the chief political instigator of Irish industrial policy programmes in the 1930s and for much of the 1940s too, yet biographies of Lemass neglect to address his reforms in the insurance or rail industries or look closely at what the objectives there were.²⁰³ For his own part, Lemass, at least publicly, signalled

²⁰⁰ The importance of this Act and its description as a milestone piece of state intervention is referenced in Brian Girvin, *Between Two Worlds- Politics and Economy in Independent Ireland* (Dublin: Gill and Macmillan, 1989), 27.

²⁰¹ Peter B Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995). This summary of Evans work comes from, James Cypher and James L Dietz, *The Process of Economic Development* (Oxford: Routledge, 1997), 225.

²⁰² Peter Evans, *Embedded Autonomy- States and Industrial Transformation*.

²⁰³ John Horgan, *Sean Lemass – the Enigmatic Patriot* (Dublin: Gill and Macmillan, 1997). Paul Bew and Henry Patterson, *Seán Lemass and the Making of Modern Ireland 1945-66* (Dublin: Gill and Macmillan, 1982).

that his objectives in economic management were driven by an output mindset- increasing the amount of goods produced in the Irish Free State, often through import substitution.²⁰⁴ Such was the pre-occupation with production, Lemass tried in 1947 to introduce an industrial efficiency bill, aimed at coercing companies (albeit after more gentle consultations) to improve their efficiency. The desire for output gains and more internal trade and goods movement due to protectionism was also part of the rationale for the Lemass approach to railways too. Their poor financial condition would be at least partially cured by the move to protectionism and internal production generally across the economy, he asserted. The belief that protectionism, as the anchor of Irish industrial policy, could be an all-embracing economic framework, stretching across sectors, has been somewhat neglected in the literature on Lemass, or his era.

One paper that directly addresses the subject of the contours of Irish industrial policy takes the view that the protectionism of the 1930s and onwards *was* industrial policy.²⁰⁵ Another essay that tackled the subject directly talks briefly about the rail merger of 1924 and the setting up of the ESB, the national electricity company set up in 1927, but does little to dissect the underpinning assumptions or motivations behind industrial policy interventions in the initial decades of Irish independence.²⁰⁶

International literature has a broader focus, stitching services activities into broader models of economic growth, as exemplified by work from pioneers such as Alexander Gerschenkron and Walt Rostow. For example, Gerschenkron stitches the relationship between industry and banks into the central parts of his model. According to his work, banks in Germany in particular played a central role in developing Germany industry in the late 19th century and beyond, deciding what industries would be allocated increased credit and which would not. Long term investment by German banks was countenanced and practiced as German banks accompanied enterprises through their cycle, from ‘cradle to grave’, including crafting strategic company decisions.²⁰⁷ This was in sharp contrast to Irish or British banks in either the 19th or 20th century, where credit was lent short term and influence over company decisions was more muted. Such historically situated growth models suggest that industrial policy is necessary, but its timing is important and the precise elements employed are equally important. Other work suggested a theory of the ‘big push’, where a series of inter-locking investments would be made in several branches of industry at once, creating a

²⁰⁴ Parliamentary debate contribution from Sean Lemass. Dáil Éireann debate on Control of Manufactures Bill 1932, 14 Jun 1932, Vol. 42 No. 9

²⁰⁵ Brian Girvin, “Irish Industrial Policy: The Constraints and Opportunities of an Open Economy,” *Journal of Public Policy*, Vol. 3, No. 1 (Feb 1983).

²⁰⁶ Eoin O’Malley, “Ireland: From Inward to Outward Policies,” in Eds, James Foreman Peck and Giovanni Federico, *European Industrial Policy- the 20th Century Experience* (Oxford: Oxford University Press, 1989), 215-233.

²⁰⁷ Alexander Gerschenkron, *Economic Backwardness* (Harvard: Harvard University Press, 1966), 14

synergistic reaction and lifting growth overall.²⁰⁸ This work, pioneered by Paul Rosenstein Rodan, relied on the argument that private sector firms could not see benefits that might arise to other firms external to their business and hence would not, on their own, contribute to the simultaneous investments needed. A core weakness in much of the canonical industrial relations and developmentalist literature is any sense of the role of firms (or aggregated as business associations) in such interventionist episodes. While descriptions of the state's assorted roles in industrial policy have been neatly assembled by writers such as Peter Evans, the wider literature is more silent on what firms do in response. While there are many suggestions that firms have a preference for reciprocity in their relations with government, for some such reciprocity can drift toward permitting rent seeking. What influences the role, if any, of firms in industrial policy programs is the extent to which national development goals are shared by state and business in the first place.²⁰⁹ When that happens one side may simply be able to secure its aims without needing to arduously secure the co-operation of the other.

But in most government-industry relations there is no one sided distribution of power or an accord of aims, but something in between – a disparity that must be addressed by degrees of co-operation.²¹⁰ How these degrees of co-operation are arrived at is all too often not empirically researched. In addition, does the co-operation produce a societal benefit or simply reproduce an insider economy. This raises the more central question- how does one know if industrial policy, if introduced, has been successful. Some may simply ask did the policy intervention achieve the objectives as set out by its promoters, but others suggest its ultimate success is measured by a country's rate of growth, post the introduction of the relevant policy cocktail, for example France post-1945.²¹¹ If that is a measure, we are left peering through the glass darkly as Ireland's performance, GDP per capita, dramatically see-sawed during the independence era of the 20th century, dire for example in the 1950s, poor in the inter-war period, but not atypical, while Ireland outperformed large swathes of Europe in the 1990s.²¹² However the persistence of emigration throughout large periods of an independent Irish state, suggests policies that had their rationale in lowering the outflow of young people, by reducing employment push factors, were unsuccessful.²¹³ This may have been connected to the overall impression of these decades, where industrial policy was repurposed purely as

²⁰⁸ Cypher and Dietz, *Process of Economic Development*, 142.

²⁰⁹ John Harriss, "Institutions and State-Business Relations," Briefing Note 2. London: IPPG (2002). Available at: <https://assets.publishing.service.gov.uk/media/57a08c2f40f0b652dd00117c/IPPGBP2.pdf>

²¹⁰ Martin Chick, *Government, Industries and Markets* (Aldershot, 1990: Elgar Publishing), 2.

²¹¹ Foreman and Federico, 14.

²¹² Cormac Ó Gráda and Kevin Hjortshøj O'Rourke, "The Irish economy during the century after partition," *Economic History Review*, Vol 75, Issue 2 (2022): 336-370

²¹³ It should be pointed out that Irish emigration trends were quite changeable from decade to decade resulting in certain 'surges' at different periods, but the 1950s were a particularly acute period for higher outflows, when almost 15% of the population departed, see Mary Daly, *Slow Failure, Population Decline and Independent Ireland, 1920-1973* (Madison, USA: University of Wisconsin Press, 2006), 183.

protectionism, with the wider segments of such policies ignored, such as ‘ecological environment’ changes and redistributing resources among sectors, the so-called building of national champions less foregrounded. Ireland was for example not able to boast of national champions (excluding those from previous centuries) until the 1970s and 1980s when companies like Ryanair, Jefferson Smurfit and CRH emerged, sometimes as a result of mergers and consolidation.

2.6 Services Specific Related Literature

Literature concerning government-business relations often concentrates at the aggregate or macro level, with business viewed as unitary, part of a same strata of the economy and ultimately highly rational. But relationships between business and government are influenced by a range of independent variables, among them sectoral type, firm size, resourcing, competition levels and trade dependency. Some of these informed the work of Mancur Olson’s the *Logic of Collective Action*, where it is asserted that contrary to popular wisdom self-interested companies, particularly if they are part of a large group or atomised industry structure, do not always further their own interests, as the benefits of doing so may not outweigh the costs.²¹⁴ Scholars such as Olson also exploded a more central myth- that business unity is always assured in capitalistic societies. While unity can be facilitated by dominance by a small number of firms, such as is found in smaller economies, it also needs a strong state, which is able to punish defectors.²¹⁵ Olson however did suggest that interest groups engaged public policy tussles can gain victories if the returns to them are particularly high and the costs of them winning are widely dispersed across society, making it less likely the majority will discover their interests are being trumped, leading to the exploitation of the great by the small.²¹⁶

Much of the early frontier business-government literature, simply reflecting its time, looked at the role of manufacturing firms and the state, where the influence (or lack thereof) of the state on production and taxation was vitally important. For example Alexander Hamilton advocated subsidies for domestic manufacturing and tariffs on manufacturing imports as far back as 1791 in his *Report on Manufactures*, but had little to say about services activities with the exception of transport and banking.²¹⁷ Much of the early work addressing relationships between business and government when it did pertain to services categories viewed these activities as adjuncts to the manufacturing process. Transport is seen as important for conveying inputs to a manufacturing site and taking finished goods away again, while banks are seen as important providers of credit to manufacturing firms for short-term working capital. Scholarly interest has equally exhibited this

²¹⁴ Mancur Olson, *the Logic of Collective Action* (Cambridge, Mass: Harvard University Press, 1974).

²¹⁵ John H. Goldthorpe, *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1984).

²¹⁶ Olson, *Logic of Collective Action*, 3.

²¹⁷ Hamilton, *Report on Manufactures*.

overt focus on manufacturing with many suggesting economic analysis has ‘ignored’ services due to a pre-occupation with classical capitalism.²¹⁸

2.6.1 Definitional Challenges

Centuries old debates about what qualifies as a ‘service’ is unlikely to have mitigated this neglect. For example the father of modern day economics Adam Smith set the mould on the definitional debates when he declared services added no value and did not produce a vendible commodity.²¹⁹ Despite this the most accepted global definitions of services, as contained in classifications systems like the United Nations’ International Standard Industrial Classification of All Economic Activities (ISIC) or the US Standard Industrial Classification (SIC), adopt a liberal definitional approach. In Ireland NACE codes are used by the Central Statistics Office (CSO), based on the EU’s Statistical Classification of Economic Activities in the European Community, and the CSO categorises activities as diverse as retail, transportation/storage, hospitality and tourism, financial services, business support services, health, education, and arts/entertainment as services. Such diversity of course creates problems of analysis, including assessments of government intervention in these areas.

Statistical agencies do not have the luxury of pondering forever on what qualifies as a service activity. This is sensible as consensus on this question is unlikely to be ever reached. George Stigler, the revered American economist, once said: “There exists no authoritative consensus on either the boundaries, or the classification of service industries.”²²⁰ Stigler and others, echoing the original Adam Smith definition said the only true commonality of services activities was they do not result in a material commodity. But of course, enquiry does not stop there and academic work has tried to address broad general characteristics of service activities, which in turn become relevant to the relationship with government. For example scholars note that employment in services is often small (on a per company basis) and often has a higher composition of female workers than that found in manufacturing or agriculture.²²¹ These characteristics are supplemented by others, such as a strong focus on direct engagement with consumers and low capital requirements.²²² Of course sectors within services will frustrate these neat characterisations- transport for example will often have high capital requirements, while many services activities are B2B, with no role in serving the needs of consumers. In addition, economists over the decades have sought to concentrate on more pivotal

²¹⁸ Ronald Kent Shelp, *Beyond Industrialisation -Ascendancy of the Global Service Economy* (New York, CBS Publishing, 1981), 2

²¹⁹ Adam Smith, *The Wealth of Nations* (London, Capstone Publishing, 2010).

²²⁰ George J. Stigler, *Trends in Employment in the Service Industries* (Princeton, Princeton University Press, 1956), 47.

²²¹ Stigler, *Trends in Employment in the Services Industries*, 55.

²²² Shelp, *Beyond Industrialisation*, 217.

shared characteristics, the lower productivity potential of services than manufacturing or agriculture, as seen in the work of economist William Baumol. Others have talked about services being tradeable or not, so-called invisibles. But the importance of services to government relationships rests, not overwhelmingly on their tradeability, but on other characteristics. For example, some work has suggested the size of a company in terms of sales or assets is relevant to relationships with government, but this does little to distinguish services *vis a vis* manufacturing.

2.6.2 Economic Criticality

However, the most acute reasons this researcher suggests is that larger services categories (both by employment and capital intensity) have the largest economy-wide or critical effects., which drives their salience. Sectors such as banking, insurance and transport are virtually impossible to decouple from the smooth working of any modern economy. Their lack of storability and immediacy distinguish them from commodity-based manufacturing activities, which brings a political dimension to their role, but these are broader assumptions, than narrower ones. For example, economies have survived for a period of time at least banking strikes and some players in the economy can operate without insurance services. But their absence comes at a cost that arises relatively soon.

Literature has traditionally struggled to explain how a sector from the services segment of the economy may interact differently with the political system than say the manufacturing sector. For example, in his influential *Politics in Hard Times*, Peter Gourevitch, suggests services interact with government as per their specific role in the economy. For example, banks lend to a particular segment of the economy and as a result a prism is created through which banks view the state. He describes this explanation as deeply unsatisfactory but states that one cannot pursue this line of enquiry further as the modern economy could be disaggregated endlessly.²²³ Some authorities in the research area are more unambiguous, stating that economic theory has little to say about services in general.²²⁴

One area where the literature does have some perspective is on how services lock into the developmental process. It is often observed in various development processes that policy makers see the development of national services as a critical form of import substitution in their efforts to be economically independent, a strong feature of Irish political economy in the early years of independence.²²⁵ For example, many states retain a strong developmental goal to replace internationally provided services with indigenous ones, as witnessed directly in the Irish insurance

²²³ Peter Gourevitch, *Politics in Hard Times* (Cornell University Press: New York, 1986), 58

²²⁴ Shelp, *Beyond Industrialisation*, 80

²²⁵ Shelp, *Beyond Industrialisation*, 81

restructurings of the 1930s.²²⁶ Many scholars have used specific development paths as a method of categorising services. For example, one influential account has decomposed services into three segments. First are older services that were replaced by the process of industrialisation such as domestic service, stable-keepers, cabdrivers. Second is a category of services whose production normally increases with the rise of manufacturing production, in other words services that are complementary to the process of industrialisation. In this category would be banking, finance, transportation, wholesale, and retail trade. The final category would be services more associated with a move toward mass consumption of manufactured products, and this would include modern clinical and medical services, entertainment in general (including hotels, restaurants, cinemas, concerts, nightclubs etc).²²⁷

Such industrialisation-driven schemas do not map onto the Irish experience of delayed industrialisation, at least not in the initial decades of Irish independence. For example only 10% of the working population in 1926 was in the manufacturing sector, by the early 1950s this had risen to just 15%, far below the other western European countries.²²⁸ This delayed industrialisation meant that agriculture remained a crucial shaper of services in Ireland in the early decades of independence. For example banking profitability and branch locations patterns were heavily influenced by agricultural activity, the financial stability of the railway network was heavily influenced by oscillations in livestock traffic, while one of the first departments set up by New Ireland Assurance, the Irish insurance company born out of the 1916 Easter Rising, was livestock insurance.²²⁹

Scholars who have intensively studied services simply concede there is no one single definition that commands consensus.²³⁰ Historically, starting from Adam Smith onwards, the definition that services are defined by the fact that they perish ‘in the very instant of production’ (such as the service provided by a servant) and are consequently not storable continues to retain influence. Smith himself pointed out that services do not result in a vendible commodity and in his view professions in the area were frivolous.²³¹ Moving beyond this supposed lack of tangibility, many scholars coalesce around the idea that services are economic activities that bring about a change in or for the

²²⁶ Shelp, *Beyond Industrialisation*, 81/82.

²²⁷ M.A. Katouzian, “The Development of the Service Sector: A New Approach,” *Oxford Economic Papers* 22, no. 3 (1970): 362–82.

²²⁸ Eoin O’Malley, “Problems of Industrialisation in Ireland,” *Proceedings of the British Academy*, 79 (1993): 31-52. Available at: <https://www.thebritishacademy.ac.uk/documents/4005/79p031.pdf>

²²⁹ *Irish Independent*, “New Ireland Assurance Co. Ltd- Report of Annual Meeting,” April 07, 1927.

²³⁰ Herbert G. Grubel and Michael A. Walker, *Service Industry Growth- Causes and Effects*. Published by the Fraser Institute (Jan 1989). Available at: <https://www.fraserinstitute.org/studies/service-industry-growth-causes-and-effects>

²³¹ Smith, *Wealth of Nations*, 134

recipient of the service.²³² Economic authorities have talked about services being an activity in which the activity of the producer brings about an improvement in the condition of some other economic unit.²³³ The improvement may take the form of a physical transformation of some good or goods owned by the consuming unit. Alternatively, the improvement may relate to the physical or mental condition of some individual person, or group of persons.²³⁴ The adding of value to another economic unit is a compelling idea in the context of governmental attitudes towards individual services sectors. Unlike farming or manufacturing industry, where a producer most likely will not know who is going to acquire the goods on which they are working, in the case of services, the actual process of production must directly involve some consuming economic unit in order for a service to be provided.²³⁵ In other words services have to be delivered as they are produced, and in tandem, are produced with the consumer present and participating. The scale and identity of the recipients however is rarely explored in such literature, but this is arguably the key to the government role in service industry segments. Services, when they bring about a change in or for a large number of recipients, dramatically acquire a political salience.

For example, the importance of insuring sections of the economy, or transporting goods nationally where alternatives are not possible bring about a vital change for other economic units. But the crucial issue is what units and who are they? This calls into the question the nature of the change a service brings about. For example, to use the Smithian example of a servant, the rendering of a service for a single individual for another individual has no societal or economy-wide implications. But when the services are aggregated, with economy critical characteristics, they acquire political salience.

Economy critical is not defined by writers traditionally, but sectors such as banking/financial services, transport and retail are arguably among these. Economic criticality is not just the nature of the service (such as banking services) but also the level of aggregation typically found in that service. For example, while the service of one taxi driver may not be economically critical, a mass transit service linking a capital city to other hubs is likely to be. This reliance on criticality and aggregation as a support for salience, is echoed in the description of certain service industries as 'strategic' or 'vital'. This prompts a further question- a services industry becomes strategic when? Some sources suggest the answer lies in estimates of economy-wide losses associated with closedown of an industry.²³⁶ Other not dissimilar work suggests that strategic industries are those

²³² Grubel and Walker, *Service Industry Growth*, 32

²³³ Grubel and Walker, *Service Industry Growth*, 32

²³⁴ Grubel and Walker, *Service Industry Growth*, 32.

²³⁵ Grubel and Walker, *Service Industry Growth*, 32.

²³⁶ Bart Los, "Identification of strategic industries: a dynamic perspective," *Papers in Regional Science*, Vol 83 (2004): 669–698.

whose long-term availability are crucial to a country's economic interests. Substantiating this some more and grounding it in development economics were scholars like Albert Hirschman, who talked about backward and forward linkages, the former being an industry whose growth stimulates the production/use of other upstream industries and the latter being where when the output of an industry becomes the input for other industries.²³⁷ While interlinkages have been a hallmark of manufacturing industry, they are also recognised in the services domain, where producer services are firms providing services to other businesses.

Under such categorisation comes services such as advertising, insurance, banking, transportation, logistics, industrial design, management consulting, business services, human resource service, testing and certification services and legal services.²³⁸ Scholars like Hirschmann suggested that economic development which concentrated on high linkage sectors would achieve higher rates of growth. Various input-output studies have been conducted on what sectors have the highest degree of linkage and these studies reach varying conclusions.

More crucially in an Irish historical context, is the belief that certain sectors had the most potential to be developmental. Asian countries in particular used the concept of key sectors in the import-substitution industrialisation (ISI) era of the 1950s and 1960s. The objective was to achieve economic growth through developing domestic capabilities of an economy to produce manufactured goods that were once imported.²³⁹ As will be seen in this piece of work, much of the policy making in the three services areas highlighted revolved around a view that insurance, rail transport and banking could be developmental and hence strategic in the sense of being crucial to the Irish national economic interest. Little of the literature on services delves into how this view was then migrated into policy, successfully or not. Ultimately scholars have conceded that assembling a plausible consensus driven definition of what a strategic industry represents is virtually impossible, except to say that there are set of services that infiltrate the whole national economy and government identify these and are willing to promote (or restrict) their growth in different ways.²⁴⁰

²³⁷ Albert O. Hirschmann, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958).

²³⁸ Jiechang Xia and Xiaobing Zhang, "A study on the basic path for producer services to promote industrial upgrading and the related finance and taxation measures," *China Finance and Economic Review* 2014, 2:4.

²³⁹ Wannaphong Durongkaveroj, *Hirschman's Linkages: Passé in the Age of Global Production Sharing?* (June 2019, Developing Economics Blog. Australian National University. Available here: <https://developingeconomics.org/2019/06/24/hirschmans-linkages-passe-in-the-age-of-global-production-sharing/>

²⁴⁰ Barrie Stevens, "Support Policies for Strategic Industries," in *Strategic Industries in a Global Economy*, OECD Publication (Paris, OECD Publications, 1991): 97-105.

2.6.3 The 'Commanding Heights' of the Economy

Traditional Marxist terminology talks of 'commanding heights', to signal strategic industries. The term, believed to be coined by Lenin, referred to banking, large scale industry and firms involved in foreign trade.²⁴¹ The word commanding is suggestive of control and command economies more generally. Other writings of Lenin suggested commanding heights was more a reference to the apparatus of capitalism, the activities that were indispensable to capitalism, the distribution of goods and labour (transport) and the broad credit system (banking).²⁴² While second guessing the meaning Lenin attached to the term is partly fruitless, the concept is useful in the sense of delineating a set of activities that were seen as core and indispensable to capitalism due to their agglomerated nature and strength of interlinkage.

2.7 Conclusion of Literature Review- Rationale and Findings

It is clear from the preceding review, that business and government both contribute to the shaping of an industry or functional segment of the economy. At its most basic level, governments set the so-called 'rules of the game', the legal and institutional framework, wherein businesses get to operate. But equally firms, unless in a command economy type setting, get to control production, operations, resource management, hiring, capital raising and broad corporate strategy.

But often government decides its role should go beyond purely setting out (and enforcing) the rules of the game. It may want a certain sector to increase/decrease production, it may want a certain sector to trade off profitability by shifting into less rewarding activities or it may want a certain sector to export more and move away from an internal focus. Some of these governmental priorities may align with those of privately owned firms and sectors and in that event government-business relations could potentially be tranquil and perceived as unremarkable. Sometimes government and business may be cemented together by a shared identification, described in the sociology field as homophily.²⁴³ But often the objectives of business and government do not align and a mediating process, called by some writers reciprocal consent, is employed to arrive at a settled outcome, for a time at least.²⁴⁴

²⁴¹ This is the description as contained in Alec Nove, *An Economic History of the USSR* (London: Penguin, 1969). However the phrase has been interpreted differently in a range of sources. Returning to Lenin's own work and one notes transport forming part of the 'commanding heights'. Vladimir Ilych Lenin, *Lenin Collected Works, vol. 36*, trans. Andrew Rothstein (Moscow: Progress Publishers, 1971).

²⁴² Nove, *Economic History of the Soviet Union*, 36. Description here of how banks are essential to capitalism, but can also be repurposed for a communist system.

²⁴³ Andrew Perchard and Niall G. MacKenzie, "Aligning to disadvantage: How corporate political activity and strategic homophily create path dependence in the firm," *Human Relations*, 74/7 (2021): 978–1006.

²⁴⁴ The concept of reciprocal consent, where the state and business are locked in a permanent negotiation, is drawn from Richard J Samuels, "The Business of the Japanese State," in *Government, Industries and Markets*, edited by Martin Chick (Aldershot: Elgar Publishing, 1990), 36-61.

This literature review has not just looked at the power relationships between government and business and how they get resolved. It has attempted to take a wider lens to government business relations and considered four broad literature sets, both empirical and theoretical, that address themselves to government and business. The first of these was business history itself. While in many ways broadly empirical, this set of sources, when taken in aggregate presents a deep repository of writing on the relationship, stretching over time periods and geographies. It shows that there are limitations to this literature set, which is often marked by ideological battles and preferences. Much of the US literature in particular, starts and ends, with the assumption that state involvement is always inefficient, with costs outweighing any benefits. Much of this may be informed by public choice concepts such as rent seeking and regulatory capture. Equally the business history field often fixates on the issue of government and business relations and whether they contribute to overall economic performance or competitiveness. This is undoubtedly important, but sometimes neglects how the two sides interlock in the first place.

While the business history field could be open to the charge of excessive empiricism, the political scientists and sociologists who have produced the grand theories on business-government relations, may equally be accused of inadequate empirical sensitivity.

Charles Lindblom's category defining *Politics and Markets* book for example, lacks empirical synthesising elements, which while it does not detract from the overall conclusions, arguably leaves readers scrambling back to confirmatory empirical accounts. The review above has attempted to narrow the theoretical field down to some core constructs: business as structural power, pluralism and interest group competition, statism and bureaucratic agenda shaping and then theories concerning networks/ideological dominance.

This narrowing is a function of what is minimised inevitably. For example, corporatist or neo-corporatist frameworks, while practiced in Ireland, tended to be a function of the latter part of the 20th century. Archival records, utilised in this work, found little evidence that such co-ordinating bodies had a significant role in shaping the sectors under review, although bodies like the Irish Banks' Standing Committee no doubt aided concertation with government, but the other vital part of tripartite structures, trade unions seemed very marginalised in the three industries under review, with the possible exception of the railways. Equally pluralism, expounded by theorists like Robert Dahl, rests on the idea of contending interest groups, of which business is just one, albeit a powerful one. But in the period under review, consumer voices were almost non-existent (Ireland did not have an organised consumer association until the 1960s), although business as a user of trains for goods traffic were not an unimportant constituency.

The influence of protectionism in the 1930s to the 1950s was illustrative that specific consumer voices were marginal, although the usual transmission between voters and elected representatives

continued. The absence of consumers or unions meant that pluralism as an explanatory framework had less utility in the period under review. However structural arguments have more applicability and are addressed in the three substantive chapters and the conclusion. The exploration of developmentalist and industrial policy literature is justified on the grounds that this is the phase when government goes beyond minarchy and objectives between business and the state are most likely to fall out of alignment. Industrial policy, at least superficially, suggests that a) state intervention ultimately arises from virtuous political origins and b) can be effective in bolstering economic performance in the right circumstances. In particular in post-colonial economies like Ireland was, developmentalist rationales are the commonly provided justification for government intervention, so it is important to consider how such justifications then mesh with the priorities of private sector actors, who are rarely as seized by developmentalist enthusiasms as political elites. Finally, literature on services specifically was reviewed, in an attempt to accommodate to the idea that each functional part of the economy relates to the state in slightly different ways. In addition, it is important to even consider whether services as an economic bundle of activities is likely to engage with the state in a different way than say agriculture or manufacturing. It is worthwhile considering the specific services literature on this question.

Crossing all four literature sets is arguably the ultimate unifying question in this field – is business dominated and controlled by the state or are states dominated and controlled by business?²⁴⁵

2.7.1 Power Balance Question Central

This balance of power conundrum is most directly answered by two contending schools, drawn from the business-government relations corpus of literature. One is the pluralism, which suggests that each time of public policy dilemma is posed, a set of interest groups form and respond, of which business or capital is just one, albeit a well-resourced one in most cases. This is opposed by Lindblom influenced structural school. Testing these binary perspectives via empirical work has occurred over many decades, but far too often this has lacked historical rigor, with strong archivally based accounts of government-business engagements often a minority activity. This work is seeking to re-address some of this imbalance, particularly in an Irish historical context.

In that Irish context, the chief historical focus in the area of business-government relations has been on the manufacturing sector, with the era of economic protectionism, dating from 1932 to 1958, the central test laboratory. But what of services industries, what of theory applicability there? A number of frameworks may have utility there. Much of what is effective theoretically comes down to how business and firms themselves are theorised. A useful way to think of this is on multiples levels, but much emphasis will of course rest on the structural influence of business. A persuasive

²⁴⁵ This question is described as the ‘classic’ question in David Cohen, Wyn Grant and Graham Wilson, *Oxford Handbook of Business and Government* (Oxford, 2020: Oxford University Press), 24.

framework for this is that devised by scholars Stephan Haggard, Sylvia Maxfield and Ben Schneider who've constructed a fertile typology which looks at business across five levels: business as a form of capital, business as a sector, business as type of firm, business as an association or network, and business as individual managers or owners.²⁴⁶

Table 2.8.1: Typology of Business Influence and Five Potential Forms

| Type | Business As Capital | Business As Sector | Business as Firm | Business As Association | Business As Managers/Owners |
|-----------------------------------|---|--|--|---------------------------------|---|
| Defining characteristic | Business as a factor of production, ability to 'exit' | Factor intensity, and/or asset specificity | Size, ownership, internal organisation | Networks, business as lobbyists | Personal relationships, moves between public and private sector |
| Form of business influence | Structural | Structural | Structural | Instrumental | Instrumental |

Clearly there is a porousness between some of these categories, but they neatly pin at the very least elements of why certain businesses have (or don't have) influence over government. For example, banks, acting as a form of capital, is instructive way to conceptualise how that industry relates to government in certain contexts. Rail and other forms of mass transport clearly have factor intensity and asset specificity as their hallmarks, shaping business-state relations consequently. Insurance, with its control over vast pools of mobile premium income, can be cast as an example of business as capital, but in an Irish historical context the industry was often reliant on personal relationships (New Ireland Insurance for instance) developed through the Irish independence struggle. Other scholars have sought to bring clarity to why some firms/sectors need to apply pressure to governments and how successfully they are likely to be in fulfilling their objectives.

For Peter Gourevitch a narrower theorising is viable and that relates to the function of sectors in the economy.²⁴⁷ Gourevitch does not treat services companies in any great detail but concedes that these

²⁴⁶ Stephan Haggard, Sylvia Maxfield and Ben Ross Schneider, "Theories of Business and State Relations," in Eds, Sylvia Maxfield and Ben Ross Schneider, *Business and the State in Developing Countries* (Cornell, 1997: Cornell University Press): 36-60.

²⁴⁷ Peter Gourevitch, *Politics in Hard Times* (Cornell: Cornell University Press, 1986), 59.

sectors will behave based on their connection to other elements of the economy. But he goes further than just this observation to suggest that sectors will gain or lose power depending on their economic function, so transport and utility workers, who can paralyse societies for periods, will have great power over certain matters than dry cleaners or button makers. This resort to 'economic function' as the crucial influencer of political power is clearly just a starting point, as it must battle with various layers of contingency (would a coal-fired power plant have political power today?). This isolation of economic function however does fall back on the idea of strategic industries or vital/essential services, arguably to be bracketed under the heading of 'if you see them, you will know them'. Clearly the industries that are subject to this work can be described in these terms, but do not meet the technical definition of public goods. But clearly they were important enough in the period under review to trigger both supervision at an elevated policy level and legislative attention from government. It is what factors influenced this subsequent focus that is a key research question of this work.

Various frameworks could be candidates. One may be economic protectionism itself, another may be a political emphasis and desire for catch-up economic growth using elements of industrial policy, another may be the under-pricing of input activities as a way to stimulate industrialisation (internal or for export), while another may be path dependence, forged by embedded business or elite power, a potential echo of the structuralist arguments of Lindblom. This literature view has drawn out these questions and the chapters following, and the conclusion will aim at addressing them.

The three inter-linked cases gathered here are just that- inter-linked, but all differ as core research subjects. Some for example had more political salience than others and at different times, others were more employment or capital intensive than others for example as per Gourevitch, while others were internationally tradable (insurance for instance), while others weren't (railways). This critical review is by definition a starting point- large research resources have not been expended on historical business government relations in Ireland in the independence era and synthesising in full what has been done piecemeal in other domains would probably be an insurmountable task.

However, one of the purposes of this work is to open up a new research seam that may be mined by other Irish and international scholars, with an interest in how government and business contend in the services segment of mixed economies.

CHAPTER THREE – PHILOSOPHY, METHODOLOGY AND METHODS

This work is situated within the field of business history. This is a field which includes everything about the business past, from the history of individual firms to complete business systems.²⁴⁸ Originating at Harvard University in the 1920s, the discipline is as a result a comparatively new stream of research within the overall confines of historical inquiry.²⁴⁹ It has no commonly consented to philosophic approach so has proceeded along a path of considerable arbitrariness in relation to core assumptions on philosophy.

Methodology and method have traditionally been submerged in historical research, including business history. If as one historian (John Lewis Gaddis) has suggested most social science research likes to display its methodological approach like the Pompidou Centre in Paris, with all wiring and ducting visible on the outside, business history has taken the opposite approach, concealing its methodological ducts inside re-enforced concrete walls.²⁵⁰ This is both its weakness and its strength it may be argued.

3.1 Pluralism and Business History

The field, at least as embodied by research practiced at Harvard Business School, was dominated in its early years, by economists, not historians.²⁵¹ Not only does business history prefer not to declare a set of specific philosophical foundations, it goes beyond this in favouring a craft tradition of learning by doing and eschews elaborate replicable procedures.²⁵² These craft-like practices have drawn upon the field hostile commentary at times from fellow academics, with one pointing out that the category defining *Oxford Handbook of Business History* contains virtually nothing that would allow an entrant into the field to gain a better understanding of the epistemological, ontological and axiological ramifications of its knowledge production.²⁵³ But the field is content with this plurality of philosophical approach and resists urgings that there should be a privileging

²⁴⁸ Franco Amatori and Geoffrey Jones, *Business History Around the World* (Cambridge: Cambridge University Press, 2003), 1.

²⁴⁹ There is much debate about when precisely the field of business history commenced, but the above reference is to the introduction of a business history course at Harvard Business School in the 1920s. European researchers on the other hand see courses in corporate history and the historical school of economics as being more reflective of the real starting point, albeit not using the phrase business history.

²⁵⁰ The analogy can be found in, John Lewis Gaddis, *The Landscape of History: How Historians Map the Past* (Oxford: Oxford University Press, 2002), Preface XI.

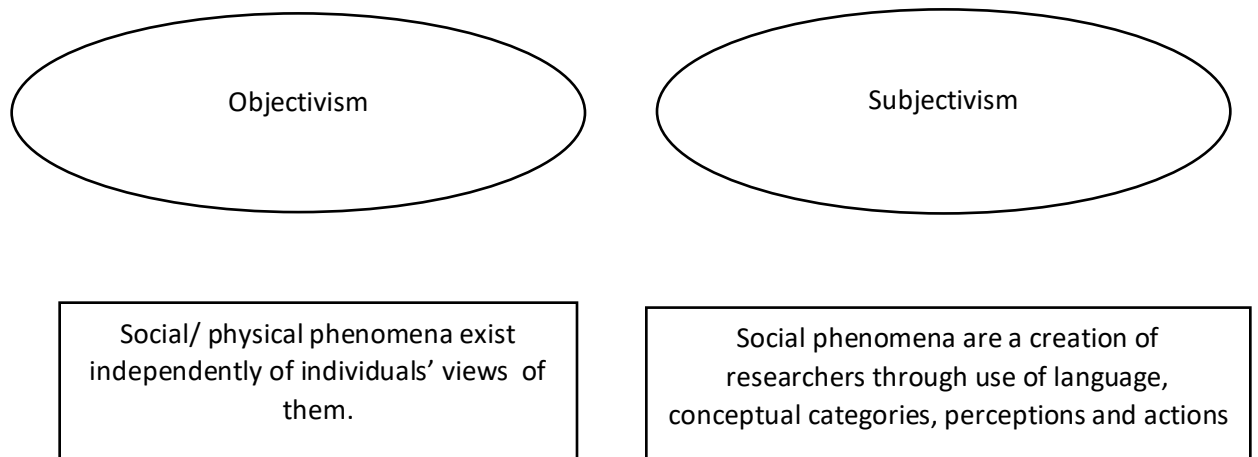
²⁵¹ “Debating Methodology in Business History,” *Business History Review* 91, 3 (2017): 443–55.

²⁵² Stephanie Decker, “Introducing the eventful temporality of historical research into international business,” *Journal of World Business*, Vol 57, Issue 6 (2022): 1-13.

²⁵³ Stefan Schwarzkopf, “Why business historians need a constructive theory of the archive,” *Business Archives* No. 105 (2012): 1-9. Available at: <https://mpra.ub.uni-muenchen.de/46650/>

of one method, and by extension, one set of philosophical assumptions.²⁵⁴ This research adopts a similar view and embraces this pluralistic approach, that may well unnerve other social science practitioners. Nevertheless, business history research, an integrative field, cannot entirely escape declaring its core assumptions and articulating a philosophical posture helps clarify the core pillars of the research and lays down a set of tracks along which the wheels of intellectual enquiry can travel. Business research scholars such as Mark Saunders et al have outlined the ontological continuum which researchers should be highly sensitive to, splitting into the two core assumptions of objectivism and subjectivism.²⁵⁵

Figure 3.2 Ontological Continuum



3.3 Ontological Stance

This duality of objectivism and subjectivism has transdisciplinary relevance, although the precise beliefs that attach to either assumption is often contested. Still there is value in capturing a sense of the general contours of each.

²⁵⁴ Stephanie Decker, Matthias Kipping, R. Daniel Wadhvani, "New Business Histories! Plurality in business history research methods," *Business History*, 57:1 (2015): 30-40.

²⁵⁵ Mark Saunders, Philip Lewis and Adrian Thornhill, "Research Methods for Business Students," (Pearson: Harlow, Essex, 2019).

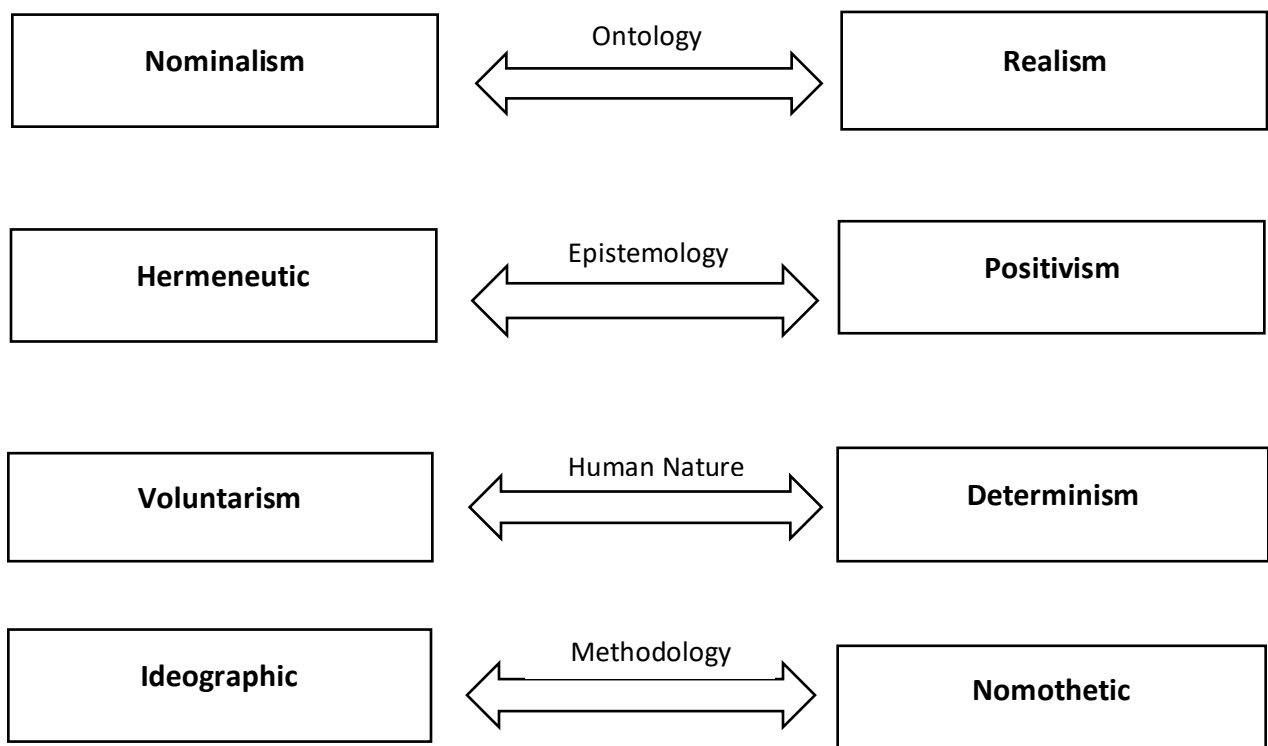
Table 3.4: Ontological Assumptions- Objectivism and Subjectivism: Two Sets of Extremes

| Question | Objectivism | Subjectivism |
|-----------------------------|-------------|-------------------------------|
| Nature of Reality | Real | Nominal/decided by convention |
| Whats the world like | External | Socially constructed |

Source: Saunders et al, "Research Methods for Business Students," 135.

While there are differences in what each ontological choice may imply, the various continuums put together by social science scholars are highly valuable to researchers in streamlining philosophical approaches.

Figure 3.5 Burrell and Morgan’s subjective/objective continuum.²⁵⁶



However, this first plank of research philosophy, what is the nature of reality (ontology), has traditionally been the question historians have been most uncomfortable with and defiant towards. The question of reality and how to perceive it, has also generated bitter debates within the profession, many of them commencing in the 19th century. At various times and various places,

²⁵⁶ Gibson Burrell and Gareth Morgan, *Sociological Paradigms and Organizational Analysis* (London: Routledge, 1979).

historians have been called both objectivists/realists and constructivists/relativists. One management scholar has suggested business historians (and their research) could be categorised into any of the four separate designations used by Burrell and Morgan.²⁵⁷ This would mean business historians could hold a functionalist view, a radical–structuralist point of view, an interpretive perspective or a radical–humanist perspective.²⁵⁸ Distilled down these same writers have summed up the position neatly- business historians have seen management scholars as ahistorical, while management theorists have seen business historians as atheoretical.²⁵⁹

3.6 Objectivism in History

Work has been done on how historians, in order to gain academic recognition from the natural sciences, donned the robes of objectivism and positivism in the 19th century but this philosophical redoubt was later stormed by other historians sceptical at the idea of history as ‘objective’ truth. In fact, the association of historical inquiry with objectivism has been an intellectual cudgel used to diminish the profession, some have argued.

In the 19th century for example a German community of historians, many of them based at the University of Berlin, upheld the correspondence theory of truth, a traditional plank of realism. In addition, they accepted that human actions mirrored the intentions of the actors, and it was the task of the historian to comprehend such intentions.²⁶⁰ They also viewed time as purely one dimensional. In totality, an emphasis was placed on reality, intentionality, and temporal sequence.²⁶¹ This school, sometimes called Rankean realism, or the Rankean paradigm, was in time submerged by a different philosophical tradition, a more social science-oriented form of historical research.

This model preferred causal explanations, had little truck with ‘great men’ explanations of historical phenomenon and wanted to explain historical events, not simply outline them. Most crucially this reformist group, still believed historians should seek objectivity, but accepted that reality could not be grasped directly, but only reached through the concepts and mental constructs of historians.²⁶² While this shift in ontology from the objectivist view that reality can be observed directly and accurately to the more constructionist assertion that reality is only known through the human mind was significant, this change in emphasis in itself did not insulate historical inquiry from later challenges, most often from post-modernist thinkers.

²⁵⁷ Burrell and Morgan, *Sociological Paradigms*.

²⁵⁸ Roy Suddaby, “Toward a Historical Consciousness: Following the Historic Turn in Management Thought,” *Management*, vol. 19, no. 1, (2016): 46-60.

²⁵⁹ Suddaby, “Toward A Historical Consciousness.”

²⁶⁰ Georg G Iggers, *Historiography in the 20th Century* (Middletown: Wesleyan University Press, 2013).

²⁶¹ Georg G Iggers, *Historiography in the 20th Century*.

²⁶² George G Iggers, *Historiography in the 20th Century*.

3.7 Post Modernist Assault on General History

The view held by objectivists that historical facts exist prior to and independent of interpretation, and that patterns in history are found, not made, has allowed critics of general history to describe its research output as mere rhetorical history, or even akin to literary fiction. Literary theorists such as Roland Barthes, and philosophers such as Nietzsche or Richard Rorty, suggested that the dividing line between historical and literary texts either didn't exist at all, or was a thin membrane.²⁶³ While the postmodern critique of history has clearly hit home (historians give proof of this by publishing books with titles like *In Defense of History*), traditional practitioners of history continue to publish, while the postmodern critics are accused of throwing the 'baby out with the bathwater'.²⁶⁴

As a result modern history, as exemplified in early 21st century practice, rejects rigid objectivist, or realist, viewpoints and stances, but more than just reject them it modifies them. Influential work on qualitative research has spoken of three ontological approaches, not two: realism/objectivism, materialism, and idealism. In this instance materialism also claims that there is a real world, as la objectivism, but that only material features, such as economic relations or physical features of that world hold reality. Values, beliefs, or experiences are 'epiphenomena' - that is features that arise from, but do not shape, the material world.²⁶⁵ Idealism, on the other hand, asserts that reality is only knowable through the human mind and through socially constructed meanings.²⁶⁶

Historians, like most social science researchers today accept the importance of normative expectations and shared understandings in regulating the social world.²⁶⁷ This work proceeds on the basis of a subtle, but modified objectivism/realism. This is best found in practical terms in the philosophical school known as critical realism.

3.8 Critical Realism

This accepts that an external reality exists independent of our beliefs and understanding, but that reality is only knowable or accessible through the human mind and socially constructed meanings. A key point in this context is that critical realism elides over the dichotomy of realism versus anti-realism, where the fundamental question is whether there exists a world independently of human consciousness? The answer which critical realism offers is that there exists both an external world independent of human consciousness (traditional realism), but at the same time a dimension also

²⁶³ Georg G Iggers, *Historiography in the 20th Century*.

²⁶⁴ This is the accusation that postmodern critics refuse to accept 'any rational historical discourse' as outlined in Iggers *Historiography in the 20th Century*, 88.

²⁶⁵ Jane Ritchie and Jane Lewis, *Qualitative Research Practice* (London: Sage, 2003), 11.

²⁶⁶ Ritche and Lewis, *Qualitative Research Practice*.

²⁶⁷ Ritchie and Lewis, *Qualitative Research Practice*.

exists which includes our socially determined knowledge about reality.²⁶⁸ Sometimes researchers have referred to these as the intransitive domain and the transitive domain.²⁶⁹ Historians, including those researching business topics, have often sought to steer clear of the ontological dualities foregrounded in other fields, by modifying objectivist/positivist views of history, drawn from the Rankean era in the case of history, but equally not conceding to the full implications of heavily subjectivist positions. This has brought historians to the position of adopting social science philosophies like critical realism as they sail unapologetically, if apprehensively, between strict empiricism on one side and judgemental relativism on the other side.²⁷⁰ Critical realism suggests that contingent, conjunctural causality are the norm in open systems like society.²⁷¹ In summary, when it comes to the ontological approach of this work, the bedrock of objectivism - that a world exists independently of human consciousness is accepted, but modified by the acceptance of a dimension which includes our socially determined knowledge about reality.²⁷²

3.9 Epistemology

Ontological consensus today is likely to be found among historians or business historians (if the subject is one they care to comprehend in such a craft-based pursuit) because the subject is less of a polariser today philosophically than that of epistemology.²⁷³ One can identify a range of epistemological viewpoints that may be fundamental to the researcher, from positivism, to interpretivism to pragmatism.

Table 3.10 Range of observable epistemological assumptions

| Question | Objectivism | Subjectivism |
|--|----------------------------------|--|
| How do we know what we know | Through the scientific method | Through the conventions of arts and humanities |
| What is accepted knowledge | Facts | Opinions |
| What constitutes good quality data | Numbers and observable phenomena | Written, spoken word, visuals. Attributed meanings |
| What is a contribution to knowledge | Law like generalisations | Individuals and contexts, specifics |

Source: Saunders et al, "Research Methods for Business Students," 135.

²⁶⁸ Berth Danermark, Mats Ekstrom, Liselotte Jakobsen, *Explaining Society- Critical Realism in the Social Sciences* (London: Routledge, 2002), 6.

²⁶⁹ Markos Zachariadis, Susan Scott and Michael Barrett, "Methodological Implications of Critical Realism for Mixed-Methods Research," *MIS Quarterly*, Vol. 37, No.3 (2013): 855-879.

²⁷⁰ George Steinmetz, "Critical Realism and Historical Sociology. A Review Article." *Comparative Studies in Society and History* 40, no. 1 (1998):170–86.

²⁷¹ Steinmetz, "Critical Realism and Historical Sociology".

²⁷² Danermark et al, *Explaining Society- Critical Realism*, Introduction, 6.

²⁷³ Richard Evans, *In Defense of History* (New York: Norton, 2000). This is an influential defense of historical inquiry as practiced at the turn of the 21st century. It is worth noting however it devotes no space to the subject of ontology but does talk about historians and what 'facts' mean to them.

While arguments over epistemological approaches are extensive and broad in social science disciplines, in history they are more reduced and bifurcated. The discipline of modern history has been divided into an earlier phase of historical positivism that has been more lately either rejected outright, or at least modified substantially. Historical positivism is associated in the 19th century with Leopold Von Ranke (seen in earlier section on ontological assumptions) from the German school of realist history. Von Ranke, many argue unfairly, has been associated with the remark that historians' only desire is to show what 'actually happened'.²⁷⁴ If taken literally this is the manifesto of historical positivism. While Ranke's somewhat throwaway sentence sealed an intellectual and philosophical categorisation, historical positivism, if it means an approach that rejects subjective interpretation, relies on letting historical artefacts 'speak' in isolation and which then produces general laws, then this form of historical research is rarely practiced in reality. This is not to suggest some historians have not suggested this is what they practice. British historian G.R. Elton for instance, once said historians are always looking to discover truth, if only they can find it.²⁷⁵ His argument was a simple one, historical events happened, but whether historians can verify them and explain them is a separate intellectual process.

Either way, a purely positivist history is rarely practiced and rarely defended in the classic sense, although it has been said that early business historians like N.S.B. Grass were positivists with a teleological style.²⁷⁶ Even defenders of the general field, shrink from adopting the Rankean purity version. History is partial, provisional, not neutral, many historians argue, but this does not reduce its intellectual capacity or utility. It remains simply objective knowledge, true, but subject to self-acknowledged limitations.²⁷⁷

3.11 Business History Epistemological Approach

In terms of what this means for researchers in the field including of business history, is that alternative stances to historical positivism are embraced, even though they don't tend to be manifest or enunciated in the work. While some versions of positivist history live on, often called reconstructionist history, much of the business history field is captured by the label, constructionist history, described as history which invokes social scientific concepts to reveal underlying patterns in the past.²⁷⁸ This does not necessarily guide researchers sufficiently. While the use of the case

²⁷⁴ Richard Evans, *In Defense of History*, 14

²⁷⁵ G.R. Elton, *The Practice of History* (Oxford: Blackwell Publishing, 1969), 49.

²⁷⁶ Franco Amatori and Geoffrey Jones, *Business History Around the World* (Cambridge University Press: Cambridge, 2003), 16.

²⁷⁷ Evans, *In Defense of History*.

²⁷⁸ Michael Rowlinson and John Hassard, "History and the Cultural Turn in Organization Studies," in *Organizations in Time*, edited by Marcello Buchelli and Daniel Wadhvani (Oxford: Oxford University Press, 2014).

study, as per social science common practice, is often deployed in constructionist business history, one has a need to know more about the epistemological assumptions of this form of history more generally. Those working in the field are reluctant to specify on this subject, but some scholars have talked about a ‘hidden’ epistemological position in business history and this suggestion is not meant in any complimentary sense.²⁷⁹ Such critics suggest that the historical method itself, employed in business history, relies far more on memory than generally acknowledged by authors, with historians accused of transforming memory into testimony, which is then given a narrative structure or plot.²⁸⁰ A much vaunted antidote to this is said to be the act of systematically interrogating historical data, so as to identify its epistemological and ontological values.²⁸¹

While this sounds a sensible precautionary act, it seems to this author to ignore the fragility, limitations and inconclusiveness of historical data and to create an impression that for most historical epochs there is a limitless and deep pool of data from which discretionary selection can take place, with inferior less reflexive data discarded in favour of richer more interpretivist sources. As any professional historian will know such a range of discretion is very rarely viable, particularly when examining controversial ideologically laden events. In any event source criticism, an act which most closely resembles such interrogatory approaches, is embedded in most historical practice, including business history.

Be that as it may, critiques of business history, as briefly overviewed here, continue to insist that the disciplines’ assumptions remain, despite public declarations to the contrary, purely empiricist and objectivist. But business history, if it adopts a critical realist approach, arms itself against both naïve realism on one side and post modernism, or nominalism, on the other. These latter approaches are the chief intellectual assault on traditional historical practice. Critical realism proceeds from a subtle ontological position that avoids binaries, which binds the empirical world to the actual through explanatory power of causal structure and mechanisms.²⁸²

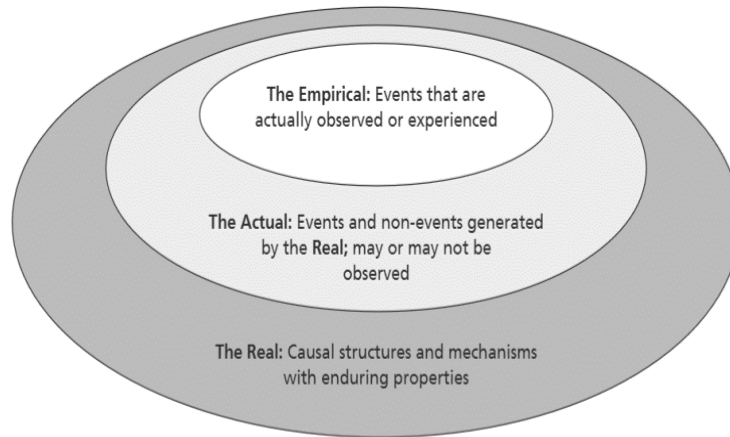
Figure 3.12 Bhaskar’s Layered Structures

²⁷⁹ Scott Taylor, Bill Cooke, Emma Bell, “Business History and the Historiographical Operation,” *Management & Organizational History* (May, 2009), 152.

²⁸⁰ Taylor et al “Business History and Historiographical Operation,” 156.

²⁸¹ Taylor et al “Business History and Historiographical Operation,” 155-166.

²⁸² Roy Bhaskar, *A Realist Theory of Science* (London: Routledge, 2008).



Critical realist research, with that causality focus, seeks to provide an explanation for observable events by seeking out the underlying causes and mechanisms through which deep social structures shape organisations.²⁸³ From a historians’ perspective, much of critical realist research comes in the form of in-depth historical analysis of social and organisational structures, and how they have changed over time.²⁸⁴ Critical realism also believes that knowledge is historically situated (of its time) and this is accommodative of broad based historicism. While causality is crucial, how does one discover these mechanisms and discover how they operate? Does one seek to gain knowledge deductively or inductively? What of idiographic disciplines like historical research? Does their idiographic, or particularistic, approach render them ultimately atheoretical?

3.13 Deduction/Induction Choices

Embracing a critical realist philosophical stance, while using the historical method in terms of research technique and practice, provides a strong set of rubrics for pursuing business history research, particularly when the unit of analysis is industry and its relations with government. While there is no such a concept as a ‘critical realism method’, how inferences are made is something that critical realism squarely addresses, with suggestions that researchers should move from surface to depth, from the domain of the empirical, to the domain of structures and mechanisms.²⁸⁵ This research observes a deductive approach in the narrow sense that it seeks logical validity in the papers gathered, but in terms of research orientation is does not adopt a strict hypothetico-deductive method, where previously known hypotheses or generalisations are tested and either proven or not, often using quantitative or statistical inputs as part of an original premise or proposition. Inductive research in contrast usually does not start with a hypothesis, but with data collection, often prompted

²⁸³ Saunders et al “Research Methods for Business Students.”

²⁸⁴ Saunders et al “Research Methods for Business Students.”

²⁸⁵ Danermark et al, *Explaining Society*, 78.

by a far more general curiosity on behalf of the researcher and seeks to stretch beyond any original premise and add new knowledge. It often achieves this by studying a small number or a portion of a population and then drawing out inferences from these observations to the wider population. Its empiricist in its orientation and can rely on statistical data to populate its studies. While this research follows the sequencing of inductive research, in the sense of proceeding from observation towards conclusion/theory and allowing new ideas to emerge in the research process (in contrast to deductive sequencing- moving from an original proposition/theory and then shifting toward confirmation), it attempts to expand beyond this to additional routes to knowledge acquisition via other styles of reasoning.²⁸⁶

These routes are abduction and retroduction. The first of these, for social science researchers allows them to redescribe and recontextualise, as Marx did with his materialist conception of history.²⁸⁷ This format of reasoning takes previously known phenomena and recontextualises them, looking for connections to create new interpretations, these however are not ultimately right or wrong or 'testable' in any deductive sense. But they are new, in the sense that researchers reinterpret something as 'something else'.²⁸⁸

Retroduction, while similar, looks to ask how is a phenomenon possible, what has to be present in the world for such a phenomenon to exist? If one calls this phenomenon X, the question can be formulated as - what properties must exist for X to exist and to be what X is? Or, to put it more briefly: What makes X possible?²⁸⁹

3.14 Retroduction and History.

Specific historical events have been interpreted using retroduction, for example the holocaust, in the sense of asking what must be possible to allow an event such as the holocaust to happen, or what foundational conditions needed to be present to allow such an event to take place.²⁹⁰ Historians use this idea of searching for the generative mechanisms that create certain phenomena in their work regularly and business historians specifically have used the technique in document-based research.²⁹¹ The mechanisms at work are often structure or agency based, and drawing out

²⁸⁶ A useful guide to how business historians proceed in terms of method can be found in JoAnne Yates, "Understanding Historical Methods in Organization Studies," in *Organizations in Time*, edited by Marcelo Bucheli and Daniel Wadhwani (Oxford: Oxford University Press, 2014): 265-284.

²⁸⁷ Danermark et al, *Explaining Society- Critical Realism*, 8.

²⁸⁸ Danermark et al, *Explaining Society- Critical Realism*, 24.

²⁸⁹ Danermark et al, *Explaining Society- Critical Realism*, 80.

²⁹⁰ Danermark et al, *Explaining Society- Critical Realism*, 80.

²⁹¹ Alistair Mutch "History and Documents in Critical Realism," in *Studying Organizations Using Critical Realism*, edited by Paul K Edwards, Joe O'Mahony and Steven Vincent (Oxford: Oxford University Press, 2014): 223-241.

when and which one applies is best done temporally it is argued here and elsewhere.²⁹² The search for generative mechanisms (what needs to be present for this to occur?), according to writers on critical realism, requires research methodologies geared to the identification and exploration of the painstaking detail of each historical case.²⁹³ Within this research work the interaction between the relevant corporate figures, structural conditions and situational contingencies remain the focus of the work.²⁹⁴ More fundamentally much of critical realist research takes the form of in-depth historical analysis of social structures and how they have changed over time.²⁹⁵

3.15 Methodology and Method

Having established the philosophical approach to be adopted, ontologically and epistemologically, traced in part through evolving debates in the history domain, one has to then consider the more prosaic research approach method to be selected. Business history proceeds, or at least has traditionally, through induction in terms of sequencing. It shares this with many other fields. The field's most well-known practitioner Alfred D Chandler 's favoured method was induction. He observed change and sought to understand the reasons behind it. Chandler, like many of his later emulators, started his research by examining historical data and events and sharpening research questions from there.²⁹⁶ Any theoretical reflections were left to the end and often not explicated in any concerted sense.

Several methodological options have been outlined as viable and mainstream for business historians. The first is a focus on empirically researched case studies of individual firms. The second is a broader empirical focus on business in society, combined with an attempt to develop historical generalisations. The third is formal engagement with social science theory, either economics or sociology, with the objective of using theory to formulate research questions or employing empirical evidence to test theory.²⁹⁷ Before considering these issues, its important to reflect on methodology v method, as this can trap researchers in terms of correct conceptions. Methodology is a way to systematically solve a research problem and is broader than just method.²⁹⁸ Methodology can be thought of as the logic behind the methods we use in the context of our research study.²⁹⁹

²⁹² Mutch, "History and Documents in Critical Realism," makes this argument suggesting that generative mechanisms operate at a range of timescales. Retroduction allows researchers to go back and look for antecedents, 227

²⁹³ Michael Reed, "Reflections on the 'Realist Turn' in Organization and Management Studies," *Journal of Management Studies*, Vol 42 (2005), 1637.

²⁹⁴ Michael Reed, "Reflections on the Realist Turn," 1637.

²⁹⁵ Saunders et al, *Research Methods for Business Students*.

²⁹⁶ "Debating Methodology in Business History," *Business History Review*, 91,3(2017): 443-55, contains an overview of Chandler's work and typical research approach.

²⁹⁷ This summary outlined in "Debating Methodology in Business History."

²⁹⁸ C.R. Kothari, *Research Methodology- Methods and Techniques* (Delhi: New Age Publishing, 2004), contains explanations of methodology v method.

²⁹⁹ C.R Kothari, *Research Methodology*.

The first choice in building out this logic, is to determine whether the research is quantitative or qualitative in nature. As this is historical research it is seeking to interpret, and theory build in a historical context. Its orientation is emergent with an aim to uncover unexpected findings, with the data guiding the research direction, particularly as archival discoveries unfold.³⁰⁰

3.16 Business History Core Research Approach

Qualitative research demonstrates its value in exploring phenomena, illuminating processes and meanings, and studying change.³⁰¹ With the exception of economic history which does utilise positivist hypotheses testing approaches, business history almost exclusively utilises qualitative approaches. Historians, whether working in the business domain or elsewhere, traditionally resist making their chief methodological approach explicit, sometimes out of disinterest and sometimes due to a simple assertion that its implicit in the work. As a result, those who look at the broadest range of research approaches often relegate or overlook this approach entirely. Those that have looked at its possibilities, suggested it is a data-collection strategy like any other, in the sense that is about the collection of information and the interpretation or analysis of data in order to answer a particular research question.³⁰²

Historical research is carried out for a range of reasons, to uncover the unknown; to answer particular questions; to seek implications or relationships of events from the past and their connections with the present; to assess past activities and accomplishments of individuals, agencies, or institutions; and to generally aid in our understanding of human culture.³⁰³ In terms of methodology for this researcher the historical approach is about using historical traces and artefacts to answer particular research problems or conundrums. While oral history is pursued by a sizeable minority of historians, the mainstream research approach revolves around non-oral sources, such as documents and increasingly in the 21st century, electronic data such as emails. While historical research methodology is variously described as pragmatic or non-explicated, it is in many ways easier and more revealing to say what it is not. Historical methodology does not seek to simply replicate the natural sciences, nor to practice hypothesis-testing and or employ deductive reasoning. It also does not produce inconvertible facts.³⁰⁴ Instead the methodology involves a historian selecting data because of their interest in a unique event or historical character. The evidence is

³⁰⁰ How business history research uses data to guide the research process is outlined in JoAnne Yates, "Understanding Historical Methods in Organization Studies."

³⁰¹ JoAnne Yates, "Understanding Historical Methods, 267

³⁰² Howard Lune and Bruce Berg, "*Qualitative Research Methods for the Social Sciences*," (Edinburgh: Pearson, 2014)

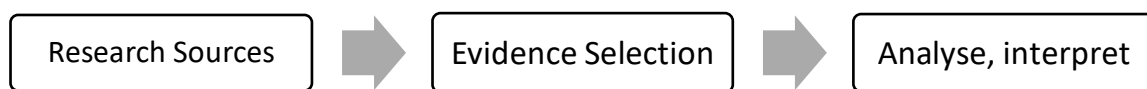
³⁰³ These potential reasons are suggested in Howard Lune, Bruce Berg, *Qualitative Research Methods*.

³⁰⁴ Alun Munslow, *Deconstructing History* (Routledge: New York, 1997), 5.

chosen for what it can tell one about that unique event or agent, rather than explain any and every event within a general category.³⁰⁵

3.17 Method, Historical Research Practice-Triangulation, Source Criticism and Hermeneutics

While methodology is pragmatic and subtle in origin, the methods used by the historical approach are more overt and recognised, observing a three-step classic formula: research and identify/ locate sources, select evidence from them, analyse, synthesise and interpret from them before coming to conclusions.³⁰⁶



The final part of these protocols, the interpretation is a vital part of historical practice, bringing in among other things source criticism, which is how historians evaluate the sources they utilise. In recent decades that involves source criticism itself but also interpretivist source criticism. The first is breaking down the sources according to provenance/reliability (primary and secondary), but also interrogating them for bias. Some organisational scholars believe an interpretivist variant of source criticism is also merited, looking at the underlying meaning of sources.³⁰⁷ While the precise type of source criticism can be debated, guidance generally about how to analyse and interpret historical materials is scant in social sciences generally.³⁰⁸ But the three main building blocks remain source criticism, triangulation and hermeneutic interpretation.³⁰⁹ In this case source criticism includes asking what context a document (or other artefact) was produced for? Who produced it and for what intended audience? In addition, there is the usual entreaty that the more primary a source (written contemporaneously by those involved), the more its bears heightened reliability. Triangulation is a form of cross checking or corroboration, where the evidence of one source is ideally balanced or tested by another. The sources must also be read in their own time and context, and this is done by what is called hermeneutical textual interpretation, where the voice of the source is almost

³⁰⁵ Alun Munslow, *Deconstructing History*, 5.

³⁰⁶ Susan Grigg, "Archival Practice and the Foundations of Historical Method," *The Journal of American History*, Vol. 78, No. 1 (1991): 228-239.

³⁰⁷ Michael Heller, "Rethinking Historical Methods in Organization Studies: Organizational Source Criticism," *Organization Studies*, 44, Issue 6 (2023): 987–1002

³⁰⁸ One can detect a great deal of frustration over this point in Matthias Kipping, Daniel Wadhvani and Marcelo Buchello, "Analysing and Interpreting Historical Sources: A Basic Methodology," in *Organizations in Time*.

³⁰⁹ These three practices arise within *Organisations in Time*, see above. The publication is aimed at practice among both business historians and those doing historical research within organisational studies.

reconstructed.³¹⁰ Researchers should go from their documents to the contexts in which they were understood, and this should happen repeatedly. A simple example is trying to understand board minutes and instead of simply accepting a naïve truthfulness to them, one might contextualise them by consulting what other scholars have said about wider changes in that industry at the relevant time.³¹¹ As a business historian, the protocols outlined here (source criticism, triangulation and hermeneutic interpretation) are adopted as good solid historical practice, aimed at bolstering overall reliability and knowledge production. However, this is balanced by the inevitable silences or gaps that occur in all archival research sites, rendering all historical research partial and provisional to a point.³¹²

3.18 Purposive Sampling Role

This thesis contains three inter-linked papers looking at government-business relations in the Irish services sector, in the early decades of Irish independence. The chief research interest was in how services segments were addressed by governments of the independence era, when they were not part of the paradigmatic protectionist project that dominated market structure change in manufacturing. The research proceeded inductively (see ‘research journey’ in Chapter 1) from there, guided by research questions concerning how governments and business interfaced within these vital sectors in the relevant period. Sectors were chosen, using purposive sampling, on the basis of having political salience (as marked by legislative attention) and economic criticality (as marked by employment and financial depth).

The work sought to pay attention to instances/episodes where regular, sustained, and deep government business relations had taken place. This is often most commonly grouped around legislative or regulatory events (either new legislation, introduction of unused parts of existing legislation or regulatory direction by central government or its agents). Those writing on research practice suggest this purposive sampling approach is likely to be pay dividends over other approaches such as statistically based samples which then seek to generalise, as per commentary from Patton and others:

“The logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research, thus the term purposeful sampling.”³¹³

³¹⁰ Kipping et al, *Organizations in Time*, 321.

³¹¹ Kipping et al, *Organizations in Time*, 321.

³¹² Richard Evans, *In Defense of History*, 217.

³¹³ Michael Quinn Patton, *Qualitative evaluation and research methods* (Beverly Hills, CA: Sage,1990).

Once purposive sampling was decided upon, the precise strategy then had to be adopted. This researcher chose to pursue a critical case form of purposive sampling, with critical cases described as those that can make a point ‘quite dramatically’ or, which are for some reason, particularly important in the ‘scheme of things’ as per Patton. The critical case approach in this instance is motivated by a desire to investigate episodes when objectives between government and business were not aligned, but stakes were still high. In addition, this researcher was seeking to examine episodes when political attention on the services industries in question is elevated beyond its usual pattern, thereby revealing greater meaning and insights, and shining a more searching light on underlying philosophies and ideological positions than usual. There is also the chance that in a critical case sampling technique, what is true in these industries may be true in other services industries. A critical case sampling technique is also replicated in many aspects by the so-called ‘intensity sampling’ technique as identified by Patton. In that strategy information-rich cases that manifest the phenomena intensely are selected. On balance the approach here is a mixture of elements of critical and intensity sampling.

The guiding philosophical approach of this research- critical realism- suggests that contingent, conjunctural causality are the norm in open systems like society.³¹⁴ It is this belief that marries with approaches taken from specific schools of social science research, most notably historical institutionalism. This school of enquiry, associated with historians, political scientists, and economists, is neither a particular theory or a specific method, but an approach to explaining politics and social change.³¹⁵ It distinguishes itself by its attention to real world empirical questions and its insistence on the situational. It accepts that institutions structure actor’s choices, but are subject to change by actors themselves and real people make decisions that are not always efficient or purely self-interested.³¹⁶

3.19 Critical Junctures

While historical institutionalism (HI) gets habitually associated with the idea of path dependency and lock-in, the more fundamental proposition that *history matters* is arguably more important for researchers in this field than many others, for three reasons: because political events happen within a historical context, because actors or agents learn from experience and because expectations are moulded by the past.³¹⁷ One of the concepts used by historical institutionalists is that of critical

³¹⁴ George Steinmetz, “Critical Realism and Historical Sociology: A Review Article.”

³¹⁵ Sven Steinmo, “Historical Institutionalism,” in *Approaches and Methodologies in the Social Sciences*, edited Donatella Porta and Michael Keating (Cambridge: Cambridge University Press, 2008), 127

³¹⁶ Sven Steinmo, *Historical Institutionalism*, 136.

³¹⁷ Sven Steinmo, *Historical Institutionalism*, 127

junctures. These are characterised as periods of institutional flux, when dramatic change is possible before a new phase of path dependence commences.³¹⁸

These junctures are episodes when the structural influences on political action are significantly relaxed for a relatively short period, opening up a wider set of choices than normal.³¹⁹ Among the methods used to draw out these critical junctures is the use of counterfactuals, mapping what might be decided instead, particularly options that were rejected during the policy making process.³²⁰

The concept of critical junctures was deployed in the selection of the episodes that make up this work, although the original rationale was taken from guidance on research design for qualitative researchers. It should be noted however that much of the guidance drawn from broad social science research methods literature does not concern or accommodate historical research. For example, researchers in the historical field would point out that archival availability is a necessity to advance historically based knowledge in the first place, albeit not the first strategic consideration. In mitigation, Patton acknowledges that information richness trumps all in choice of qualitative sampling and mixed approaches are defensible.

“These are not the only ways of sampling qualitatively. The underlying principle that is common to all these strategies is selecting information-rich cases. These are cases from which one can learn a great deal about matters of importance. They are cases worthy of in-depth study.”³²¹

The choices made here, concern three sectors: rail transport, insurance (general and life) and retail banking. After noting that services were not governed by the political economy paradigms as the manufacturing sector and were neglected in the literature of independent Ireland, it was decided to pursue some research questions inductively, including examining the government management of services as a targeted approach. As a result the interest in these sectors arose from their seeming political salience as measured by legislative events involving these sectors, and also by their economic criticality (measured either by employment and/or financial depth).³²² After considering the concept of critical junctures, it was decided to focus intensively on three government-business

³¹⁸ Giovanni Capoccia and R. Daniel Kelemen. “The Study of Critical Junctures: Theory, Narrative, and Counterfactuals in Historical Institutionalism.” *World Politics* 59, no. 3 (2007): 341–69, offers an extensive explanation of the concept.

³¹⁹ Capoccia and Keleman, “Study of Critical Junctures”, 348.

³²⁰ Capoccia and Keleman, “Study of Critical Junctures,” 347.

³²¹ Patton, *Qualitative evaluation and research methods*, 242.

³²² Employment refers to total employment (adults and junior employees). Rail transport was the largest employer in the economy, outside government, in the early decades of the independence era. For example Great Southern and Western Railway employed 12,044 in 1932 (Return of Railway Companies 1933 report), the year when Fianna Fáil assumed office. Meanwhile ‘financial depth’ refers to financial assets and private credit as a proportion of the economy, usually measured as a percentage of national income. A simpler explanation, or proxy for scale, would be total balance sheet assets as a percentage of a national economy. The World Bank discusses the concept of financial depth at: <https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/financial-depth>

episodes. These episodes reflected what historically focused research in management and business history call eventfulness, events laden with meaning that are unique and unpredictable and that often get overlooked by hypo-deductive scholars.³²³ Below is a rendering of the choices made:

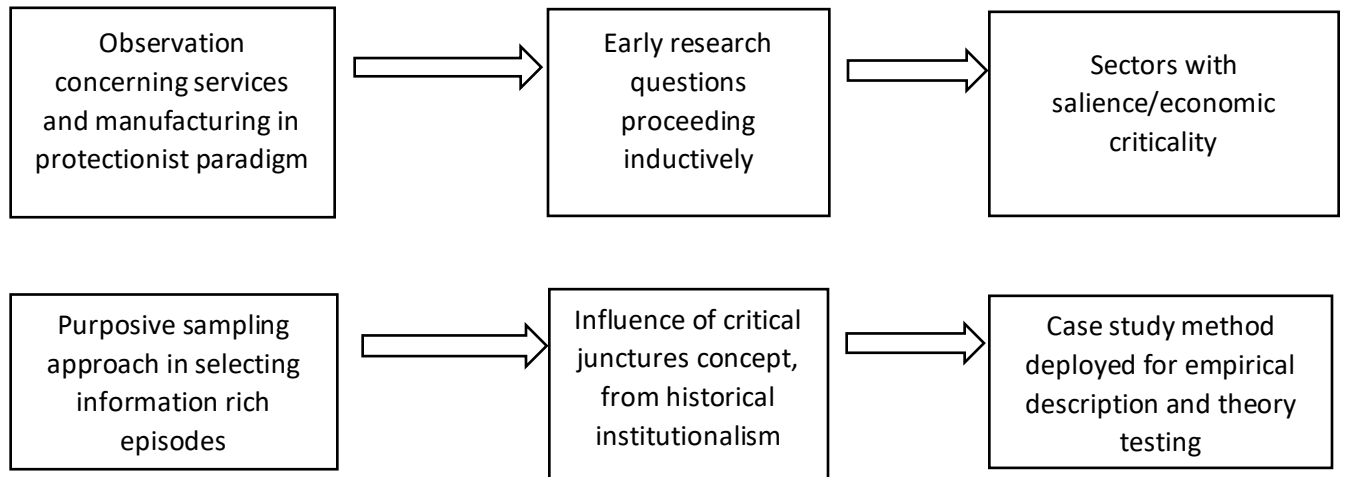


Figure 3.20 Research Mapping

As noted candidly by Irish economic historians themselves (potentially due to work done on 19th century history) there has been a type of fetishization of manufacturing and agriculture over research on services in Irish historiography.³²⁴ This has left a research gap that has been partially filled in via corporate histories and publications triggered by the banking crisis of 2008, but remains an area of significant research neglect, particularly at a thematic level.

3.21 Case Study Method and Thick Description

The reliance on case study and thick description has been a hallmark of business history since its inception, with early promoters of the field suggesting the discipline ‘lends’ itself to relying on this form of research component.³²⁵ The flexibility of the case study approach is one of its enduring appeals, accommodating as it can description, theory testing and theory generation.³²⁶ In terms of definition and purpose a case study it is seen as a method involving systematically gathering enough information about a particular person, social setting, event, or group to permit the researcher to effectively understand how the subject operates or functions.³²⁷ But can this purpose be any further elucidated? Consensus appears to be that a case should be at least aimed at discovering, or at least

³²³ The idea of eventfulness is captured by Stephen Lippmann and Howard E Aldrich, “History and Evolutionary Theory,” in *Organizations in Time*, 136-138

³²⁴ Andy Bielenberg and Raymond Ryan, “An Economic History of Ireland since Independence,” 96.

³²⁵ N.S.B. Grass, “Business History,” *The Economic History Review* (1934) Vol 4, No.4.

³²⁶ Kathleen M. Eisenhardt, “Building Theories from Case Study Research,” *The Academy of Management Review*, Vol. 14, No. 4 (1989): 532-550.

³²⁷ Howard Lune, Bruce Berg, *Qualitative Methods for the Social Sciences*.

suggesting, some ‘generalizable theoretical concept.’³²⁸ Theory in business history was viewed with suspicion for much of its development, but since the so-called ‘historic turn’ in mid-1990s, many researchers have suggested collaboration between history and multiple social science fields is more than viable.³²⁹ The reality is that the case study, as viewed within the business history field, is viewed as resembling something of a receptacle, with an ability to carry both strong empirically-focused work and theoretically focused explorations.³³⁰ The use of case study also has implications for how theory can be deployed.

3.22 Business History and Theory

While business historians have been anxious to develop greater theoretical constructs, the progenitors of the field (such as Alfred Chandler) suggested this can only take place, after sufficient empirical history has been done and data assembled, at which point some level of generalisability may be possible. But if one looks and reads more closely, business historians have never really shunned theory entirely, but rather shunned *explicit* theory. For example, influential business history scholars have suggested that empirical studies usually have a theoretical underpinning, whether articulated or not. All business historians will use some ‘theoretical postulates’, however crude, whether consciously or unconsciously.³³¹ As befits its eclectic origins, the great potentiality of business history is its ability to utilise theory, but in ways that are less constrained and rigid than seen in other fields. Case-studies should seek to adopt what is relevant, to challenge the assumptions of, and expose the limitations of the various theoretical models, and to extend their applicability. At worst, theoretical constructs can act as ‘useful coat pegs’ on which to hang the narrative.³³² But Terry Gourvish, who headed up the business history unit at London School of Economics, talking about case studies, is worth quoting in detail on this point:

“Empirical case studies, properly formulated, and conceived with an awareness of the available theory and quasi-theory of Chandler, Williamson et al., must form a central methodological tool for the subject. Much as we would like to construct and test superior new theories, for example on the operations of the firm, or the dynamics of managerial intervention, we also need to walk before we can run. We need to recognize that, however good our theory promises to be, to be effective it needs to be tested adequately; and to be tested adequately it needs to square with what is available to historians in archives and elsewhere.”³³³

³²⁸ Howard Lune, Bruce Berg, *Qualitative Methods for the Social Sciences*.

³²⁹ Terrence J. McDonald, “*The Historic Turn in the Human Sciences*,” (University of Michigan Press: Michigan 1996) outlines this inflection point.

³³⁰ Terry Gourvish, “Business History: In Defence Of The Empirical Approach?” *Accounting, Business and Financial History*, Vol. 5, Issue 1 (1995): 3-16. Gourvish talks about the case study and malleability.

³³¹ Gourvish, “Business History: In Defence Of The Empirical Approach,” 10.

³³² Gourvish, “Business History- In Defense of the Empirical Approach 11

³³³ Gourvish, “Business History- In Defense of the Empirical Approach,” 13

If case studies can provide particularism and empirical rigour, traditional ingredients of business history, what of theory development more generally in business history? Firstly, it must be stated that business historians reject the idea of privileging any single method or methodology.³³⁴ This translates into a practical reality, the field is a mixture of traditional descriptive accounts of firms, industries and their institutional environment, but also of theory-related work. For example, Alfred Chandler is accepted as a business historian who developed theory, as are business historians such as Bernard Elbaum and William Lazonick, who used case studies on particular industries which once dominated the British economy to develop an institutional explanation for national economic performance.³³⁵ Other schools of historical inquiry, such as the French *Annales* school, have always sought to look for overarching explanations or theories to explain events, particularly drawn from sociology and economics.

3.23 Integrating Theory

Nevertheless many have commented that business history has an ‘eclectic’ approach to theory that contrasts sharply with the prescription experienced in other fields.³³⁶ When practiced, existing theory should be ‘confronted’ by the empirical results of business history, it has been suggested by some.³³⁷ While such suggestions are not met with hostility, some speculate they arise from an inappropriate sense that business history must be less eclectic and less pluralist, which many see as the field’s underlying academic strength. The best way to characterise the current position is arguably a stand-off between pluralists, who want to retain the field’s eclecticism and singularists, who insist the field must observe the research norms of other fields by being less diverse.

Business historians have traditionally been described as ‘inveterate empiricists’ and some economic historians have suggested business historians must do more than just compile and chronicle, and simply have to find a way to allow theory and history to co-operate.³³⁸ But often little is said about how this might be done technically in terms of research method, or even narrative construction. When it comes to archival research, presented in narrative form, many qualitative organisational researchers are hostile and prefer data collected in real time, which they assert is ‘richer’.³³⁹ Still business historians reject this view and point to a key attribute of archival sources- they are often created unintentionally, meaning participants did not know the material would be later researched

³³⁴ This is treated by Decker et al, “New business histories! Plurality in business history research methods.”

³³⁵ Abe de Jong, David Michael Higgins & Hugo van Driel, “Towards a new business history?” *Business History*, 57:1 (2015), 7.

³³⁶ De Jong et al, “Towards a New Business History,” 7.

³³⁷ De Jong et al, “Towards a New Business History,” 24

³³⁸ Donal Coleman, “The Uses and Abuses of Business History,” *Business History* (1987) Vol. 29 Issue 2, p141-156 deals with this conflict.

³³⁹ This view is discussed in Michael Rowlinson, John Hassard and Stephanie Decker. “Research Strategies For Organizational History” *The Academy of Management Review* 39, no. 3 (2014): 250–74.

and analysed.³⁴⁰ Instead the core challenge is to derive meaning (including theoretical meaning) from what is collected, as scholars in the business and organisational field have pointed out. This has led some researchers to split organisational history into four approaches- corporate history, analytically structured history, serial history, and ethnographic history.³⁴¹

While a helpful typology, still missing is a deeper sense of how theory integrates, in a logistical sense, with empirically based archival research. There are however some ‘norms’ or common shared practices among business historians in approaching theoretical explorations. One is that business historians allow data to drive any theory building, rather than using the data to test a pre-determined theory-based hypothesis.³⁴² Second is that once theory grows out of the historical research itself, this consequent presentation is a matter of flexibility.³⁴³ But one of the ways where historical research can make its presentation approach more amenable to the general management field is to construct the traditional empirical article, but after doing so contain a section, often called discussion, where the findings of the case can be demonstrated to extend or contribute to theory.³⁴⁴

Other authorities suggest a common approach of business historians is so-called ‘history to theory’ where historical evidence serves to develop, modify, and—less frequently—test theories. This, in another context, is described as a supplementarist approach, where historical data is seen as having potential for confirming and refining general theories.³⁴⁵ This general approach is outlined further for business historians who use narrative as a form of theoretical explanation. This narrative is used to identify unique causes of events and historical processes.³⁴⁶ In the case of business history narrative, social theory is used to ‘frame’ the research and concentrate on identifying causes of events. This is similar to a form of research strategy/presentation known as specific history, where the main pillars are: periodisation, a relatively self-contained set of events, specific social theories are used to explain processes, the social theories used however leave a residue of events and aspects unexplained.³⁴⁷

In this case theory may help to ‘block out’ parts of the narrative, but the ambition for theoretical explanation is modified by unique circumstances being investigated. This form of narrative writing,

³⁴⁰ Rowlinson et al, “Research Strategies for Organizational History.” This point is intriguing in the light of modern Freedom of Information laws.

³⁴¹ Rowlinson et al, “Research Strategies for Organizational History.”

³⁴² JoAnne Yates, “Understanding Historical Methods in Organisation Studies,” 279

³⁴³ Yates, “Understanding Historical Methods in Organization Studies,” 279

³⁴⁴ Yates, “Understanding Historical Methods in Organization Studies,” 282

³⁴⁵ Behlül Üsdiken and Alfred Kieser, “Introduction: History in Organisation Studies,” *Business History*, 46:3 (2004): 321-330.

³⁴⁶ Huseyin Leblebici, “History and Organization Theory: Potential for a Transdisciplinary Convergence,” in Eds, Marcelo Bucheli and Daniel Wadhvani *Organizations in Time* (Oxford University Press: Oxford, 2014),74.

³⁴⁷ This form of sociological history is decomposed by John R Hall, “Where History and Sociology Meet: Forms of Discourse and Sociohistorical Inquiry,” *Sociological Theory*, Vol 10, No. 2 (1992): 164-193.

suggested for certain organisation studies scholars, is sometimes described in similar terms as ‘history as narrating’, where theory is largely offstage, propositions and arguments emerge inductively from the accumulation, ordering and analysis of historical evidence.³⁴⁸ Those who describe these approaches also talk of ‘integrative domains’, where history and theory can be synthesised, whatever the extent of this. Government-business relations it is argued here is one such integrative domain. As outlined in the literature review section, government-business relations, which is relatively well delineated and rests of a rich store of empirical accumulation, is a strong candidate to be such a integrative domain. The work contained here seeks to be an integrative domain, but the empirical and the act of historical enquiry has primacy, particularly so as the area-business-government relations in independence Ireland is an exploratory stage.

3.24 Empiricism and Theory

While the field of business history has done an arguably underwhelming job at demonstrating how empiricism and theory can be integrated in a good practice sense, the overall approach that appears to command consensus is that a flexible blend of the two should be instituted. This eclecticism is a reflection maybe of where historians, including business historians are located in terms of modern research philosophy. A quotation from British historian Alan Munslow sums up the position neatly:

“Most historians today accept a middle position that rejects extreme empiricism (i.e. rationalism), maintaining that we observe but we also mentally process information deploying a priori knowledge and categories of analysis as appropriate and helpful ... Today most historians do not accept that history can be known through an exact correspondence of knowing and being. Most historians these days regard themselves as sophisticated empiricists who judge the reality of the past by a measure of understanding based upon sense-data as filtered through the grid of mental structures pre-existing in our minds ... Few historians today would defend a crude sceptical empiricism.”³⁴⁹

As a result theory is deployed in different ways in the field. The approach here rests on a strong acknowledgement of government-relations theory. This body of theory spans a range of fields, from economics to sociology to political science. Extensive treatment of them is included in the literature review.

While a significant range of literature suggests government-business relations are influential over economic performance, the nature of the relations is important and whether they are collusive or collaborative. Public choice concepts like rent seeking and regulatory capture are part of the collusive dynamic, where business extracts ‘particularistic benefits’ at the expense of improved

³⁴⁸ Mairi Maclean, Charles Harvey, Stewart Clegg, “Conceptualizing Historical Organization Studies,” *The Academy of Management Review*, Vol. 41, No. 4 (2016): 609-632.

³⁴⁹ Alan Munslow, *The Routledge Companion to Historical Studies* (London: Routledge, 2000), 81/82.

efficiency and economic transformation.³⁵⁰ More collaborative relations are said to occur when a synergistic and productive relationship between the government and private sector is established.³⁵¹ Clearly distinguishing between these two forms of relations is challenging, with much reliance on more generalised ideological assumptions. In addition, another group, known loosely as statist, seek to undermine the idea that the state is simply a passive instrument of societal forces, pointing out that political figures and bureaucrats have their own worldviews and personal priorities, which may rank higher than any external pressure sources. This is something of a re-run of traditional structure v agency debates in sociology. Be that as it may, the idea of the structural power of business remains highly influential, although it shares paradigmatic space with other countervailing theories such as pluralism and elite networks. Using a framework by Patrick Bernhagen we can see the contrasts between these various theoretical constructs, drawn out more clearly:

Table 3.25: Five Explanatory Frameworks Governing The Political Power of Business³⁵²

| Explanatory Framework | Theoretical Underpinning |
|------------------------------|---|
| Pluralism/Interest Groups | Different groups compete for political outcomes, access and pressure on decisions makers is important, occurring in a loose structure |
| Neo corporatism | Major economic interests such as employers and labour get access to a special structure/structures where interests are mediated |
| Elite networks | A coherent and tightly controlled business community, often linked via boards and business associations, pursue their common class wide long-term interests |
| Ideological Dominance | Business ‘manufactures’ consent for its priorities using channels such as the mass media, with shaping of public opinion and people's preferences a leading objective |

³⁵⁰ Sylvia Maxfield and Ben Schneider, "Business and the state in developing countries," (Ithaca: Cornell University Press, 1997), 21.

³⁵¹ Maxfield and Schneider, "Business and the State in Developing Countries."

³⁵² Patrick Bernhagen, "The Political Power of Business," (Routledge, Oxford: 2007). 23-53. The table is extracted from Bernhagen's various theoretical explanations.

| | |
|------------------------------|--|
| Structural power of business | Economic performance is needed for the electoral success of politicians. Business acquires power due to its control of capital, taxation revenues and ‘capital strikes’ <i>in extremis</i> can be employed to control policy |
|------------------------------|--|

While space precludes a detailed exploration of these frameworks, this summary is a useful framing device for the research contained here, providing widely observed theoretical constructs that can become part of a *history to theory* research orientation, even though such work must not decouple from the core empirical work present in each paper.

3.26 Overall Conclusion - Research Design

As outlined here the ontological and epistemological roots of business history are dynamic, shifting and contested. Stereotyped as a ‘craft-like’ discipline, with a hint of antiquarianism, the field resists the idea that it is atheoretical, but equally it does privilege the empirical case-study, but does so with some ‘specific analytical constructs firmly in mind’ and because the case study is a suitable receptacle for both empirical discovery and theoretical reflection.³⁵³

This sometimes-uncomfortable intellectual middle ground is summed up in the research philosophy of critical realism, which allows researchers to steer safely between the Scylla of rigid scientism and the Charybdis of relativism.³⁵⁴ Below is the totality of the research design used in this work:

Table 3.27 Research Design Elements- Government-Business Relations³⁵⁵

| Elements of Approach | Rationale for Choice |
|-------------------------------|---|
| Ontological Assumption | Subjectivist: There is no one true objective reality. Reality is approached through social construction and a product of human imagination and perception. |
| Epistemology | Social constructionist: Knowledge arises from a communal process, uses social science concepts to reveal underlying patterns, including historical context. |
| Research Philosophy | Critical Realism: An external world exists independently of human consciousness, but there is also another dimension |

³⁵³ Gourvish, “Business History: In Defence Of The Empirical Approach?”

³⁵⁴ Steinmetz “Critical Realism and Historical Sociology. A Review Article,”184.

³⁵⁵ This table is an amalgam of many frameworks explored earlier in this chapter; plus general reading done over the course of the thesis. Specific footnotes here would be too voluminous.

| | |
|---------------------------------|---|
| | made up of our socially determined knowledge about reality. |
| Research Approach | Inductive: Going from the particular to the general, usually associated with a ‘bottom up’ approach. |
| Methodology | Historical qualitative research: The use of historical sources to make valid and credible claims about the past. Uses interpretive processes such as source criticism, triangulation, and hermeneutics. |
| Research Method/Strategy | Archival Case Study: Three inter-linked cases, focused around services sector in the Irish economy of the early independence era. Guided by the concept of ‘critical junctures’. |
| Time Horizon | Longitudinal in nature, uses historically framed periodisation, from 1922 to 1958. |
| Data | Archives: Government and company documents, newspapers, grey literature. Nonintentional sources |

ENDS

Chapter Four: Ireland's Modified Insurance Intervention 1936-1938

Classic structuralist theories about business-government relations suggest states and their range of policy choices are 'constrained' by business and its control over capital. Small countries are said to be particularly vulnerable to forms of factor mobility. Despite these assertions, capital-rich sectors such as insurance are rarely utilised to explore these ideas in business history. Ireland, in the inter-war period, effectively nationalised the majority of its life insurance industry in the most radical intervention in the sector to date, when it amalgamated the largest life companies, including British firms like Prudential, into a government-controlled 'national champion' style company. This chapter explores how ambitious protectionist policy aims, reallocating market share from overseas providers to domestic ones, ended up modified by a range of factors, including the intrinsic comparative advantage characteristics of insurance, the influence of external advice and the leverage accumulated by native producers relying on crony capitalist influences.

4.1 Introduction

On account of its maritime traditions, insurance has wrestled with the complexities of internationalisation and foreign entry for several centuries. But from the late 18th century onward non-marine insurers were also offering their services overseas and wrestling with these complexities, with British firms entering foreign markets from 1782, US insurers from 1858, Japanese insurers from 1880, while German insurers were venturing into neighbouring countries from the late 19th century.³⁵⁶ The provision of insurance, like banking, comes with economy-wide implications and without such provision goods would not be transported, large construction projects would be impossible and quality of life would decline.³⁵⁷ In addition, insurance, particularly the life segment, involves the transmission of sizeable mobile capital available for investment over elongated time horizons, meaning that insurers can benefit from what some theorists chose to call 'business as capital' influence.

Because of such characteristics, the presence of foreign insurers in domestic markets can create myriad regulatory, capital account and political conundrums for domestic or host governments that

³⁵⁶ Robin Pearson, "Introduction: Towards An International History of Insurance," in *The Development of International Insurance*, edited by Robin Pearson (London: Routledge, 2010), 11; Mira Wilkins, *The Emergence of Multinational Enterprise* (Harvard: Harvard University Press, 1970) 64; Takau Yoneyama, "Japan: the Role of Insurance in the Rapid Modernization of Japan" in *World Insurance The Evolution of a Global Risk Network*, edited by Peter Borscheid and Niels Viggo Haueter (Oxford, Oxford University Press, 2012) 499. Peter Borscheid "Germany: Insurance, Expansion, and Setback," in *World Insurance*, 102

³⁵⁷ Kenneth J. Meier, *Political Economy of Regulation, The Case of Insurance* (New York, New York State University Press, 1988), 1

inevitably give rise to periodic engagement with the industry. While not capital intensive in the fashion of oil production or aircraft manufacture, insurance creates considerable capital assets, with life insurers in particular channelling significant amounts of savings into capital markets that underpin economic growth.³⁵⁸ While playing this role life insurers regard autonomous control of their assets as a crucial objective.³⁵⁹

Research has chronicled a ‘globalization backlash’ starting in the inter-war period in insurance with capital outflows often the trigger for policy interventions. South America in particular, under leaders such as Vargas of Brazil and Peron of Argentina, cited capital outflows as a reason to grant full or partial monopolies to certain insurance lines. Smaller European states, which had been unable to develop ‘efficient’ insurance industries, including Latvia and Estonia, decided to introduce state monopolies during this period.³⁶⁰ Comparative advantage theory, it is argued, is germane to insurance and the growth and persistence over decades of global insurance hubs with deep capital foundations, such as London, suggests countries seeking to deviate from these assumptions in the insurance sector, via policies such as infant industry protection, will face obstacles and challenge.³⁶¹

Literature on business government relations in insurance, especially the life segment, is peculiarly scant and the area some assert is ‘virtually unknown’ to social scientists.³⁶² Considering the large pools of mobile capital that flow through insurance networks its surprising that seminal contributions, which have suggested that business constrains the choices of states via its control of capital resources, from such scholars such as Charles Lindblom, have so rarely been tested against empirical work drawn from such a capital oriented sector.³⁶³

While in recent decades insurance, like banking, has operated in an environment where the state has retreated from interventionism, what of earlier contrasting periods? As the inter-war period was one where free trade was discarded in many countries in favour of autarky and states sought to ‘steer’ their economies, its worthwhile to ascertain whether governments were able to reconfigure

³⁵⁸ Patrick M Liedtke, “What’s Insurance to a Modern Economy,” *The Geneva Papers on Risk and Insurance - Issues and Practice*, Volume 32 (2007): 211–221.

³⁵⁹ Karen Orren, *Corporate Power & Social Change - the Politics of the Life Insurance Industry* (Baltimore: John Hopkins Press, 1974), 18.

³⁶⁰ Peter Borscheid and Robin Pearson, “A globalisation backlash in the inter-war period?”, in *Internationalisation and Globalisation of the Insurance Industry in the 19th and 20th Centuries*, edited by Peter Borscheid and Robin Pearson (Zurich, Marburg Philipps-Univ Press, 2007): 129-142.

³⁶¹ Ronald Kent Shelp, *Beyond Industrialisation-Ascendancy of the Global Service Economy*, 87.

³⁶² Kenneth J. Meier, *Political Economy of Regulation* (Preface).

³⁶³ The corporate power and reach of the life insurance industry has received some extended US focus in Morton Keller, *The Life Insurance Enterprise, 1885-1910: A Study in the Limits of Corporate Power* (Cambridge: Cambridge University Press, 1963).

capital-rich and internationally focused sectors like insurance and if so, what compromises, if any, accompanied such initiatives?

4.2 Background to Irish insurance and Economic Position

In the case of Ireland in this period, the desired configuration came in the form of a strong objective to privilege domestic insurers over overseas, mainly British, competitors. Upon gaining quasi-independence in 1922, Ireland first opted for economic continuity in the form of conservative fiscal policies and agriculture-based free trade, before a policy *volte face* in the 1930s which embraced import substitution industrialisation (ISI) as part of a developmental policy switch. While manufacturing was the primary focus of these policies, one of the few services segments identified as candidates for protectionist recasting was insurance, both life and general, at least initially.

However the typical suite of measures to protect native insurance markets, such as tariffs, differential capital requirements, curbs on government procurement of overseas insurance, utilisation of reinsurance, were eschewed, in preference for the creation of an amalgamated state-controlled life insurer, brought into being partly by generous compensation for directors/managers of the failing firms which formed the constituent parts of these new insurers.³⁶⁴ The change was made via two pieces of legislation, the 1936 Insurance Act, which facilitated the merger of four Irish life companies into amalgamated firms, with financial support from the state for which, in exchange, the state received shares in the amalgamated firms. This was followed by the 1938 Insurance (Amendment) Act which in addition to the four Irish companies, facilitated other companies to join in the amalgamation by entering into an agreement. British insurers would in time agree to transfer their Irish life businesses too under the terms of this second piece of legislation.

This chapter's contribution is three-fold. One it seeks to reconstruct for the first time through detailed archival source material, the most far reaching intervention in the Irish insurance market to date when the Irish life sector was effectively nationalised between 1936 and 1938, paying particular attention to how this intervention evolved in a market with inordinate foreign firm dominance accreted over centuries.³⁶⁵ Secondly, it assesses the form of interventionism Irish policy makers chose in this period and asks why it failed to meet its promoter's objectives. While state intervention to disadvantage foreign insurers has been chronicled, scholars have researched less on

³⁶⁴ Harold D Skipper Jr, "Protectionism in the Provision of International Insurance Services," *Journal of Risk and Insurance*, 54,1 (Mar, 1987): 55-85

³⁶⁵ Richard S Harrison, *Irish Insurance: Historical Perspectives 1650-1937* (Cork: Author Published, 1992) records Royal Exchange Assurance (REA) setting up in Ireland through an agent in 1722, with London Assurance doing the same in 1725.

how interventions can advantage domestic incumbents, either corporately or personally. Finally, it seeks to draw some conclusions relating to government intervention in a sector like insurance more broadly and assesses how the episode integrates into business-government relations literature, including structuralist frameworks suggesting that business acts as a constraint on the state through control over national and/or international capital flows.

4.3 Theoretical Constructs on Government-Business Relations and Insurance

Literature on business and government has traditionally been sharply bifurcated, with a pluralist branch viewing business-government relations relatively benignly, with business just one party within a constellation of interest groups influencing government in a dynamic continuous process.³⁶⁶ The contending branch, the structuralist or elite theory school, has viewed states as constrained by business, as governments crave their resources and expertise. Few reject this second view entirely, instead pointing to nuance, and acknowledging there are temporal variations in the level of business influence.³⁶⁷ Others have explored the theme of state autonomy, seeking to banish the idea that states are mere instruments of interest groups, pointing out they have their autonomous agendas.³⁶⁸

The presence of large capital pools, created via insurance premiums, in an Irish economy seeking to catalyse post-colonial catch-up growth, brings structural ideas about business into the foreground. What role did insurers, most of them foreign, play in this period? Could they, with their control over these capital pools, deprive Irish political elites of a significant resource to achieve their political objectives and could the Irish elites meaningfully respond to this via a successful intervention? The example of Ireland in the interwar period suggests intervention in a sector like insurance, where comparative advantage and scale is germane, will create a set of compromises that policy makers will have to contend with.

One, the privileging of domestic insurers over foreign firms bestows on the former additional leverage opportunities which can result in the extraction of personal and corporate benefits. Trade theory speaks of domestic constituencies who lose out as internationalisation is increased and that these groups then seek additional protection, or sympathetic regulation, from local political institutions.³⁶⁹ While this norm has been established, far less is known about what concessions may

³⁶⁶ Robert A Dahl, *Who Governs?* (Yale: Yale University Press, 1974); David B. Truman, “*The Governmental Process*,” (New York: Greenwood Press, 1951)

³⁶⁷ David Vogel, *Fluctuating Fortunes: the Political Power of Business in America* (New York, Beard Books, 1989).

³⁶⁸ Peter B Evans, Dietrich Rueschemeyer, Theda Skocpol, *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

³⁶⁹ This idea explored in detail by Robert O’ Keohane and Helen V. Milner, *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996).

be yielded up in response by those institutions, particularly in a sectoral context. Second, elements of comparative advantage that can be relevant in insurance- pooled risk over larger populations groups, capital centralisation and deep collective technical expertise – can mean that foreign insurers retain leverage and relevance to national insurance markets even during periods of ambitious protectionist policy making by the state, meaning they can also exert leverage. In addition, the economy wide characteristics of insurance, which allow daily economic lift to continue, leaves little margin for error for policy makers. For a 20th century economy to be without widespread insurance provision for any prolonged period carries grave economic risk, meaning that sublimating (or even eliminating entirely) foreign insurance in favour of domestic insurance provision is challenging logistically. All of these issues feed into the sense that structural arguments may be relevant in the area. Opposing explanatory frameworks such as corporatism or pluralism, which pivot around the idea of multiple constituencies contending within a structure or loose process, may carry less weight as insurance consumers in particular are the mainly missing force in the insurance field of the period, leaving scope for industry monopolisation of the policy process. While the Irish insurance legislation of the 1930s did give additional protection to consumers, they were as a collective voice missing in policy deliberations in the main.

4.4 British Insurance Market Dominance

Until Irish independence in 1922, Ireland was not a foreign market for British insurers, but a regional one within the broader British insurance industry with an identical legal framework - the 1909 Insurance Act. Capital mobility and geographical proximity meant the Irish insurance market was dominated by British insurers, operating through agencies or branches, not subsidiary companies. While Ireland gained significant independence in 1922, it was not complete separation. Instead, it acquired the same constitutional status as the Dominion of Canada, the Commonwealth of Australia, the Dominion of New Zealand, and the Union of South Africa. An Irish parliament acquired powers to make laws for the ‘peace, order and good government of Ireland’ and the country would be now known as the Irish Free State (or ‘Saorstát Éireann’), run by an Executive Council (or Cabinet), headed up by a President of this council.³⁷⁰ [In this thesis the phrase ‘Free State’ will mainly be used for this new state throughout].

The Free State had approximately 136 insurance firms, societies and associations at this point. Of these this researcher has identified over 80 of them as being of British control or origin.³⁷¹ Such was the scale of foreign insurance operations in the Free State, the government of the 1920s

³⁷⁰ These arrangements arose from the Anglo-Irish Treaty, signed 1921, establishing a new constitutional status for the state. View the terms here: <https://www.difp.ie/volume-1/1921/final-text-of-the-articles-of-agreement-for-a-treaty-between-great-britain-and-ireland-as-signed/214/#section-documentpage>

³⁷¹ Insurance firms and addresses were compiled and listed in *Thom's Street Directory 1922* (Dublin: Thom, 1922).

commented on the second order economic effects of their presence, including lucrative advertising placed with local newspapers, work for Irish auditors and accountants, and office rents in Dublin's business district.³⁷² Overseeing this ecosystem initially in the 1920s, was the Cumann na nGaedheal party, which oversaw a rural, strongly petit bourgeois state with conservative economic instincts based on self-definition against Britain, while the key economic priority was agricultural exports.³⁷³ Against that background financial services, unsurprisingly, wasn't a legislative priority for the new state and the insurance industry attracted little overt political attention.

4.5 Irish Nationalist View on Insurance Provision

It can be argued however this was somewhat surprising as the provision of insurance had been politically salient for Irish nationalists during the independence journey. The pre-independence insurance sector had been harshly critiqued by nationalist thinkers, as extractive, exploitative and ultimately colonialist. Influential newspapers edited by the founder of Sinn Féin, Arthur Griffith, pointed to the total monopoly of 'English' insurance companies over the Irish market and a perpetual drain of premium income from the island.³⁷⁴

Nationalists involved militarily in the Irish nationalist struggle, also provided an example of how insurance was an industry of political importance. Many of this group were interned by the British following the 1916 Easter Rising in a Welsh prison camp Frongoch and while there they discussed plans to set up native Irish insurance concerns which occurred post their release.³⁷⁵ These prison yard discussions not only birthed one large insurance company (New Ireland), but many others were also created amid the nationalist sweep to power, with the Irish National company set up in 1919, the Irish Life company in 1923, the City of Dublin in 1925 and the Munster and Leinster Insurance company in 1929.

What was behind the Irish nationalist view at its core? The Irish insurance industry of the early 20th century offended a foundational orthodoxy of Irish nationalism- that economic resources pooled on the island of Ireland (or at least the southern segment) should remain there for economic re-circulation. But bringing such an idea to economic life was less easy and those seeking to achieve economic nationalist goals were inexperienced people lacking in technical expertise and consequently achievements often fell short of aspirations, while objectives often proved mutually

³⁷² Memo on insurance market prepared by Irish Department of Industry and Commerce, dated 'November 1928'. National Archives of Ireland (NAI), President of Executive Council Files, NAI TSCH S2348.

³⁷³ Roy Foster, *Modern Ireland 1600-1972* (London: Penguin, 1988), 516

³⁷⁴ Owen McGee, *Arthur Griffith* (Kildare: Irish Academic Press, 2015), 204

³⁷⁵ The connections among these prisoners and their role in setting up New Ireland Assurance are summarised in *History Ireland*, Vol 25 (May/June, 2017) which is available at:

<https://www.historyireland.com/volume-25/100-years-ago-foundation-new-ireland-assurance-company/>

contradictory.³⁷⁶ As Irish independence dawned in 1922, not only were British insurers already holding a commanding market share position in Ireland, many had almost a century of multinational insuring experience, whereas Irish insurers suffered from thin reserves, high marginal costs and organisational limitations- some didn't possess an office actuary for instance.³⁷⁷ But with the arrival of Sean Lemass TD, (a veteran of the 1916 Easter Rising) in 1932, as Minister for Industry and Commerce, a far reaching rebalancing was likely. This meant that economic nationalist aspirations would finally collide with the rigidities of the existing market structure, forcing the state and Lemass to integrate a diverse set of interests.

4.6 Irish insurance market - specific dynamics

The Irish insurance sector of the 1920s split into a Life segment (encompassing ordinary and industrial) and the smaller General segment (fire, accident, cars, public liability etc). Total premium income was estimated by the Department of Industry and Commerce (1927) at IR£3.8m, with life business accounting for 66 per cent of this, general the rest.³⁷⁸ Overseas insurers held larger market shares in both categories. Throughout the first decade of the new state, the government prevaricated on legislating for the insurance industry. It proclaimed a desire to be interventionist, but cautioned that legislating would involve far-reaching aspects of policy.

While the early years of the new state weren't subsumed with protectionist thinking, there was a proselytizing of Irish culture.³⁷⁹ This seeped into the Dublin business world too, where native insurance firms, from choice of name (Irish National, Irish Life) to their green brand liveries, projected patriotic legitimacy. Irish civil servants in the 1920s acknowledged in Government memos they were attempting to weave a delicate compromise - exerting sufficient control over foreign insurers to satisfy the bromides of Irish nationalism, but not excessive control that would trigger a market exit, especially a precipitative one, by the overseas (external) offices. While general insurance was mostly relegated in the 1920s, the issue of life insurance (particularly industrial life) consumed some political attention.

4.7 Focus on Industrial Life

Predecessor to Lemass as Minister for Industry and Commerce, Patrick McGilligan, was gifted political cover, if required, to reform the area of life insurance as a Departmental committee had

³⁷⁶ Mary Daly, *Industrial Development and Irish National Identity, 1922-1939* (Syracuse: Syracuse University Press, 1992), 75

³⁷⁷ Letter sent by JJ McElligott, Secretary of Department of Finance to Secretary, to Department of Industry and Commerce Assistant Secretary, R.C. Ferguson, concerning the City of Dublin Insurance Company and its actuarial valuations, 3rd July 1941, found in NAI Insurance box files, TIA 934/U (or 2008/34/134).

³⁷⁸ Figures contained in Department of Industry and Commerce memo dated November 1928, on insurance sector and reform, sent to Executive Council. Found in NAI Executive Council boxfile, S2348.

³⁷⁹ Foster, *Modern Ireland 1600-1972*, 518

been established in 1923 to ascertain if law change was needed. The committee found that British firms controlled up to 80% of the industrial life assurance market in the fledgling state, with Prudential and Royal Liver the two largest providers by annual premia.³⁸⁰ The report asserted that the intensity of marketing of industrial life assurance- and its particular form- was leading to market dysfunctions, including:

- Excessive lapsing of policies with sales staff pocketing commissions up front and disregarding subsequent payment performance
- Expensive cover when measured by overhead expenses as a percentage of premium (as high as 60% even for long established firms selling policies)
- Official forms, needed to set up policies, were filled out incorrectly, raising the issue of fraud or unsuitable and unnecessary cover.³⁸¹

While remedies for consumer's travails weren't contested political territory, the report also confronted the more vexed question of British insurers' market presence. Immediate and strenuous control over the industry was not possible the committee acknowledged, but it wasn't prepared to surrender to futility either. Instead the report proposed to McGilligan other ways to 'control' British insurers including:

- An obligation that British (or 'external') insurers must lodge and maintain in the Free State a sum equivalent to their full actuarial liabilities.
- British or external insurers would be required to obtain a licence to carry on business.
- A clause would be attached to all insurance policies ensuring that any disputes would be remedied solely in the Irish courts,
- A 'resident' office and manager must be set up in the Free State
- Irish policy holders must have first charge over any business and property owned by the insurer in the Free State.³⁸²

While nationalisation of industrial assurance was ruled out as beyond its terms of reference, the recommendations represented a radical menu of policy choices. The first condition, that full actuarial liabilities must be lodged within Ireland, was met with resistance by the foreign insurers and this issue scuppered plans to legislate on foot of the committee's recommendations. At a meeting in May 1925 the posture of the British insurers was made clear to McGilligan, that they

³⁸⁰ *Report of the Industrial Assurance Committee*, Department of Industry and Commerce. Dublin: Government Stationery Office, 1925. Available at Oireachtas Library, Dublin.

³⁸¹ *Industrial Assurance Committee Report*, 3-4

³⁸² *Industrial Assurance Committee Report*, 12-15

would rather close down in Ireland than accede to the idea of depositing securities in Ireland. McGilligan's response was to seek legal opinion from the Irish Attorney General.³⁸³ While McGilligan remained legislatively silent, the bureaucracy in the Department of Industry and Commerce remained concerned about the residual features of the insurance market.

4.8 Complex Insurance Landscape and Blunt Realities

A crucial 57-page Industry and Commerce memo from November 1928 forwarded to the Executive Council (Irish Cabinet), pointed to a complex landscape replete with thorny and intertwined interests.³⁸⁴

- The market was in the hands of external (British) firms over which there was only 'nominal control' by the new independent government
- These firms had investment policies not conducive to the newly fledgling state which wanted more investment in domestic assets.
- Some of the strongest domestic insurers were also controlled by the external firms.
- The independent Irish firms were weak, losing market share and with little sign of change and several 'could go to the wall'.
- If Irish firms suffered an early collapse, such event could have a reputational effect on Ireland's national creditworthiness and damage the remaining Irish-based insurers
- The application of the 1909 Act was not clear.
- The law was not being enforced against insurance collecting societies as it was not clear enough to be enforced
- There were a "multitude" of insurance firms in the market, causing duplication and still insurance cover remained excessively costly when measured by expenses as a proportion of premium charged.
- Industrial life insurance was carried out extravagantly amongst the poorest and 'most helpless' classes of population and these policy holders were badly served for the money they expended.

This was what the civil servants called the 'insurance problem', a problem exacerbated by the particular complexities of life insurance.

4.8.1 Native insurance Weakness

Life assurance with its long tail poses particular regulatory risks. Life companies accept premiums and are free to invest the resulting funds for many years until those funds are called on.³⁸⁵ Life firms

³⁸³ Minute of meeting in Department of Industry and Commerce, with external insurance offices, May 16, 1925. NAI Insurance box File, NAI TIA 1470-3 (or 2008/34/165).

³⁸⁴ Insurance Memo, from Department of Industry and Commerce insurance unit, Nov 1928. NAI, TSCH S 2348 File.

³⁸⁵ Meier, *Political Economy of Regulation*, 2.

may mis-price risk, deliberately or inadvertently in the early years, but to policy holders may look financially sound only for reserves to prove inadequate subsequently. With such tail risk, there's a necessity for judicious reserving policies- it was believed a typical life assurance firm in the period needed to accumulate 11.75x annual premium income to be prudent, compared with 2.5x for a general insurer.³⁸⁶ Irish policy holders had reason to fear if this was not fulfilled, with the City Life Assurance Company, a British firm but with significant Irish policy holders, going into liquidation in 1923, leaving Irish policy holders recovering just 18% of the value of their policies.³⁸⁷

The native insurance concerns meanwhile were young, financially weak and reputedly, inefficiently managed, Department civil servants recorded.³⁸⁸ Emblematic was the issue of expenses as a percentage of premiums collected, with Irish Life Assurance and General Company operating an expenses ratio for industrial insurance of 41.13% (the most efficient of the native concerns), compared with Prudential Assurance Company at 25.4%, as of 1927.³⁸⁹ Such structural handicaps, prompted the civil servants to be dubious about the native concerns ever making headway against their foreign peers, a position worsened by the performance of a key asset- railway debentures.³⁹⁰

The 1928 memo outlined a range of potential policy remedies, including a complete state monopoly of all classes of insurance. The civil servants cited Uruguay as an example of a country which had instituted a monopoly of all insurance classes in 1911, with results described as in every sense "satisfactory."³⁹¹ While described in private departmental memos as too small, financially weak, and poorly managed, the cluster of Irish native insurers had a contrasting self-image, believing themselves to be part of broad-based commercial movement breathing life into economic nationalist nostrums. While their avowed aim was the protection of infant Irish industry, some managers the Irish insurers retained generous personal benefits such as lifelong employment contracts, meaning government intervention had potential to be inimical to their interests.³⁹²

The Irish firms engaged in the life sector- New Ireland, City of Dublin Assurance Company, the Irish Life and General Assurance Company, the Irish National Assurance Company and Munster

³⁸⁶ An estimate made by officials in the insurance unit of Department of Industry and Commerce, Nov 1928. Contained in insurance memo, NAI TSCH S 2348.

³⁸⁷ Insurance memo, Nov 1928.

³⁸⁸ Insurance Memo, Nov 1928. They were also said to be considerably overstaffed by Department officials. Letter from Andrew Bayne to John Leydon, Feb 3, 1939. NAI Insurance boxfile, TIA 934 C/2 (or 2008/34/112)

³⁸⁹ Insurance Memo, Nov 1928

³⁹⁰ Insurance Memo, Nov 1928

³⁹¹ Insurance Memo, Nov 1928

³⁹² Charles Guest, Managing Director, City of Dublin is recorded as holding a 'life appointment', in Department of Industry and Commerce compiled document, "*Comparisons of Proposals as to Compensation of Directors*," May 6, 1937. NAI TIA 934 C/2 (or 2008/34/112). This status is confirmed in other correspondence sent by Guest himself, see letter sent to Éamon de Valera, October, 1938.

and Leinster Assurance while not collusive on prices according to archival evidence at least, did combine within the representative Irish Association of Life Assurance Offices, whose aim was protection of native firms. That protection translated into a menu of government-sanctioned measures native firms requested to tilt the legislative balance in their favour. The demand for protectionist legislation was voiced most vociferously by Michael O'Reilly, a veteran of the Easter Rising and managing director of New Ireland Assurance whose political connections and persistence in contacting civil servants made him an influential figure.³⁹³

While native insurers were determined to lever political connections directly, they also had serving politicians at their disposal- the City of Dublin had two members of Dáil Eireann (the Irish parliament) on its board, there was one on the Irish Life and General board, and one on the Irish National board.³⁹⁴ Hinting at crony capitalist networks, at meetings with the Department of Industry and Commerce these politician directors occasionally attended meetings on the shape of legislation they would subsequently vote on in parliament.

The Irish insurers supported the idea of special taxes on policies taken with British insurers. One of the curiosities of the period is that the Irish Free State did not resort to tariffs on overseas insurance policies. The Industry and Commerce view was that while a differentiated fiscal treatment was a common approach in other countries it was not 'speedy' enough to address the urgent issues they were considering and irrelevant to the poor management practices at domestic offices in particular.³⁹⁵

A crucial issue tariffs would not address were the significant asset deficiencies building up in some of the native firms, bequeathing them a seemingly weak negotiating position (Table 4.9). But time would reveal that this danger of insolvency did not necessarily create a fatally weak position.

Table 4.9: Liabilities and Assets of Domestic Life Offices As Disclosed in Valuations

| Company | Liabilities £ | Assets £ | Valuation Date |
|----------------|---------------|----------|----------------|
| Irish National | 182,632 | 129,952 | Dec 31, 1925 |
| New Ireland | 165,866 | 170,820 | Dec 31, 1927 |
| Irish Life | 35,921 | 36,886 | Dec 31, 1925 |

³⁹³ For background on Michael O'Reilly, the New Ireland Managing Director. Joseph E.A. Connell Jr, "100 Years Ago: Foundation of the New Ireland Assurance Company." *History Ireland* magazine, Issue 3, Volume 25 (May/June 2017). Available at: <https://www.historyireland.com/volume-25/100-years-ago-foundation-new-ireland-assurance-company/>

³⁹⁴ The TDs were: Michael J Kennedy and Bernard John Maguire (City of Dublin), J Dillon (Irish Life) and James Burke (Irish National). They are included as directors of the firms as part of the merger agreement of 1938, available here: <https://www.irishstatutebook.ie/eli/1938/act/31/schedule/enacted/en/html>. They also appear as attendees at a meeting with Department officials in February 1937, NAI insurance files.

³⁹⁵ Insurance memo, from Department of Industry and Commerce, Nov 1928. NAI, TSCH S 2348 File.

| | | | |
|----------------|---------|---------|--------------|
| City of Dublin | 205,993 | 115,623 | Dec 31, 1927 |
|----------------|---------|---------|--------------|

Source: Department of Industry and Commerce Official Insurance Returns 1928.³⁹⁶

4.10 Intensification of Reform Efforts

Legislative efforts stepped up in intensity in March 1932 after Cumann na nGaedheal and McGilligan were replaced by the Fianna Fáil party and Sean Lemass, became Minister for Industry and Commerce, introducing a ‘whirlwind’ of protectionist policies within weeks of assuming office amid a sharp decline in agricultural prices.³⁹⁷ With a desire to put the nation at the centre of economic activity Lemass was unambiguous about his approach.³⁹⁸ Far from staging a tentative experiment in protectionism, his view was fully thought out and pivoted around the belief that the law of comparative advantage and free trade would crush Ireland, instead embedding ISI across multiple spheres was favoured.³⁹⁹ But how could ISI, which was designed to increase output and generate domestic employment, take place in a sector with no physical product like insurance?

In the case of the Lemass insurance intervention that took place, it could not be termed pure industrial policy and no mention of specific employment goals or new efficiencies were outlined by him when he tabled his legislation. In fact Lemass cited access to the funds of insurers as the key reason for his legislation, in addition to consumer protection. In that sense the intervention could be described as industrial policy- but at a remove. While he never used the term infant industry, the arguments he presented implied Lemass believed that native insurers could benefit from learning-by-doing, thereby reducing their costs, achieving efficiency and growing their expertise over time to a level equivalent to their British rivals. Doing this as small, fragmented companies however was not compelling to Lemass and his legislative framework shifted more towards the creation of a native national champion in the life sector.

Lemass was receptive to a transformative intervention when he assumed office, but records suggest his views on how to proceed were protean. He knew he wanted to make an early decision and by August 1933 – less than 18 months in office- he had come to support the idea of amalgamating the weak domestic firms into a state-controlled company which would have a monopoly over general

³⁹⁶ This table is extracted from official returns but is reproduced in the 1928 Memo by Department of Industry and Commerce officials, P 15. The dates of the valuations range from 1924 to 1927.

³⁹⁷ John Horgan, *Sean Lemass, The Enigmatic Patriot* (Dublin: Gill & Macmillan, 1997), 66.

³⁹⁸ Brian Girvin, *Between Two Worlds, Politics and Economy in Independent Ireland* (Dublin: Gill and Macmillan, 1989), 89

³⁹⁹ Tom Garvin, *Preventing the Future – Why was Ireland Poor for So Long?* (Dublin: Gill and Macmillan, 2004), 46/47.

insurance, while life insurance would be left to competitive forces.⁴⁰⁰ This position would be reversed though in 1935, under the influence of an external actuarial expert and Lemass would eventually hold the view that general insurance business lines, such as fire and accident, with their potential for national catastrophes, still needed to be provided by those in control of internationally orientated capital due to their larger financial capacity.⁴⁰¹

The tabling of any fresh insurance legislation also triggered an ideological schism within the Free State bureaucracy between J.J. McElligott, Secretary, Department of Finance, an adherent to self-regulating markets and his counterpart in the Department of Industry and Commerce, John Leydon, who favoured more interventionist policies. McElligott appeared exasperated by ideas such as the state assuming control of insurance firms by wiping out shareholders and investing public capital in its place, describing it as ‘confiscation.’⁴⁰² In relation to the struggling domestic firms McElligott wrote obliquely that events should be allowed ‘take their course’, a reference presumably to them entering insolvency if necessary.⁴⁰³

4.11 English Expertise in Insurance Acquired

The Department of Industry and Commerce skirted McElligott’s opposition and moved to utilise an external authority source to sculpt their reformist ideas. The man chosen in 1935 was Englishman Frank Percy (F.P.) Symmons, chief actuary with Prudential globally, who had just retired after a 45-year career with the British company. Appointing someone from a company already active in the Irish Free State market, was provocative and at least suggestive of capture and personal conflict, with government records suggesting John Leydon, from Industry and Commerce, recognised such sensitivities:

“On the whole it seems to me that while there are certain obvious reasons why we should hesitate to take a man from one of the big British companies. Mr Symmons is the most suitable of the men whose names have been recommended. Even if we have to pay as much as IR£3,000 a year, it would, I think, be well worthwhile to pay a high figure to get the right man,” he said.⁴⁰⁴

Symmons sent hundreds of letters of advice to the Department of Industry and Commerce civil servants from his English home and his advice on Lemass’s core dilemma- whether to intervene in

⁴⁰⁰ The Lemass view at this point is revealed in a memo written by John Leydon, Secretary, Department of Industry and Commerce, Aug 29, 1933. This states that Lemass intends to give a new “amalgamated Saorstat company a monopoly of all annual insurance business (that is to say, all business except life).” NAI Insurance Boxfile TIA 934 (or 2008/34/104).

⁴⁰¹ Parliamentary debates, Dáil Éireann, 29 Nov 1935, Vol. 59 No. 11, Contribution of Minister for Industry and Commerce, Sean Lemass.

⁴⁰² Letter from JJ McElligott, Secretary, Department of Finance to the Secretary, Department of Industry and Commerce, John Leydon, Aug 30, 1934, NAI Insurance boxfile, TIA 934 (or 2008/34/104).

⁴⁰³ Letter from McElligott, August 1934.

⁴⁰⁴ Internal memo from John Leydon to Department of Industry and Commerce insurance unit, March 6, 1935. NAI Insurance boxfile, NAI TIA 934/A (or 2008/34/105).

life or general insurance was crucial. The Symmons view was that reserving general insurance for native firms was filled with risk as the small native firms could not survive occasional catastrophic events, but a scheme of amalgamation of life firms in the Free State (native and overseas) was viable.

4.12 Insurance Legislation Tabled

Legislation was finally presented in the shape of the 1935 Insurance Bill in November of that year. Some 13 years on from independence, the native insurers could finally assess the level of political priority, measured along a protectionist axis, Fianna Fáil was prepared to accord them. The main proposals in the Bill were:

- Domestic life firms would be amalgamated into two state-backed firms in order to effect ‘economies in their administration’.
- The State would provide financial support to these units if needed, potentially taking shares in return.
- The Minister would acquire compulsory powers to wind-up insolvent life firms, which could be used to cajole life insurers to come into the amalgamation scheme.
- A reinsurance company to be called the Reinsurance Company of Ireland, would be set up to accept reinsurance business from existing firms and redistribute these contracts into the Irish market, but giving ‘preference’ to native concerns, thereby transforming over time the general insurance market.
- Life business would be separated from general business, and any company which did life business would be prohibited from doing general.⁴⁰⁵

The core pillar of the legislation, from a firm perspective, was life firms were requested to submit a scheme of amalgamation for Minister Lemass’s approval. The practical effect of the legislation was the merging of the life businesses of the Irish insurers (and subsequently British insurers) into two state-backed firms.

The first firm was named, the Industrial and Life Assurance Amalgamation Company Ltd and the second, the Irish Assurance Company Ltd. The first company, known as the amalgamation company, was set up for the purpose of taking over the existing business of the Irish life companies (and later the British companies) and working out their assets and liabilities over time. But all voting shares in this company were held by the Minister for Finance, giving him effective control of the

⁴⁰⁵ Ireland, like the parliamentary system in Britain, amends bills through various parliamentary stages until they become acts. The Insurance Bill 1935 hence became the Insurance Act 1936. A copy of the original bill is available here: <https://data.oireachtas.ie/ie/oireachtas/bill/1935/35/eng/initiated/bills1935-36i-01.pdf>

company. The companies that transferred their business to this company wouldn't be given any cash for transferring but were awarded a share in the company's equity on the basis of the size of their premium income. This ultimately resulted in 72 per cent of the shares going to the British companies, 9.4 per cent to the Irish insurers and 18.6 per cent to the Minister for Finance. The second assurance company was set up for the purpose of taking transfer of the staffs of the participating companies and pursuing new business. This second company was controlled and owned by the amalgamation company. In effect both firms were controlled by the state.

Unusually the passage of the legislation was secured through parliament partly on the basis of a promise that a sum, IR£500,000, would represent the maximum cost to public funds of filling any deficiency discovered in the balance sheets of the Irish firms. The civil servants prevailed upon Lemass to adopt a particular model of negotiation in putting together the amalgamation scheme. This involved the Irish firms themselves suggesting a scheme Lemass could agree to, rather than the alternative of simply forcing the firms into insolvency by refusing to licence them.

Industrial policy traditionally has three elements and one of those is the reallocation of resources within an industry and this was a central thread in the British economy in the interwar period for instance.⁴⁰⁶ The Lemass strategy replicated a core tenet of British industrial policy – that industries were essentially asked to rationalise themselves into units of more efficient size by consensus, rather than pure *dirigisme*.⁴⁰⁷ The model adopted, rationalisation by consensus, it could be argued was facilitatory of capture by industry representatives. This form of managed rationalisation elongated government-industry engagement, forcing the Government into an exchange and concessions with industry for reasons of expediency, rather than policy intent. The perspective of the civil servants was that the model adopted would also deliver industry affirmation of the reforms, something sought by Lemass. An unambiguous memo from the Department's insurance unit in May 1936 explicitly rationalised the reasons for pursuing industry voluntary endorsement over any more compulsive route, and is worth quoting in full:

“To introduce compulsory powers into the Bill would intensify the opposition to the measure and what is of greater importance- the exercise of compulsory powers without the co-operation of the companies would be an extremely difficult and embarrassing matter. On the whole it would be better to adhere to the present course of putting on the companies themselves the onus of putting their affairs in order with the assistance of state capital, if they themselves submit any reasonable scheme which can be suitably adjusted. If on the other hand, the Minister were to prepare a scheme,

⁴⁰⁶ Peter Hall, *Governing the Economy- The Politics of State Intervention in Britain and France* (Oxford: Oxford University Press, 1986), 52

⁴⁰⁷ Hall, *Governing the Economy*, 53.

however suitable, it would almost certainly be attacked by the companies and he would be in the awkward position of having to defend his proposals against the combined attacks of all the persons who are experienced in the operation of business and claim to know best how it should be conducted.”⁴⁰⁸

The policy direction was clear- most of the Irish life insurance industry was to be effectively nationalised via amalgamation and deficiencies in the balance sheets of the native firms were to be addressed by the provision of public funds.

4.13 Industry Response

The insurance market in the post-colonial and independence period was clearly in need of some kind of reform and patience was not abundant among those in the Irish government’s insurance unit- with one commenting that reform had been stalled for almost a decade and it was time for the Irish firms to absorb the change needed.⁴⁰⁹ However the tabling of legislation did spur action and early in 1937, all the native firms appointed Dublin solicitor Arthur Cox, a senior Dublin legal figure, as their representative in the discussions with the Department of Industry and Commerce (a move replicated by the British insurers subsequently). Cox was no mere legal technician. He was arguably the most pre-eminent legal figure in the country, a man who advised on the legal aspects of the Treaty establishing the new Irish state. His influence and contacts were far reaching, and he was a confidant and advisor to many of those in Government.⁴¹⁰

With Cox involved, government-industry engagement soon congealed around the issue of compensation for executives/directors of the Irish insurers to be amalgamated. Talks with the firms were prolonged, with the weaker ones questioning the Government’s plans most vociferously and the stronger ones (such as the Irish Life) accepting their inevitability. The external expert F.P. Symmons for example displayed such a strong desire to bring finality to the engagements over amalgamation, that he took the unorthodox step of offering employment in the new amalgamated companies to the son of Charles Guest, managing director of the City of Dublin insurance company, the firm with the weakest solvency levels.⁴¹¹

⁴⁰⁸ Department of Industry and Commerce internal memo, May 15, 1936, by civil servant Philip Dempsey. NAI Insurance Boxfile NAI TIA 934, C, continuation Number 1 (or 2008/34/108).

⁴⁰⁹ This comment was made by Philip Dempsey, from the Department of Industry and Commerce, at meeting with domestic Irish insurance reps, Dec 10, 1936, NAI TIA 934 C (cont 1).

⁴¹⁰ Eugene McCague, *Arthur Cox 1891-1965* (Dublin: Gill and Macmillan, 1994) outlines in detail his role in the Free State.

⁴¹¹ Letter from F.P. Symmons to Philip Dempsey, civil servant at Department of Industry and Commerce, March 2, 1938. NAI, TIA 934 file (or 2008/34/104).

The issue of how shares in the new amalgamated companies were to be allotted was also the subject of elongated discussion. It was argued by many of the civil servants that the share capital invested in some, if not all, of the Irish insurers had been wiped out and shareholders shouldn't receive any consideration. Lemass and his Departmental secretary, Leydon, favoured a more consensual approach. For reasons of 'expediency' and in order to create an inducement to secure industry participation in the scheme, Leydon advised Minister Lemass to allot shares to the two weakest companies (City of Dublin and Leinster and Munster) despite the effective depletion of all equity value in these firms, so as to remove any final obstacles to completing the scheme.⁴¹²

4.13.1 Financial Compensation of Directors

The position of the directors and managers of insolvent Irish insurers was vexing in terms of political rhetoric for Lemass. On the hand these directors and managers were leading firms judged to be actuarially insolvent and poorly managed by his own officials, but to critique them publicly could amount to questioning the edifice of his own party's economic nationalism and the idea of a native run insurance industry, but in 1938 Lemass made an acknowledgement:

"I have no intention of decrying the work done by the founders of the Irish companies, although these companies did not, in the event, prove to be as successful as their founders hoped."⁴¹³

Lemass pointed out that the directors and managers were not entitled to be automatically retained by the new amalgamated entities, hence the justification for compensating the group. The cost of the compensation could of course be at the expense of the shareholders of the Irish firms, but Lemass acknowledged to legislators this would just expand the deficiency in those firms and the greater the deficiency the greater the amount the state would have to provide subsequently.⁴¹⁴

The Lemass approach to compensation was described as 'over generous', in correspondence sent by the Secretary of the Department of Finance, considering the precarious nature of the Irish firms, although Finance accepted there was a rationale for such generosity based on "pure expediency."⁴¹⁵ The issue of compensation was one of enormous personal significance for those impacted, with

⁴¹² Memo sent by John Leydon, Secretary, Department of Industry and Commerce to Minister Sean Lemass. Nov 17, 1936. NAI Insurance Boxfile NAI TIA 934, C (or 2008/34/107).

⁴¹³ Sean Lemass Speech, Seanad Éireann debate on Insurance (Amendment) Bill 23 Nov, 1938.

⁴¹⁴ Parliamentary debate, Minister for Industry and Commerce, Sean Lemass contribution. Dáil Éireann debate - Oct 26, 1938, Vol. 73 No. 1

⁴¹⁵ Letter from JJ McElligott, Secretary, Department of Finance, to John Leydon, Secretary Department of Industry and Commerce. May 20, 1937, NAI Insurance Boxfile, TIA 934 O (2008/34/129).

Charles Guest, the managing director of the City of Dublin writing a personal letter to the Taoiseach (Prime Minister) to highlight perceived unfairness in how his compensation was being addressed.⁴¹⁶

Following several months of discussions throughout 1937, Industry and Commerce had finally isolated a specific capped level of compensation for each firm, but this was revised for Guest's firm, City of Dublin and the Munster and Leinster, from £7,500 to £10,000 for each company after representations to Finance and Industry and Commerce, from Cox and the firms, including by the legislators sitting on the insurance company boards. Michael J. Kennedy, a parliamentarian, and director on the board of City of Dublin was recorded as meeting Industry and Commerce civil servants in late 1937 seeking to have compensation levels for his board increased.⁴¹⁷

The compensation scheme was aimed at two groups of directors: those not prepared to serve in the new amalgamated firms and those prepared to serve, but at lower rates of remuneration than previously held. For those directors not prepared to serve, tax free compensation was provided for at the following rates, via the Insurance (Amendment) Act 1938:

- Those who had served five years or less awarded three times their annual fees
- Those who had served more than five, but less than 10 years awarded four times their annual fees
- Those who had served more than 10 years or more awarded five times their fees. Executives not joining the new amalgamated firms meanwhile received five times their previous annual salary, fees, and emoluments. Executives in this instance included managing directors, managers, secretaries, assistant managers, agency managers and those holding analogous posts. For those whose total remuneration in the new entities would be less than their former annual salary, fees, and emoluments, they were to be paid compensation at five times whatever the gap between the two was.⁴¹⁸

In addition to compensation, other issues arose, including assets that resided on the Irish firms balance sheets that turned out to be “accounting assets with no real value” or were pledged to cover non-life insurance liabilities elsewhere (so-called double pledged) and in another case a

⁴¹⁶ Letter from C.W. Guest, Managing Director of City of Dublin Assurance Company, Oct 4, 1938, to Taoiseach, Éamon de Valera, NAI TIA 934 C (or 2008/34/107).

⁴¹⁷ Department of Industry and Commerce memo, Insurance unit, December 7, 1937, NAI TIA 934C (or 2008/34/107).

⁴¹⁸ The full details of compensation for executives and directors are contained in the Insurance (Amendment) Act 1938, Section 27, available at: <http://www.irishstatutebook.ie/eli/1938/act/31/enacted/en/print#sec3>

shareholding owned by City of Dublin in an insurance concern in Northern Ireland called Northern Counties Assurance Company was eventually deemed to be non-transferable.⁴¹⁹

Crucially all this contributed toward the doubling of the deficiency in the balance sheets of the Irish firms, from the original promise of just IR£500,000. But this was not finally ascertained until 1941, *after* a full actuarial valuation was undertaken; the strong priority throughout the late 1930s was to get the amalgamation accomplished, with the cost of public funds rarely featuring in discussions. In total compensation of £78,154 was paid to directors, executives and staff associated with the Irish insurers who had just £92,000 in paid-up share capital at the time of the amalgamation. This outcome, where compensation to managers/directors amounted to 82% of the share capital of the companies triggered significant hostile comment in parliament.

Table 4.14: Costs of Transfer (including compensation) to New Amalgamated Company⁴²⁰

| Compensation and Payments For | Amounts IR£ |
|--|--------------------|
| Directors | 10,901 |
| Executives, including managing directors | 51,169 |
| Staff | 16,083 |
| Book Interest ⁴²¹ | 7,792 |
| Deferred Gratuities & Pension | 13,702 |
| Costs of Participating Companies | 16,920 |

Such figures drew a vituperative response from opposition politicians, including Leader of the Labour Party, William Norton TD: “That seems to me to be particularly generous treatment of the directors. It is exceptionally generous treatment when you remember that this amalgamation is necessary because of the fact that those companies are actuarially insolvent according to the Minister.”⁴²²

⁴¹⁹ The downward adjustment in asset values and the difficulties in locating pledged life assets, post the passing of legislation, is detailed in a letter to the Secretary, Department of Finance, November 18, 1942, from the Managing Director of the Industrial and Life Assurance Amalgamation Company, Andrew Bayne, NAI TIA 934 M (or 2008/34/127).

⁴²⁰ Figures from letter to Secretary, Department of Finance from Industrial and Life Assurance Company, Managing Director Andrew Bayne, Nov 18, 1942, on post legislative valuation and costing exercise, contained in NAI Boxfile TIA 934M (or 2008/34/127).

⁴²¹ Compensation to staff also included payments, known as book interest, where a ‘book’ of industrial life assurance customers and their premiums were sold by one agent to another for a fee, which firms paid out to ensure books were passed from agent to agent over the years. This created a long tail of individual payments, mainly small in nature, to be absorbed by the new amalgamated companies.

⁴²² Dáil Éireann debate on insurance legislation, 26 Oct, 1938.

What prompted such generous compensation of directors/managers beyond pure expediency? It appears from archival records that compensation was also important in order to eliminate any industry opposition, particularly publicly voiced, to the policy decisions taken by Lemass. Harder to detect or assess, but the nexus between the political leadership of the time and those in leadership of the Irish insurance companies may also have been a potential influence on decision making. At a more subtle level, Lemass was the custodian of national economic ideals, which included ambitious projects like creating an Irish capital market, and reinvesting Irish funds residing abroad in the domestic economy.⁴²³ To deny compensation would arguably have been a tacit admission the Irish insurance firms had failed due- at least in part- to poor management by their cadre of native managers and directors. It appears this was not something Lemass was prepared to concede to.

4.15 Position of British Insurers

Despite occasional tensions, British insurers had been broadly accommodated by the Irish policy establishment of the 1920s.⁴²⁴

These accommodations often revolved around Prudential, described going into the 20th century as akin to a 'national institution' like the Bank of England or the Post Office.⁴²⁵ It was regularly consulted by the Department of Industry and Commerce on potential changes to insurance law in the new state. After the Committee on Industrial Assurance report was published in early 1925, embryonic legislation to give effect to its recommendations was drafted by Industry and Commerce civil servants, shown to Prudential, which responded with a promise to send 'a man specially' to Dublin to assist in framing any final bill.⁴²⁶

Into the 1930s British insurers retained their market leading positions in the Free State, but the arrival into power of Fianna Fáil reshaped the political terrain. There was no mistaking the change in direction, with the new Government's first budget that year introducing forty-three new import duties. After the insurance legislation was passed in 1936, a confidential memo for the eyes of both domestic and external offices was circulated in December detailing broad first principles upon which amalgamation of life firms might proceed with. The memo turned on the idea that the industry would be invited to frame a suitable amalgamation scheme, but one that would realistically meet Lemass's approval. For the British insurers this amounted to permitting them a managed form

⁴²³ Mary Daly, *Industrial Development and Irish National Identity, 1922-1939* (Syracuse: Syracuse University Press, 1992), 64

⁴²⁴ When independence took place in the early 1920s there were initial rumours that the larger British insurers would simply pull out and the larger companies had to reassure customers this was not planned, see 'Prudential Assurance Co., Limited- Open Letter to the Irish People', *Irish Independent*, Jan 18, 1922, accessed via Irish Newspaper Archive.

⁴²⁵ Laurie Dennett, *A Sense of Security, 150 Years of Prudential* (London: Granta, 1998), 107. The US Prudential Financial Inc is unconnected to the British Prudential insurance company in this research.

⁴²⁶ Transcript of interview between Department of Industry and Commerce civil servants and Prudential Irish Manager, (named as a 'Mr Sanachan'), March 20, 1925, NAI Boxfile TIA 1470 (or 2008/34/165).

of exit from the Irish life segment, avoiding potentially more austere forms of government intervention.

Initially Prudential, negotiating through general manager Joseph Burn (GM of Prudential the parent company), insisted they were still considering setting up an Irish subsidiary company and remaining in the market as an independent entity. But Burn said if Lemass's scheme fulfilled a number of conditions, Prudential would be prepared to transfer its Irish life business to effective state control. These conditions included that policy holders wouldn't be disadvantaged by a transfer, that bonus payments policy holders were entitled to would continue, and that Irish Prudential staff wouldn't have their employment conditions diminished upon transfer.⁴²⁷

The sale of life insurance in overseas markets was never as substantial for British insurers as that of fire and marine, with just 10% of life premiums for British insurers coming from overseas markets, as against 67% for fire on the eve of World War 1.⁴²⁸ For British insurers the Irish market was a small component of their global premium income. In terms of overall Irish market exposure, Royal Liver, a friendly society, had the largest, but Prudential possessed the largest volume of premium business and customers at risk.

Table 4.16: British Life Insurers in Free State 1936- Top 5 By Premiums Collected

| Company | Irish Life Premiums £ | Non-Irish Premiums £ | Irish Premiums As A % |
|---------------|--------------------------|-------------------------|--------------------------|
| Prudential | 855,575 | 33,830,876 | 2.52 |
| Royal Liver | 457,302 | 3,691,602 | 12.38 |
| Pearl | 358,155 | 13,326,275 | 2.68 |
| Refuge | 303,123 | 9,986,650 | 3.03 |
| Norwich Union | 225,583 | 3,899,944 | 5.78 |

Source: Ordinary and Industrial Premiums; Department of Industry and Commerce 1936 Returns

To give some idea of scale, the Prudential premium income from India, Burma and Ceylon in 1935 was just £286,938.⁴²⁹ So as a purely 'foreign' market the Irish market was of significance. Of the four British life insurers involved in the eventual amalgamation scheme, three were not profitable according to Symmons. Prudential's Burn had delivered a gloom-laden assessment of Prudential's Irish business in exchanges with policy makers the 1920s, describing the experience as

⁴²⁷ Note prepared by Sir Joseph Burn, May 4, 1937, on Irish insurance legislation. Copy contained in Prudential 'Ireland Files', Prudential Offices, Holborn Bars, London. Box 1641.

⁴²⁸ H.A.L. Cockerell and Edwin Green, *The British Insurance Business: a Guide to its History and Records* (Sheffield: Sheffield Academic Press, 1994), 71

⁴²⁹ Dennett, *A Sense of Security*, 241.

‘unfavourable’ due to higher mortality rates and expenses than found in Great Britain.⁴³⁰ Several of the other British insurers in a memo submitted to Industry and Commerce in 1935 had asserted their Irish businesses were not profitable either, although Pearl claimed their business was.⁴³¹

With underwriting profits either modest or non-existent, what rationale existed for remaining in the Free State? Symmons discussing British insurers in the Free State across all businesses said that while underwriting profits were not ‘material’, reserves accumulated from Ireland were ‘considerable’ and interest on these reserves earned profit. Clients in the Free State, with connections elsewhere in the globe, also desired to place all their business with the same company so a presence in the Free State was justified on the basis of maintaining relationships with this group.⁴³²

But geographic diversity beyond Britain was also important strategically, with Burn declaring in the mid-1920s that the more Prudential’s business could be spread globally the more difficult the task of absorption by the British government in any nationalisation scheme would be.⁴³³ There is little doubt that nationalisation in Ireland- and the form and extent of it- contained potential ramifications for the febrile political environment in Britain on insurance at that time. Burn in particular was hugely concerned that developments in the Irish insurance market could spill over into Prudential’s core UK business; the danger of Irish policyholders repudiating their existing insurance policies on foot of Lemass’s actions was a significant challenge, he outlined:

“We the management feel that one of the greatest dangers we shall have to contend with will be the probability that a staff no longer under our control will soon see great advantages available to themselves by encouraging policyholders to apply for the return of their premiums on the basis of illegal contracts and we believe that if such action becomes general in Ireland it would likely spread to this country and thereby involve us in enormous difficulties.”⁴³⁴

4.17 British Insurers Accept Changed Landscape

While the 1920s had seen Prudential and other British life firms shirk off preliminary interventionist threats, the arrival of Lemass and the tabling of legislation appears to have prompted the British insurers to adopt a more accommodative posture. A realisation that Lemass was unambiguously

⁴³⁰ Memorandum by Prudential Assurance Company, on the Report of the Industrial Assurance Committee, authored by Joseph Burn, General Manager, May 25, 1925. NAI Insurance Boxfile TIA 1470 5 (or 2008/34/165).

⁴³¹ Minute of meeting with Department of Industry and Commerce civil servants with various British Life insurers, dated ‘1935’, NAI TIA 934 (continued 1) (or 2008/34/111).

⁴³² Memo prepared by F.P.Symmons for the Department of Industry and Commerce on insurance industry in Free State, May 8, 1935, NAI TIA 934 B (or 2008/34/106).

⁴³³ Dennett, 237

⁴³⁴ Internal Note by Sir Joseph Burn, May 4, 1937, contained in Prudential Ireland Archives, Holborn Bars London, Ireland Box No.1641

committed to intervening in the life segment appears to have spurred a more accommodative stance. Writing in May 1937 Burn set out the ultimate rationale for finally agreeing to transfer its Irish business (subject to agreement on provisions for staff, policyholders and reserves) to government control. Taking a licence and continuing to operate in Ireland would only be a refusal of reality:

“It is my belief if we take a licence with the intention of continuing to transact industrial life insurance in the Free State, we should be placing ourselves in an impossible position as the Irish government, having once started upon their scheme of national industrial assurance, would be bound to see to it that competitors are placed at the greatest possible disadvantage. Indeed, they have on more than one occasion indicated that this is their intention.”⁴³⁵

Among issues which arose at different times in discussions between the British insurers and government were potential staff representation on the boards of the new state-backed amalgamated firms, bonuses for eligible life customers in future, and the release of reserves for the British firms post transfer to the new state-run entities. While the first of these requests was not conceded to by Lemass, the two other issues- bonuses and release of reserves post transfer- pre-occupied the British insurers for a large portion of their engagement with Irish authorities. Both the civil servants and the British insurers placed far greater significance on the issue of valuing the Irish liabilities of the departing British firms than the bonus issue. Actuarial calculations of the time show that post valuation the British insurers were able to release £992,350 from their industrial life businesses in Ireland, as a more sympathetic valuation formula was used than they used themselves.

Table 4.17.1 : Reserves Released from Industrial Life Business in Free State

| Insurer | Sums Released £ |
|--------------------|------------------------|
| Britannic | 71,500 |
| Liverpool Victoria | 18,700 |
| Prudential | 686,600 |
| Refuge | 105,950 |
| Pearl | 109,600 |

Source: Table Compiled by Actuary’s Office for Managing Director of the Irish Assurance Company, November 1941. Included in Industry and Commerce File/ NAI TIA 934/C3.

Department memos made it clear what brought about this release of funds. “The reason for this is that the valuation bases of these [UK] companies in past years were more stringent than the

⁴³⁵ Burn Note, 1937. Prudential Ireland files, box no. 1641. This chimed with some of the legislation of the time, for example the Insurance Act of 1936 stipulated in Section 12 that licences for new insurance firms intending to operate in Ireland, would be subject to the condition that directors of the firm be from the Irish Free State.

valuation basis laid down in the amalgamation agreements.”⁴³⁶ This figure of £992,350 was described by Industry and Commerce as very high and civil servants said it was the result of a unified valuation system being used for all firms party to the amalgamation, Irish and overseas. Symmons recommended utilising mortality table No. 8 (based on a decennial census), used in the British insurance and Irish markets at the time and a 3.5% interest rate. This basis of valuation was more ‘stringent’ than that used by the Irish companies, but more sympathetic than that used by the British insurers, effectively meaning the asset deficiencies of the Irish companies would become apparent even at the strongest firms, while the British insurers were likely to have no asset deficiency, instead allowing additional reserves to be released post-transfer due to the more sympathetic formula deployed.⁴³⁷ Symmons was also recorded as pointing out that the British firms could argue, ‘with justice’, that the reserves in Ireland were built up out of British policy holders’ money originally.⁴³⁸ The high reserves released were not profit, said Symmons, but money being returned which had been diverted to Irish operations.

The scale of the release left a residual resentment in Dublin in the new amalgamated company however. A December 1941 letter from the Industrial and Life Assurance Amalgamation Company to the Department of Industry Commerce summed up a sentiment that despite nationalist political rhetoric about capital drain etc, the large British companies had extracted larger value from the Irish market than originally anticipated. “The figure is somewhat startling and suggests that it will be some time before further cream rises to the top and becomes available for skimming off. In the last two years we appear to have got little out of the business except the sediment.”⁴³⁹

A marked pattern across the intervention was that the inducements deployed to win the assent of the insurance industry, domestic and British, led to some controversial trade-offs. In the case of the British companies the valuation used was described by the opposition as far too accommodative. A particular trenchant critique was voiced by the leader of the opposition, Fine Gael, Richard Mulcahy.

“In order to persuade the English companies to enter the amalgamation this basis of valuation was made extremely favourable to these companies. It meant that each English company handed to the

⁴³⁶ Department of Industry and Commerce Memo by John Leydon on insurance reserves, Dec 6, 1941. NAI insurance boxfile, TIA 934 C (1) or (2008/34/111).

⁴³⁷ Briefing note on insurance legislation from F.P. Symmons, April 29, 1936, submitted to Department of Industry and Commerce. NAI boxfile TIA 934 (or 2008/34/104).

⁴³⁸ Briefing Note April 1936, NAI TIA 934.

⁴³⁹ Letter from Andrew Bayne, Managing Director of The Industrial and Life Assurance Amalgamation Company Ltd, Dec 4, 1941 to Philip Dempsey, Department of Industry and Commerce. NAI Insurance boxfile, TIA 934 C3 (or 2008/34/113).

amalgamation company an amount far smaller than the funds which they themselves held in respect of their Irish policies and that they reaped a handsome profit on the transaction.”⁴⁴⁰

This critique of capture, both by domestic and overseas insurance interests, was not something Lemass was keen to reflect upon, instead stating that whether or not certain arrangements were unduly favourable or not- ‘nothing can be done about it now’.⁴⁴¹

4.18 Conclusion

In retrospect some of the aims pursued by Irish policy makers in the 1920s and 1930s were achieved by the 1930s intervention – company insolvency was avoided, the insured acquired enhanced protections, additional statutory control by government over the industry was exerted and British firms’ market share in the life segment (the largest in the Free State) was meaningfully diluted.

Figures from when Lemass assumed ministerial responsibility, illustrate how over a 15-year period intervention reconfigured market dynamics as Ireland moved into the post-WWII period.

Table 4.18.1 Life Insurance Premiums 1932

| | £ Ordinary | £ Industrial | £ Total | Market Share % |
|-----------------------|------------|--------------|-----------|----------------|
| Overseas Firms | 1,536,266 | 1,320,288 | 2,856,554 | 84.4 |
| Native Firms | 128,955 | 399,024 | 527,979 | 15.6 |

Table 4.18.2 Life Insurance Premiums 1947

| | £ Ordinary | £ Industrial | £ Total | Market Share % |
|-----------------------|------------|--------------|-----------|----------------|
| Overseas Firms | 2,153,112 | 889,752 | 3,042,864 | 47.40 |
| Native Firms | 1,136,531 | 2,240,961 | 3,377,492 | 52.60 |

Source: Filings over relevant years to Department of Industry and Commerce.

By removing Prudential, Pearl, Refuge, Britannic and Liverpool Victoria Friendly Society from the life segment and folding their businesses into two state backed companies, Lemass re-arranged market architecture via a mode of sectoral rationalisation common to British political economy

⁴⁴⁰ Contribution on the Industrial and Life Assurance Amalgamation Company, Limited, (Acquisition of Shares) Bill by General Richard Mulcahy, Dáil Éireann, 13 Mar, 1947, Vol. 104 No. 15.

⁴⁴¹ Sean Lemass, debate on Industrial and Life Assurance (Acquisition of Shares) Bill, Mar 13, 1947, Dáil Éireann, Vol. 104 No. 15.

particularly in manufacturing.⁴⁴² Letting the private sector ‘direct’ such industrial reorganisations has often been described as ‘quasi corporatist’, as identified by British political scientists.⁴⁴³ Corporatist or not, the insured still continued to divide their custom in the life segment, ignoring the political aspirations around them.

By the mid-1950s Irish firms held 54% of the life business, while overseas companies retained 46%.⁴⁴⁴ While the Lemass interventions transferred a large number of industrial life customers over to an Irish-based firms, overseas firms continued to dominate ordinary life, which was growing faster than industrial globally and was a larger business line in the Irish market by the mid-1950s. Industrial business effectively began a slow decline post WW2 meaning the Lemass intervention was addressing a product category near its peak and whose defining characteristic- weekly doorstep collection at working class homes- was undercut by increased personal bank accounts and rising incomes.⁴⁴⁵ Greater social provision was increasingly also making industrial life assurance less relevant.

In particular two British firms, Royal Liver and Norwich Union, remained significant players in the Irish life market post the Lemass reorganisation. The non-compulsory nature of the Lemass intervention was one aspect supporting their continued presence, for example by the end of 1949 Royal Liver was still issuing almost 100,000 industrial life policies in Ireland, assuring IR£2.7m in total.⁴⁴⁶ This was almost half the sum of what Irish industrial life firms were assuring at this point. The effect of the Lemass reforms can be grasped similarly in the general life segment, where after a period of shrinkage, the British firms re-established their market position in this important segment, as seen statistically in table below. The impacts of WW2 are likely to have played a part in some of these dynamics, but it is clear that in both general life and industrial life by the turn of the 1950s the British firms, in terms of value assured, were actually operating a larger insurance business, even if its proportionality against the domestic firms has altered in some respects.

⁴⁴² Hall, *Governing the Economy* 53

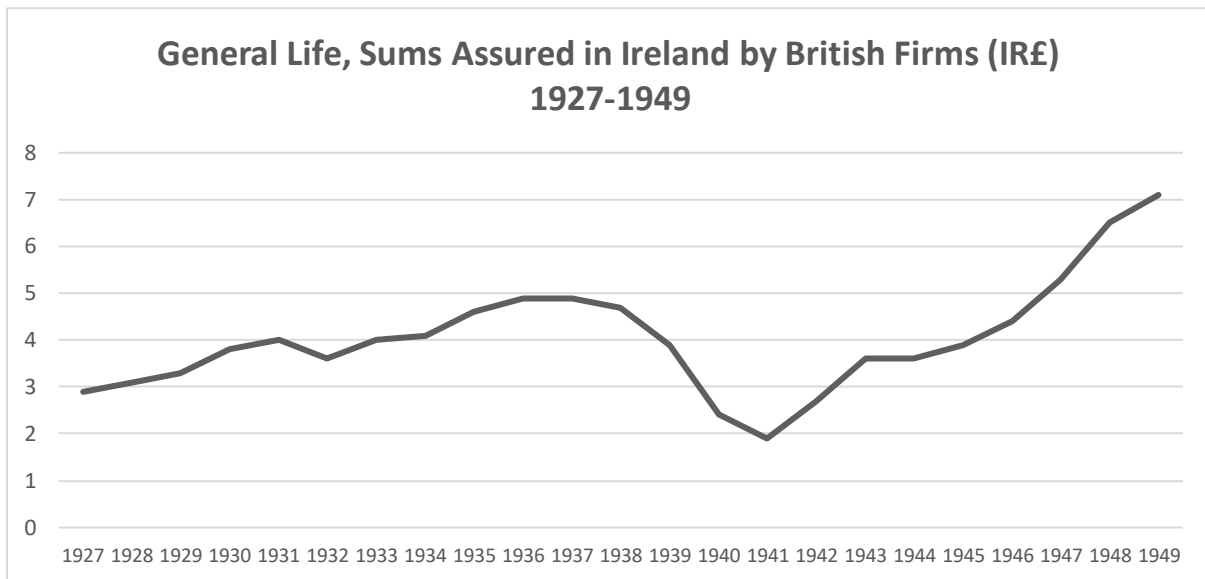
⁴⁴³ Samuel Beer, *Modern British Politics* (London: Faber & Faber, 1969)

⁴⁴⁴ Department of Industry and Commerce, Assurance Returns 1955.

⁴⁴⁵ Robert L Carter and Peter Falush, *The British Insurance Industry since 1900* (London: Palgrave, 2009), 62.

⁴⁴⁶ Department of Industry and Commerce, Assurance Returns, 1949.

Figure 4.18.3



Source: Assurance Companies Returns, Department of Industry and Commerce, 1949, 26

Shorn of its wider political context, the chief beneficiary of the Lemass-led intervention was one of the state-controlled companies his legislation set up, Irish Assurance Company, which re-branded as ‘Irish Life Assurance Company Ltd’ (popularly shortened to ‘Irish Life’) in 1959. While Lemass had legislated for two state-backed companies to take over the businesses of the four native firms and the five exiting British firms, in 1945 the two-state backed firms were brought together to form this one national champion-style company. The financial performance of this company is beyond the scope of this paper, but there is evidence it started with residual cost disadvantages as a result of being the product of amalgamation, with its initial staff of almost 3,500 in 1939, shrinking by over 60% in the subsequent two decades.⁴⁴⁷ Lemass conceded later this company was hugely overstaffed as a result of a decision that effectively all staff from the merging companies would be transferred to the new entity, even if there was not enough work for them.⁴⁴⁸ Meanwhile another Irish company, heavily present in fire and accident, the Insurance Corporation of Ireland (ICI) had been set up pre WW2, to also attempt to erode the existing players.

4.19 Unfulfilled Objectives

While Irish Life remained a significant market presence into the 21st century, the original protectionist objective of the Lemass intervention- that native firms would control the greater part, if not all, of the insurance business in Ireland- remained starkly unfulfilled. Lemass spent much of

⁴⁴⁷ *Joint Committee on Commercial State Sponsored Bodies First Report Irish Life Assurance Plc*, Oireachtas Éireann. Published 1987. This report traces the history of Irish Life and includes basic statistical data about employment numbers. Available at: http://archive.oireachtas.ie/1988/REPORT_02021988_1.html

⁴⁴⁸ Sean Lemass speaking on the Industrial and Life Assurance Amalgamation Company, Limited, (Acquisition of Shares) Bill. Dáil Éireann debate, Mar 13, 1947, Vol. 104 No. 15.

the 1930s aiming to limit the presence of foreign capital in other industries (mainly manufacturing) such as milling and cement, but like insurance, a lack of capital depth and institutional expertise often constrained such autarkic endeavours. The failure of mercantilist policy aims in the inter-war period were not a surprise if one accepts the contention that such policies require complex institutional mechanisms, with thoughtful consideration of who is to be rewarded and who is to be constrained.⁴⁴⁹ Losers are inevitably created, in this case the cost to taxpayers of the 1930s legislation was promised to be £500,000, but this rose to £950,640.⁴⁵⁰

Most crucially this cost was the result of a curious decision to stage the amalgamation, without valuing the balance sheets of the Irish insurers beforehand. The £500,000 figure was described as ‘purely guesswork’ by the amalgamated company subsequently.⁴⁵¹ For the industry, Irish and overseas, the financial results were more mixed. The merged Irish life firms, archival evidence suggests, set up holding companies post the amalgamation and as 9% shareholders in the amalgamation company would have gained a small benefit from this shareholding in future years.⁴⁵² The British companies who agreed to merge their Irish life interests were bought out entirely by the Irish government for £110,697 in 1947 after protracted negotiations. While the price may have dismayed the British insurers, their executives by this point had little leverage remaining.

4.20 Exit Risk

Lemass was faced with the traditional structural business enigma- how can a market intervention, in this case a market re-allocation between native and overseas firms, withstand ‘exit’ (or a threat thereof) by controllers of capital?⁴⁵³ Exit risk in this case came in two forms- a swift market departure by the British insurers from the Irish market, or the more subtle one that attaches to the insurance industry more generally national or international- its economy wide characteristics. This conundrum came into sharp relief in the case presented and the Lemass intervention struggled to fulfil its objectives due to the reality that scale of capital is highly germane in insurance, both in terms of capital adequacy and pooling risk beyond the boundaries of national borders. His position, where large overseas operators continued to operate in the life industry, contrasted with other post-

⁴⁴⁹ Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986), 53.

⁴⁵⁰ Letter from Managing Director of Industrial and Life Assurance Amalgamation Company, Andrew Bayne, Nov, 18, 1942 to Secretary, Department of Finance. NAI TIA 934M (or 2008/34/127).

⁴⁵¹ Bayne letter, Nov 18 1942, as above.

⁴⁵² The details of the defunct Irish insurers post amalgamation are scant, but the idea of the holding companies was outlined by Sean Lemass while speaking on the Industrial and Life Assurance Amalgamation Company, Limited (Acquisition of Shares) Bill, March 19, 1947, Seanad Éireann. Based on the price paid to the departing British life firms the defunct Irish firms would have received almost £14,000, but this small sum would have been subdivided further as there were four companies.

⁴⁵³ A. O.Hirschman, *Exit, voice, and loyalty: Responses to decline in firms, organizations, and states* (Harvard, Harvard University Press, 1970).

colonial economies - for instance India nationalised its entire life industry in 1956, ending any overseas presence in the market, albeit with compensation.⁴⁵⁴

Lemass and his advisors were forced to implicitly acknowledge throughout the intervention that any complete abrupt foreign insurance 'exit' would have left a modestly sized native industry scrambling to provide sufficient cover (and arguably expertise) for the full span of the interwar Irish economy. In a 1935 parliamentary contribution, Lemass acknowledged the limitations of protectionism in insurance, but arguably further afield when he spoke of the idea of transferring all insurance business to just domestic concerns:

"I say at once that no Government could undertake the risks associated with such a course. It might easily result in heavy losses to many of our people and produce a very serious financial crisis."⁴⁵⁵

Accommodating to this reality had a dual implication – Lemass had to keep the British insurers within the Irish market in some form as their expertise in the life segment was needed to staff and add skills to the new state entities. As a result overseas insurers plying their trade before his legislation was introduced were allowed continue to operate (though controls were applied to those trying to enter afterwards). Secondly, while some of the British firms were convinced their time in Ireland was at an end, others ignored the legislation and simply traded on, using their pre-legislative status. In fact some may not have been able to easily exit the Irish market legally. For example Royal Liver was a co-operative society at the time, so without a majority of members voting to merge their Irish interests into the Lemass amalgamation scheme voluntarily, it was unlikely management could take any steps in that direction unilaterally.

Separately, Lemass needed the Irish firms – or least their managers and board directors- to be politically assuaged to in order to satisfy a domestic political constituency, but also this group were needed to endorse the nascent economic nationalist project in insurance, embodied in the idea of a new national insurance champion.

For the Irish firms benefits in broad sense which accrued from the Lemass intervention were:

- The curing of their in-built asset deficiencies, allowing firms to avoid damaging insolvency.
- No formal valuation was conducted ahead of the amalgamation, with reliance instead on 'pure guesswork.'⁴⁵⁶

⁴⁵⁴ The Indian government established the Life Insurance Corporation of India that year, see legislation here: <https://www.indiacode.nic.in/bitstream/123456789/1632/1/A1956-31.pdf>

⁴⁵⁵ Minister for Industry and Commerce, Sean Lemass TD, Dáil Éireann debate contribution. 29 Nov, 1935, Vol. 59 No. 11.

⁴⁵⁶ Letter from Managing Director of Industrial and Life Assurance Amalgamation Company, Andrew Bayne, Nov, 18, 1942 to Secretary of Department of Finance. NAI Insurance boxfile, TIA 934 M File (or 2008/34/127).

- The placing of value on equity in some of the Irish firms despite being ultimately worthless in some cases
- Personal compensation of managers/board members/staff as part of the amalgamation.

For the British firms the benefits accruing from the intervention were:

- Release of reserves, using a less stringent valuation than used to value their own liabilities
- Statutory protection of employment and conditions of Irish staff, reducing likelihood of legal disputes over policies and premiums, thus eliminating a danger to its neighbouring UK business
- No outright non-consensual or forced nationalisation that could create resonances in the British market.

In addition, a number of measures conceived by Lemass as significant in terms of national economic development were discarded. Some of these, the stipulation that funds of life firms be invested in Irish assets never made it into final legislation, nor did the the state-backed reinsurance company. As one figure observed the intervention lacked ‘a single central authority’ to co-ordinate and the agreements reached were more concerned to ensure ‘justice and equity’ to the insurers and their personnel than the public interest.⁴⁵⁷ The nexus between local politicians and local insurance firms was very much an obstacle to achieving this more equitable settlement.

The case presented here suggests that overarching frameworks that explain business-government relations across sectors through the prism of dependence on capital and business resources, retain their potency despite temporal variance. The insurance sector in particular, notably the life segment with its capital rich characteristics and globalised orientation, also reveals itself as an inauspicious arena for ambitious protectionist policy interventions.

⁴⁵⁷ Bayne letter, 1942.

Chapter 5: Contending with capital – Government intervention and Ireland’s slow journey to rail nationalisation

Railways across Europe were being challenged by road transport rivals from the early decades of the 20th century. Such competition and associated falling traffic receipts left railways overcapitalised, triggering policy and ideological conundrums. While the British government eschewed writing down capital in the interwar period in response to these trends, this chapter traces how Ireland took a contrasting and unexpected policy stance as part of incremental form of nationalisation, when the new fledgling Irish state wrote down the capital of its privately-owned train system by over 50%, equivalent to 6% of national income at the time. Previously untouchable prior charge debenture capital was written down as part of the intervention. Among the capital owners were Ireland’s Catholic bishops, charities and overseas investors. This paper argues this decision represented a radical reconfiguration of the economic status of railways in the inter-war period and an attempt to reduce the ‘structural’ hold of rentier capital over railway infrastructure.

5.1 Introduction

Ever since their introduction in the 19th century, modern railways have attracted intense policy interest from governments. With unmatched levels of capital intensity, an ability to connect previously underserved population centres and a capacity for conveying freight and passengers over long distances, railways have traditionally been seen as sources of political opportunity and targets of regulatory action.⁴⁵⁸ The railway industry has arguably been one of the key laboratory sites in the 19th and 20th centuries for interest group mediation among a tripartite of constituencies- rail users, rail capital and rail labour. The pluralistic distribution among these groups is how governments have unlocked the economic potential of railways, seen by many states as essential for national economic prosperity- and occasionally military success.

While states have employed an assortment of epithets to characterise railways and railway companies, such as ‘strategic’ or ‘national champions’, policy dispositions while broadly sympathetic to railways as forms of infrastructure, have been diverse. In France railway policy in the 19th century and onwards was about opposing transport privatisation, whereas in Britain crucial to rail policy was the free pursuit of economic self-interest by entrepreneurial firms.⁴⁵⁹ While describing rail policy choices solely along a state-market continuum doesn’t adequately capture all differences among nations, there is no doubt that a core policy question throughout rail history has

⁴⁵⁸ Martin Lodge, *On Different Tracks- Designing Railway Regulation in Britain and Germany* (London: Bloomsbury Publishing, 2002), 6.

⁴⁵⁹ Frank Dobbin, *Forging Industrial Policy* (Cambridge: Cambridge University Press, 1994), 215.

been do rail systems exist for private profit or do they come with obligations more akin to public utilities that in many cases remove or modify the justification for private capital involvement?⁴⁶⁰ Depending on the era, often this question lacked great urgency as ceaseless traffic growth removed the necessity to ask the question in the first place. The rise of non-rail competitors such as the private motor car in the 20th century and state control of railways during WW1, produced episodes where such questions simply had to be confronted and interest group rivalries decisively settled. Wrapped up in this, was the compatibility of rail capital with railways when seen as not just purely profit-making enterprises, but also in a sense socially significant enterprises.

The political management of Ireland's rail network, post-independence from Great Britain, represents one of those moments when state preference decisively shifted away from once powerful rail capital toward the un-coordinated forces of rail labour and rail users. This can be interpreted in myriad ways, as an embrace of early-stage *dirigisme*, a symbolic rebalancing between the needs of private capital and the economic development objectives of states, or a simple recognition of the growing sway of labour in the interwar period. In reality this account will argue that all of these factors were at least partly germane to the policy decisions, but a set of deeply embedded path dependencies of the Irish rail system, among them demographic settlement patterns, legal protections for capital and lack of industrialisation, were the most relevant.⁴⁶¹

This paper will argue that a pivotal decision in 1933, to pre-emptively write down the accumulated value of Ireland's rail capital for the first time represented an important tipping point in the balance of influence between rail capital and contending forces and a staging post toward the eventual nationalisation of Ireland's rail system. Using unexplored archives from the GSR company, government files, private interviews of Minister for Industry and Commerce, Sean Lemass recorded later in his life, and proceedings of shareholder meetings this paper explains why rail capital sustained this partial policy loss and outlines this constituency's failed strategy for fully protecting its position.

By examining the activities, tactical approach, and ideological assumptions of Irish rail shareholders, a wholly under researched group in Irish business history, this chapter will highlight why rail capital was the distributional loser from an era of government policy making in the 1930s. But it also outlines how legal protections from earlier eras, plus the importance of international capital flows, a la the structural control of resources by business, were still able to protect its

⁴⁶⁰ Geoffrey Alderman, *The Railway Interest* (Leicester, Leicester University Press, 1973),32

⁴⁶¹ The issue of Ireland's industrial backwardness and demographic profile, small and mainly coastal, was addressed in *Report of Commission on Railways* (1922) Stationery Office: Dublin, 3. Copy retained at the Irish Railway Record Society (IRRS).

position at a later stage. The paper also contains information on the ownership of Irish rail debentures of the time, discovering the strong presence of banks and church bodies among such rentier capital.

5.2 Introduction to GSR

The write down of private capital occurred at Ireland's national rail company, the Great Southern Railways (GSR) Company, the largest company in Ireland (by employment) in the inter-war period with 15,653 employees.⁴⁶² It was established in 1924 through the amalgamation of 26 smaller rail firms, and had the greatest accumulation of capital ever recorded at an Irish company at IR£27m, with a significant wider social footprint, including 1,569 houses, nine hotels, several key strategic harbours and wharves, and one canal.⁴⁶³

From the 1930s onwards, the Irish authorities adopted an undeclared policy of incremental nationalisation, which reached its nadir with actual formal nationalisation in 1949. In essence the early independent Irish governments went through a sequential set of policy steps, starting with unification/rationalisation, then allowing monopolisation, and finally drastically shrinking the capital of the Irish railway system, before finally settling on full nationalisation. In order to commence on that journey, the role and economic characteristics of the Irish rail system had to be ideologically rethought, in an atmosphere of severe contestation, particularly among rail shareholders, a powerful, but disorganised, group whose influence started to wane as the influence of other alternative transport forms grew.

5.3 Structural Power Theory and Railway Capital

Structural theories about business and government suggest that the dependence of states on sources of capital result in policy makers avoiding any policy that affects the revenue prospects of business.⁴⁶⁴ While this structural argument cannot be entirely rejected, it has many critics, who emphasise its situationality and point to many instances where policy makers have implemented policy change inimical to business interests. Many of these accounts are based on lengthy empirical work. While much of the structural argument revolves around fiscal policy choices that offend business, what of other areas such as public goods or public services? It is clear in the following

⁴⁶² *Returns of Railway Companies, 1927*, Dublin Stationery Office, 61. Total male and female staff, plus 'juniors'. The staffing numbers at the company were broadly consistent throughout the period and dropped slightly to 15,420 in 1932 when a new Fianna Fáil government was elected, *Returns of Railway Companies*, 16.

⁴⁶³ J.McGartoll, "The Great Southern Railway unpublished Thesis" (M.A., the National University of Ireland. Autumn, 1939) deals with the firm's capital levels. The data on houses and other property is taken from Great Southern Railways Company, *Report of the Directors for the Year Ended 31st December, 1932*, 14.

⁴⁶⁴ Patrick Bernhagen, *The Political Power of Business* (Oxford: Routledge, 2007), 44.

chapter, that in the 1930s policy decisions were taken to disadvantage Irish rail capital, who saw railways as purely profit-making enterprises which did not possess any of the characteristics of non-profit making public services, such as the post office network for instance. The work below could, on one reading, undermine the structural dependence on business argument, but read another way it may cement it. This argument comes on two levels - one the literal dependence governments have on business, the second a more subtle one about internalisation of values/ interests. This second part of the argument, which also flows from the pen of theorist Charles Lindblom, suggests that business doesn't need to direct government to deliver what it wants, as instead a more subtle 'commonality of thinking' exists and government never questions the 'grand issues of the day'- such as the legitimacy of private enterprise or the basic patterns of income distribution.⁴⁶⁵

In the empirical account below the legitimacy of private enterprise was not questioned, but the legitimate areas where it can intrude within the economy were questioned, when railway capital protections were questioned for the first time. The contrast between the broadly free trade approach of the 1920s toward the railways and the broadly protectionist approach of the 1930s toward the same sector were clearly on display. It is easy to detect an exception to the Lindblom thesis in the 1930s capital write-down example, but the scale of 'loss' for business should always be deeply scrutinised. In this case this is borne out, when later events beyond the 1930s are considered bringing more subtle reflections to the surface.

In this chapter two distinct policy approaches to the issue of overcapitalisation in the Irish rail system will be traced. The first starting in 1924 when rail capital was, for the final time, spared economic curtailment as the alternative of unification/rationalisation was pursued, and 1933 when a decision to pre-emptively write down the value of Irish rail capital, despite strong legal protections afforded to rail debenture owners, was staged, offending both domestic capital and international capital, as represented by its institutional voice, the *Financial Times*. This chapter will show that the Irish government were privately apprehensive about the far-reaching implications of this latter step, fearing it might prevent the fledgling Irish state, and more crucially its companies, from raising money in the London money market, suggesting the Lindblom thesis still had some applicability, despite initial impressions.

5.4 Rail Capital 19th Century Ascendancy

The early 19th century steam-powered railways, including the world's first commercial railway in the north of England, were privately owned and organised and the first few decades of railway development in Britain saw railway capital, and wider railways interests, strongly preferred over

⁴⁶⁵ Bernhagen, *Political Power of Business*, 40.

contending groups. The first railways in Prussia, Germany's largest state, were also privately owned in the early decades of that system.

Many of the early British privately owned railways were licenced and facilitated by parliament, with limited liability protection and rights of way for railway tracks bestowed upon private railway interests, often at the behest of a notoriously strong parliamentary railway lobby. In the 1840s, the period known as 'railway mania', hundreds of charters were granted to railway companies in the British parliament, an illustration of how rail capital was perceived as holding a secure policy position. While there were exceptions, railway ownership in the United States in the 19th century was primarily privately owned.⁴⁶⁶ This position was qualified by the financial aid given by states and localities in every region.⁴⁶⁷ In the mid-19th century a greater mix of public and private was to be found in Belgium, France and Germany when compared with Great Britain. France in particular championed franchise bidding arrangements, where the state awarded long leases for rail companies to operate certain routes.⁴⁶⁸ In the broadest sense the history of rail capital in the 19th century is of increasing regulation and state control and declining profitability as the decades advanced.

The term 'rail capital' obscures a traditional principal-agent fissure, with rail company shareholders, directors and managers often holding differing interests prone to clash.⁴⁶⁹ In this paper the relationship between these three groups will be assessed, but the term 'rail capital' will primarily relate to stock holders and debt holders in the Irish railway companies, for whom rail boards were legally supposed to work for, as per corporate governance norms of the period.

While the early years of the global railway boom delivered for rail capital in many markets, researchers have painted a portrait of low hanging economic fruit being consumed in this earlier period. For example British railways enjoyed increasing profits up until the early 1870s, with the high point reached in 1872 in terms of net return on capital (ROC), with diminishing returns setting in after this.⁴⁷⁰ While a shift to industry maturity and a greater reliance on less traffic-dense routes and less lucrative ticket classes explains some of this, the role of government and regulation is also relevant. For example, legislation in 1894 regulated freight rates in Britain, forcing railways to

⁴⁶⁶ Joseph B. Eastman, "Public Ownership and Operation of Railroads in the United States", *The Annals of the American Academy of Political and Social Science*, Vol 187, Issue 1 (1936): 106-119

⁴⁶⁷ Dobbin, *Forging Industrial Policy*, 41

⁴⁶⁸ J. S. Foreman-Peck, "Natural Monopoly and Railway Policy in the Nineteenth Century," *Oxford Economic Papers New Series*, Vol. 39, No. 4 (1987): 699-718

⁴⁶⁹ Geoffrey Channon, "The Business Morals of British Railway Companies in the Mid-Nineteenth Century," *Business and Economic History*, Vol. 28, No. 1 (1999): 69-79

⁴⁷⁰ R. J. Irving, "The Profitability and Performance of British Railways, 1870-1914," *The Economic History Review New Series*, Vol. 31, No. 1 (1978): 46-66.

prove there had been an increase in the cost of carrying before any rate increase could be sanctioned.⁴⁷¹

Whatever the core causes, the financial condition of British railway companies was declining in the latter decades of the 19th century, with average ROC falling from a peak of 4.4% in 1870 to around 3.5% since 1900.⁴⁷² Similar trends have been pinpointed in Irish railway research. Two significant pieces of research on railway share prices in Ireland concur that Irish rail shareholders benefitted from rising equity prices for most of the 19th century, but that prices peaked in the latter years of the century.⁴⁷³ While returns were declining in many markets, nationalisation continued to be threat for railway capital.

The decision by Prussia to nationalise its railway in 1880 was publicised in the British railway press, with the Prussian authorities pointing to rates and the monopolistic powers of the railways companies as justification for nationalisation.⁴⁷⁴ This decision seemed to counter the traditional argument that there was a mismatch between the power of rail capital and the state. While railway companies often had potent political support in 19th century legislatures, this dissipated in the 20th century. The arrival of World War 1 brought railway nationalisations across Europe and declining railway profitability, upending previous assumptions about the relationship between states and railway interests, meaning new policy orientations became possible.⁴⁷⁵

It could be argued that while the dimming returns for rail capital in Britain and Ireland in the late 19th were not sufficiently stark to concern rail capital about future nationalisation or confiscation, it would have been naive of such investors to believe nationalisation, and by association confiscation, were remote or impossible policy outcomes, in an Irish context at least. In the 19th century there were regular and prominent discussions in British parliament about nationalising the Irish rail network. For example in 1873 then British Chancellor William Gladstone was forced to offer a long defense in the House of Commons to a resolution that Irish railways ‘be acquired on equitable terms by the state’.⁴⁷⁶ Yet the owners of Irish rail capital appeared unresponsive to the implications of such discussions when one considers that an Irish Railway Stockholder’s Protection

⁴⁷¹ Derek H Aldcroft, *British Railways in Transition* (London: Palgrave Macmillan, 1968), 21

⁴⁷² Aldcroft, *British Railways in Transition*, 6.

⁴⁷³ Richard S Grossman et al, “A monthly stock exchange index for Ireland 1864-1930”, *European Review of Economic History*, Vol. 18, No. 3 (2014): 248-276; Charles R. Hickson and John D. Turner, “The rise and decline of the Irish stock market, 1865-1913,” *European Review of Economic History*, Vol. 9, No. 1 (2005): 3-33

⁴⁷⁴ Rainer Fremdling, Freight Rates and State Budget: the Role of the National Prussian Railways 1880-1913, *The Journal of European Economic History*, Vol 4, Issue 1 (1980): 21-39

⁴⁷⁵ For an account of the ascent and then decline of political power of railways see, Alderman, *The Railway Interest*.

⁴⁷⁶ Parliamentary debate, HC Deb, 29 April 1873, vol 215, cc1141-87.

Association, was only formed in 1919.⁴⁷⁷ In contrast a British railway shareholder's protection association was established in 1883.⁴⁷⁸ The Scottish Rail Shareholder's Association also predated the Irish grouping.⁴⁷⁹

5.5 Irish Rail Transport Path Dependencies

Ireland's rail system, which commenced in 1834 with a 6-mile commuter service from the centre of Dublin to then port of Kingstown, gradually replicated the archetypal traffic growth patterns of other 19th century European rail systems, going from 840 route miles in the middle of the century to over 3,000 by the close, an increase of 257%, eventually topping out in 1920 before going into decline.⁴⁸⁰

The Irish railway system was imprinted with a set of burdensome structural features: the majority of it operated using an unusual by European standards 5' 3" gauge, traffic volumes were comparatively small with most industry and passengers located in coastal and sea port areas, traffic volumes as they were lacked density and were heavily dependent on agriculture, while a population of 3 million people was served by 28 individual rail companies. Scotland at the time had 1.8 million more people, with 8 rail operators. While this abundance of firms was suggestive of intense competition, there was little internal direct competition on routes, with competition mainly reserved to winning through traffic opportunities from British rail firms and seaports it was asserted.⁴⁸¹

As part of the rail system were 497 miles of baronially guaranteed railways, smaller routes, that could be as short as 8.5 miles, the dividends on which were guaranteed by local rate payers, and in exceptional cases by the British Treasury, under 19th century legislation. While competition from car, bus and lorry transport was initially downplayed, the structurally disadvantaged rail system was facing increasing competition from this source in the early decades of the 20th century- for example licenced road vehicles of all classes increased by 66% between 1925 and the early 1930s alone.⁴⁸²

While the Irish rail system suffered from seeming institutional disadvantages, the lack of traffic and its low density were the most critical factors, leading to over capitalisation as traffic volumes/revenues shrunk and rail labour sought an increased share of ever more slender resources. One of the few ways for the system to build revenue was by supplying rail passengers and goods to

⁴⁷⁷ "Formation of Stockholders' Protection Association," *Freemans Journal*, April 12, 1919. Accessed Irish Newspaper Archives <https://www.irishnewsarchive.com/> March 3, 2023.

⁴⁷⁸ Aldermann, *Railway Interest*, 93

⁴⁷⁹ "Railway Control- Meeting of Irish Stockholders," *The Irish Times*, April 12, 1919, Accessed Irish Times Archive, March 3, 2023.

⁴⁸⁰ H.C Casserley, *Outline of Irish Railway History*, (Vermont: David & Charles, 1974), 20

⁴⁸¹ Parliamentary Debate, President of Executive Council, W.T.Cosgrave, Dáil Éireann contribution, Apr 11, 1924, Vol. 6 No. 40.

⁴⁸² Mícheál Ó Riain, *On The Move* (Dublin: Gill and Macmillan, 1995), 18

ferry companies operating from Ireland's main ports. Most of the ferry companies getting the benefit of these passengers were British firms and many were also rail firms, who could then plug this traffic into their English networks. One of these was the London, Midland and Scottish Railway (LMS) which owned property and offices in Dublin and also operated the Irish mail service to Britain.⁴⁸³ In addition it held a stake in the Dublin and Southeastern Railway (DSER). Links with British rail/ferry firms were highly coveted by the Irish rail firms due to lucrative revenue sharing arrangements, but also because these large firms could provide risk capital, a la the DSER case. But despite such links, the success of the Irish rail system would rest on internal traffic trends and density. There the story was not an encouraging one.

Comparators drawn from two of the largest British rail operators a few years before Irish independence are instructive on such institutional challenges.

Table 5.6 Irish Rail System (1913) - Comparison with Scottish and English Rail Companies' Statistical Performance

| Financial and Operational Metrics | Irish Railway Network | Caledonian Railway Co. | London & North Western Co. |
|--|------------------------------|-------------------------------|---------------------------------------|
| Capital Expenditure | £43.3m | £56.1m | £121.7m |
| Mileage | 3,410 | 1,111 | 2,062 |
| Revenue Receipts Total | £4.7m | £5.4m | £17.2m |
| Revenue Receipts Per Mile | 1,402 | 4,920 | 8,350 |
| Revenue Expenditure | £3.04m | £3.2m | £11.3m |
| No. of Engines | 971 | 997 | 3,084 |
| No. of Passenger Vehicles | 3,299 | 2,972 | 9,502 |
| No. of Wagons/Trucks | 23,921 | 53,994 | 82,180 |
| Engine Mileage | 24,905,677 | 27,886,220 | 76,535,989 |
| Passengers Carried | 31,282,064 | 47,50,5472 | 92,540,230 |
| Tonnage Carried (Merchandise) | 4,489,091 | 6,108,769 | 13,270,133 |
| Tonnage Carried (Coal) | 1,454,455 | 15,708,040 | 32,784,124 |
| Tonnage Carried (Minerals) | 724,533 | 6,486,709 | 11,602,000 |
| Total Tons per Mile | 1,955 | 25,475 | 28,262 |

⁴⁸³ A detailed account of LMS in the Irish Free State was published in the internal LMS magazine in 1932 and is available courtesy of the LMS Society here: <https://www.lmssociety.org.uk/topics/LMSinIFS1.php>. Of significant note is the suggestion in part 2 is that 500 employees were involved in LMS ferry and related operations out of Ireland.

| | | | |
|------------------------|-----------|-----------|-----------|
| Livestock Carried | 4,437,256 | 1,950,284 | 3,532,058 |
| No of employees (1921) | 30,511 | 29,316 | 101,483 |
| No of Directors (1921) | 170 | 11 | 20 |

Source: 1922 Railways Commission Report, P 149.

5.7 Irish Railway Capital Owners

Ireland was part of the ‘railway mania’ of the 19th century and the early years of railway investment was fronted by English risk capital, which once in place, attracted follow-on Irish, or *rentier* capital.⁴⁸⁴ From 1850s onwards Irish Catholic investors were increasingly attracted into Irish railway equity for its solidity, embodied in an average dividend across the sector of 4%.⁴⁸⁵ The Archbishop of Dublin was among one of the largest stockholders in the the larger rail firm GSR, although he was not the largest Irish-based security holder as will be demonstrated later in this chapter.

Before Irish independence was achieved, leading nationalist thinkers had mounted a series of critiques of Irish railway companies, some accusing them of sectarian recruitment practices designed to disadvantage Catholics, with others accusing them of having no interest in Irish economic development. The religious affiliation of railway company directors and staff had been a matter of public controversy since the turn of the century.⁴⁸⁶ Census data showed that 20% of stationmasters and railway officials were Protestant in a largely Catholic working population.⁴⁸⁷ The most influential pre-Independence nationalist party, Sinn Féin, had called for the Irish rail system to be nationalised as early as 1906.⁴⁸⁸ A frequent accusation was that rates were set purely to produce sufficient revenue to fund shareholder dividends with no account taken of domestic commercial concerns or Irish macroeconomic necessity. A common refrain was that it was cheaper to ship goods between Dublin and Liverpool or Dublin-London than it was to transport them within Ireland.⁴⁸⁹

⁴⁸⁴ Joseph P. Lee, “The provision of capital for early Irish railways 1830–53,” *Irish Historical Studies*, Vol 16, Issue 61 (1968): 33–63.

⁴⁸⁵ Andy Bielenberg, “Enterprise and Investment in Ireland 1850-1900”, in *Enterprise and the Irish Economy*, edited by Andrew Burke (Dublin: Oaktree Press, 1995): 23.

⁴⁸⁶ Chantal Brady-Deutsch, “The Railway Question”, *Journal of the Galway Archaeological and Historical Society*, Vol. 35 (1976): 100-104

⁴⁸⁷ Frank Barry, “The Life and Death of Protestant Businesses in Independent Ireland,” *Protestant and Irish: the minority's search for a place in independent Ireland*, eds, Ida Milne and Ian d’Alton (Cork, Cork University Press, 2019).

⁴⁸⁸ Owen McGee, *Arthur Griffith* (Kildare: Irish Academic Press, 2015), 100.

⁴⁸⁹ McGee, *Arthur Griffith*, 100.

Ireland gained independence (initially known as ‘dominion status’) from the United Kingdom in 1922 and immediately had to confront the railway question as it inherited almost over 3,000 miles of railway, backed by IR£46.8m of diverse capital, but not the means to remunerate this weighty capital base. While the first Government elected to run the new state, known as the Cumann na nGaedheal party, has been described as having a pre-occupation with maintaining social and political stability above all else after the British colonial period, the ideological options available in the railway sector were actually broadening out.⁴⁹⁰

This was because the British government had experimented in the previous decade with nationalisation when it ran the Irish railway system between January 1917 and August 1921, a function of WW1. Also pushing new ideological and policy questions to the surface was the financial performance of the Irish railway companies themselves. 1913 was the peak year for receipts at IR£4.9m, but this high-water mark financial performance was anchored around some unstable pillars. Rail labour was underpaid, according to the government-appointed 1922 Railways Commission, with lower grades described as miserably underpaid. Trade unions were pointing to the pay levels of these workers and comparing them with higher rates of their British rail equivalents. In addition, input costs had also risen during the period of British government control with expenditure rising by 240% for the largest railway companies according to the 1922 Commission.⁴⁹¹

5.8 Remedies to Institutional Features of Rail System

Public debate (and solutions from other European rail markets) threw up three potential remedies: nationalisation and compensation of existing shareholders, unification/rationalisation, or greater Government regulation of fares and operational practices. While the Irish rail network was privately owned until the outbreak of World War 1, the original conception of an Irish railway system, conceived by the Irish Railway Commission of 1830-1839 (known popularly as the ‘Drummond Commission’ after Irish Under-Secretary Thomas Drummond), was that it be a unified system of main trunk lines, funded and built by the state as a public works project, with profitability a secondary concern. This reflected the reality that at no point in the history of the Irish rail system was the idea of state control and ownership permanently excised. Despite the perceived fragility of their position, Irish rail shares were seen as a ‘sound investment’ with dividends on ordinary stock ranging from 3% to 6.5% in the early years of the 20th century.⁴⁹²

⁴⁹⁰ For perspective on the first government of independent Ireland see, Roy Foster, *Modern Ireland 1600-1972* (London: Penguin, 1988), 519.

⁴⁹¹ Railways Commission 1922, Dublin: Stationery Office. Evidence, Table K5, Page 8, input costs data.

⁴⁹² *Railways Commission*, Page 3. A range of dividends of different companies between 1904 and 1913 were provided by the commission. Excluding one line (the Dublin and Southeast), the range was virtually always between 3% and 6.5%.

In 1922, after the Irish War of Independence and Civil War (two events in which the railways were severely damaged), a new policy dispensation was required, and a Government-appointed Railways Commission was set up. The commission's report when published made for drastic reading for railway stockholders, suggesting that greater rewards for rail labour was to be expected and would come at the expense of rail capital. Mitigating this transfer, said the commission, via fare rises was not possible, for reasons of national economic competitiveness. The loss of market power by the Irish railways by this stage was starkly illustrated in evidence given to the commission by cattle traders, who said they were now walking their beasts to Dublin Port, at distances of 20 miles, in order to avoid what they depicted as unacceptable rail charges.⁴⁹³

The issue of charging policies by the Irish railway companies, like in Britain, was a cause of severe tension with traders and agricultural interests. Irish railways like their British counterparts charged 'what the traffic would bear' with freight grouped into classes according to the value of goods being carried. At the 1922 Commission hearings witness after witness drew attention to the fare structures of the Irish railways, not just increases since the WW1 period, but also the inconsistencies in structures. The 1922 Commission conceded that the rail companies could of course seek to reduce rail pay and/or conditions of service, but only at the cost of a national rail strike. The commission concluded with a binary- permit a protracted era of conflict between the rail companies and labour over resources, or subsidise and nationalise the railways entirely.

The commission supplied an underlying economic philosophy for its recommendation in favour of the latter, categorising the rail system as encompassing public good characteristics (sic). While the system, under state control, might be loss making and require subsidy, wider less noticeable national economic benefits would accrue it argued, allowing distribution of goods at economical rates. The commission's solution was state ownership, under a railway board with a strong corporatist flavour. What was important about the commission was, here was an investigatory body for the first time acknowledging that thorny interest group trade-offs that would be necessary for the Irish railway system to be financially stabilised. In addition, it was the first public forum in Ireland to attend to the question of how railway overcapitalisation might be addressed by the new state. On that subject it was far from prescriptive, suggesting a tribunal could decide on compensation for holders of rail securities, but current market value alone was ruled out as the sole valuation criterion. Instead new railway bonds- of an unknown value pending the tribunal's decisions- would be given to rail shareholders, bearing a 'reasonable' rate of interest.⁴⁹⁴ The railway companies were steadfastly

⁴⁹³ Railways Commission, Evidence given by John Leonard, Irish Cattle Traders and Stockowners' Association, May 18th, 1922. Contained in Commission report, evidence provided in Sixth Day, 130.

⁴⁹⁴ Railways Commission, Report, Page 13.

opposed to using market value as a criterion and it became doctrine among rail shareholder interests that market value couldn't be used in any form, some other ex-market formula was insisted upon. In contrast union opinion settled on using share market valuations as the basis to compensation rail shareholders. (Full expropriation was not a policy position of any of the interest groups at this time).

5.9 Ireland Railway Leadership and Crisis Management Response

With rail capital balanced precariously in the newly independent Irish state, the 170 railway directors at the various companies found themselves imprisoned within a quintessential principle-agent problem, caught between representing by proxy the interests of rail shareholders, but also needing a *political deus ex machina* to emerge to secure the viability of the system - and by extension their own economic position. While specific literature on Irish railway directors is scant, what we do have suggests directors were not ambiguous about their role- it was to represent the interests of rail shareholders.⁴⁹⁵ The nexus between shareholders and directors was arguably further cemented by the requirement that rail directors had to hold shares in their rail companies, often set at specific minimum values, typically out of reach for most of the population of the era.⁴⁹⁶

The case made by the railway companies for reviving the railways financially rested on the fulfilment of several ambitions. One was that civil strife in Ireland would taper off, another was that a moderate rise in rail rates would be countenanced, a third was that Ireland would develop further industrially, and a fourth was that rail labour only be awarded 'reasonable' but not excessive accommodation.⁴⁹⁷

Shareholders of the rail companies now had the job of giving life to these objectives in the public sphere. This took on decisive momentum when the Irish Railway Stockholders' Association, which claimed to represent about 25% of all Irish rail stockholders, was set up in April 1919 amid dialogue in the Irish press about nationalisation. This group suggested an alliance of shareholders, workers and rail users was possible even in the straitened inter-war period and its representatives argued that an average return of over 4% on assorted forms of capital was still possible if rail capital, rail labour and rail users worked collaboratively.

While waiting until 1919 to form a formal body, Irish rail shareholders, or at least a vocal portion of them, were an increasingly antagonistic presence for the management of the largest rail

⁴⁹⁵ For reflections on the relationship between rail directors/board chairs and shareholders see, Joseph Tatlow, *Fifty Years of Railway Life in England, Scotland and Ireland* (London, Qontro Classic Books, 1920), 116

⁴⁹⁶ Fergus Campbell, *The Irish Establishment 1879-1914* (Oxford: Oxford University Press, 2009), 229

⁴⁹⁷ The view of the rail companies are summarised in detail as part of a confidential submission to the 1922 Railways Commission, from the Midland Great Western Railway Board, dated 14 November, 1922.

companies in the early 20th century, press accounts of the time reveal. An unofficial shareholders committee was set up at the Great Southern and Western Rail company (a forerunner of the GSR) in 1905 and it sought responses about why dividends for ordinary shareholders had reduced and market value of stock fallen.⁴⁹⁸ In years in the run up to 1905 a group led by substantial shareholder, politician and landowner John Sweetman expressed strong criticism of the board of the rail company.⁴⁹⁹ This intense shareholder pressure, revolving around reduced dividends and alleged mis-allocation of capital, crystallised in May 1905 when an extraordinary general meeting was called by this angry shareholder group, an unusual event in the Edwardian era, with a view to appointing a ‘committee of enquiry’ to investigate the poor level of dividends paid to shareholders. Amid sharp exchanges at the meeting in Dublin, the rail company board retained their authority, backed by shares to the value of £2.4m versus £779,026 for the dissident group.⁵⁰⁰

While internal shareholder pressure over declining dividends was growing in the opening decades of the 20th century, railway companies pinned their hopes on increasing levels of industrialisation and economic growth in Ireland to grow traffic. But political events, commencing with the Easter Rising of 1916 to be followed by the War of Independence and Irish Civil War, created a different trajectory. The three interest groups in the Irish rail system were now locked into adversarial and seemingly immutable positions, as a new era of Irish independence got underway in 1922. The first exploration of these interest group enmities came with the arrival into office of the first Irish governments, since the end of the colonial period.

5.10 Cosgrave’s 1924 Failed Corporatist ‘Compact’

These first administrations of the new state inherited a rail system that had suffered grievously during the political disturbances of the Irish War of Independence and Civil War, with 468 locomotives, carriages or other rolling stock derailed or destroyed during the latter event for example. Conflict between rail capital and labour was also rife, with rail unions threatening a national strike just as the provisional government was taking over in 1922. A rise in input costs during the World War 1 period and wartime control by the British Government had altered the financial and ideological landscape for rail companies and consequently many of these rail firms favoured a conclusive confrontation with rail labour as a way to realign with lower rail revenues. Against such a polarised backdrop, the government decided to appoint a Railways Commission in 1922 to advise it on the full gamut of rail policy, chaired by a Catholic unionist judge, James

⁴⁹⁸ “Great Southern and Western Railway Half Yearly Meeting,” *Irish Examiner*, August 14th, 1905. Irish Newspapers Archive, Accessed March 3, 2022.

⁴⁹⁹ A short biographical portrait of Sweeney can be accessed at the Irish Dictionary of Biography site: <https://www.dib.ie/biography/sweetman-john-a8406>

⁵⁰⁰ “The Position of the Company, Proposal to Appoint A Committee the Resolution Rejected, Poll Demanded,” *The Irish Times*, May 23, 1905. Irish Newspapers Archive, Accessed March 2, 2022.

O'Connor. A range of interest groups appeared before this commission and included in Table 5.10 are an extracted summary of their views, particularly on nationalisation and ownership:

| Table 5.10.1: Rail Capital Providers | |
|--|--|
| Organisation | Policy Position |
| Irish Railway Stockholders' Protection Association | Organise the railways under one central statutory authority (e.g. the Port of London), but not pure 'nationalisation'. Individual railways should be then valued and government bonds awarded (at 4.5% interest)- to shareholders based on these valuations. |
| Traders | |
| Organisation | Policy Position |
| Irish Cattle Traders and Stockowners Association | Train system is costly and unreliable; but opposed to nationalisation, instead supportive of an operationally unified rail system. |
| Irish Pig Dealers Association | Against nationalisation, in favour of unification. |
| Dublin Chamber of Commerce | Leave rail service in private hands, but reduce rates. Close lines and make system more efficient. |
| Irish Flour Millers Association | In favour of nationalisation, but with reservations, taxpayer exposure etc. |
| Labour | |
| Organisation | Policy Position |
| Railway Clerks Association- | Supportive of complete nationalisation as railways public services akin to national defense etc, supported a unified system and workers on the board of a state rail body. |

| | |
|--|--|
| Trade Union ITGWU | Supportive of nationalisation, with the railways run by a national board, with corporatist structure, unions, government, users. |
| Associated Society of Locomotive Engineers and Firemen | Nationalisation, one unified system, trade union representatives on the board. |

Source: Policy Positions on the future of Irish railways as provided at the 1922 Railways Commission hearings.

The commission when it published its report echoed the themes of the late 19th century that nationalisation of railways was operationally and financially feasible, thus undermining the previously frozen debate about railways and ownership in Ireland, which had borrowed heavily from political economy judgements in England, that railways were most efficient as privately owned entities. Most critically for the boundaries of debate on rail ownership in Ireland, the report asserted that railways were a public service like the postal, telephone or telegraph network. While not meeting the strict definition of a public good, railways share public goods qualities as they can contribute to national security and have spillover effects on economic development, some scholars have suggested.⁵⁰¹ In addition they are often said to have natural monopoly hallmarks too.

The commission's report reflected this latter perspective when it asserted that all Irish citizens derived a benefit from the rail system 'more or less'.⁵⁰² This appeal to notions of public good qualities embedded in railways was a highly significant shift in the span of ideological debate about infrastructure in Ireland. The firm categorisation of railways as public services was then buttressed by the commission with a second argument- that newly independent states seeking long term economic convergence, needed to own vital infrastructure like railways, even at a cost of sublimating private interests.⁵⁰³ This was an argument focused on decolonising economies that were trying to climb the ladder of comparative advantage without the luxury of time.

These twin arguments, advanced by a judicial figure of eminence, presented the newly independent state with grounds to make an ideological shift, one which other newly independent states as far back as the German Empire had made when seeking to shift in an autarkic direction.⁵⁰⁴ The report

⁵⁰¹ Alejandro Quiroz Flores and Katharina Pfaff, "Private provision of public goods and political survival: Rail transport in four European democracies in the 20th century," *Research in Transportation Economics*, Vol 90 (2021), 1-11.

⁵⁰² "Irish Railway Problem – Commission Recommends Nationalisation," *The Irish Times*, Nov 4th, 1922. Irish Times Archive service.

⁵⁰³ "State Purchase of Irish Railways- Commission's Scheme," *Irish Independent*, Aug 16, 1922.

⁵⁰⁴ Harry G. Johnson, *Economic Nationalism in Old and New States* (Chicago: Routledge, 1967), 29

also suggested the railways be run- not directly under government supervision- but an independent board with a corporatist flavour. A minority report meanwhile suggested existing dividends remain in place at current values. The recommendations of the majority commission report were soon rejected by the commercial community of Dublin, including railway company management. The shareholders of these companies adopted a more subtle position, that unification, plus general post-independence economic buoyancy, would strengthen the financial performance of the railways, whereas full nationalisation, presumably involving a diminution of railway capital, would involve the state in a large financial transaction, exposing it to ongoing unlimited future liabilities. In taking this stance, rail capital in Ireland was attempting to demonstrate its sense of civic virtue over pure economic self-interest.

5.11 Cosgrave Policy Response Unveiled

The commission report brought Irish policy makers to a sharply bifurcated place – nationalise the railways under a new independent board, or adopt the minority report and find a way to guarantee existing railway dividends. The Government found itself unable to accept either the majority or minority report. The first because it removed seemingly any role from government over management or expenditure on the railways and the second because shareholders dividends were a matter for company performance, not specific government policy.

When legislation finally reached parliament (Dáil Éireann) in early 1924, the agnosticism on shareholders returns appeared to be abandoned, or at the very least made more conditional, as unification and rationalisation of the rail system was adopted as a specific way to ‘preserve’ the benefits of private capital. Irish rail unification legislation introduced that year in parliament by the President of the Executive Council, W.T. Cosgrave, stated unambiguously it was aimed at ‘amply securing’ the interests of railway shareholders.⁵⁰⁵ This would be done by achieving efficiencies through rationalisation, that in turn would produce savings that would in turn allow rates to fall and traffic to grow, forming a virtuous circle.

As was common for interventionism of the period in Ireland, the legislation was framed following a period of industry consultation, effectively a consensual rationalisation, although one rail company, the Dublin and South Eastern Company energetically pushed a counter proposal involving carving up the network into an alternative constellation, with the Great Northern Railway Company, primarily based in Northern Ireland, contributing some of its southern network to a new combine, but this was rejected.

⁵⁰⁵ Parliamentary Debate, Dáil Éireann debate – President of Executive Council W.T. Cosgrave contribution Vol. 6 No. 40, 11, April 1924.

Cosgrave's legislation was aimed at preserving rail capital's position, but it was balanced by a system of supervision to safeguard user's interests via a judicial review body, a Railway Tribunal, with powers to fix rail rates and make orders about service levels. Rates were to be set to allow the merged railway company to achieve a stipulated annual financial performance, known as 'standard revenue', which in the event the company never managed to achieve. But the underlying concept of this standard revenue arrangement, which was also present in the British rail market, was to act like a contractual agreement where rail users would have certainty of rate, while shareholders would have certainty of interest payments. While the legislation was accommodative of rail shareholders to a point, the resort to judicial authority over rail rates was arguably epochal for rail capital, subordinating its interests to rail users for the first time in domestic Irish legislation.

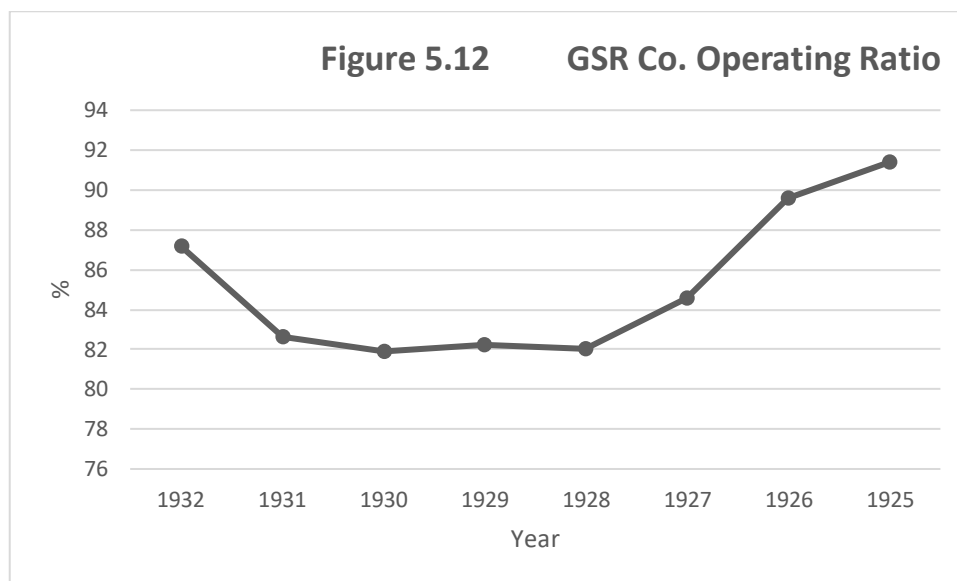
5.11.1 Limitations of Rationalisation Policy

Cosgrave's unification compact between capital, labour and rail users was nebulous at best. No public targets for synergistic savings from the network were ever published or given to parliament. Vague remarks about economy were included in Cosgrave's parliamentary presentations supporting the 1924 legislation when he pointed to redundant managements; concentration of workshops; bulk purchasing of materials; standardisation of rolling stock and simplified account-keeping, but there was scant detail on what would be achieved and by when.

While this grand compact of the 1920s, constructed around the synergies promised by unification, was designed to be integrative of competing interests, the results if measured by their ability to offset falling receipts were barely adequate. Essentially it committed the newly amalgamated entity GSR to an annual process of trying to slash its expenditure at a greater rate pace than its receipts were declining. This was relatively achievable in the first few years of the amalgamation, but by 1932 when a new Fianna Fáil government came into office, it required a herculean effort as receipts were falling by over 12% annually.

While staff, management and rolling stock savings were theoretically facilitated by unification, much expenditure was postponed into the future. While much maintenance was simply put off, expenditure was reduced by £1m between 1925 and 1937, but this did no more than match the fall in railway receipts in the same period. A crucial measure of railway performance is its operating ratio (operating costs as a percentage of revenue) and data for the Irish railways reveal that the

period after unification witnessed this metric improve, nudging back towards 80%, the level at British railways companies of the period, but only for it to reverse direction in later years.⁵⁰⁶



Source: Annual Financial statements GSR Co., 1925-1932

The deterioration in track was such that on parts of the GSR network, the company could not run trains travelling in excess of fifteen or twenty miles per hour, parliament was told.⁵⁰⁷ While fares at the GSR were now subject to judicial oversight, the lack of prescription or policy direction from the 1920s rail compact legislation left GSR with full autonomy over the drive for unification synergies. Its published accounts provided sparse detail on how economies post-amalgamation were achieved, but by 1933 shareholder pressure was forcing additional transparency and the company disclosed it had taken up, or closed, 171.5 miles of line, shut, or converted to halts, 118 stations and postponed other unspecified renewal work in the period from the passing of the 1924 legislation to 1933.⁵⁰⁸ Based on 1924 rail network size (running track) the taken-up and closed lines would amount to over 6% of the network.

In a newspaper article taken out by the rail company's directors in 1933 the scale of the expenditure reductions or postponements during this period were disclosed, including deferral of all ordinary renewal work except where services would be rendered unsafe.⁵⁰⁹ But with railway wages representing 70% of total expenditure of the company the potential for wider economy were limited.

⁵⁰⁶ For an overview of operating ratios in European railways, see, Robert Millward, *Private and Public Enterprise in Europe- Energy, Telecommunications and Transport* (New York: Cambridge University Press, 2005), 150

⁵⁰⁷ This accusation of excessively slow trains arose in parliamentary debate, Dáil Éireann, March 9, 1933, Vol. 46 No. 5, in exchanges between Minister for Industry and Commerce, Sean Lemass, and opposition spokesperson, Patrick McGilligan TD.

⁵⁰⁸ "Statement of the Present Railway Position," *Irish Independent*, Feb 23, 1933.

⁵⁰⁹ "Statement of the Present Railway Position," *Irish Independent*, Feb 23, 1933

A new government with a far more vigorous autarkic philosophy, Fianna Fáil, assumed power in 1932. At that point the GSR was capable of producing a net income of IR£520,705, but dividends were deferred or cut for holders of guaranteed preference shares, preference shares and ordinary stock. The company's ability to remunerate its capital at this stage had been dramatically constrained and was limited to interest payable to debenture holders of IR£332,952, which represented 64% of net profits, or 10% of the company's entire receipts.⁵¹⁰

5.13 Railways in an Age of Autarchy and Statism

Fianna Fáil had come to power in 1932 by projecting a brand of populist nationalism built on an expectant coalition of small farmers, rural labourers, urban workers and small native home market enterprise.⁵¹¹ This constituency were not just perceived to be economically disadvantaged under colonial rule, but according to Fianna Fáil, also under the governments of the 1920s. It was not a configuration of interests likely to sway the party toward an accommodation with rail capital, as had happened partly with the 1920s Cosgrave compact. One of the most ardent advocates for populist nationalism was IRA veteran and anti-Treaty campaigner Sean Lemass, who became the key shaper of rail policy when he was appointed, Minister for Industry and Commerce, in 1932. Early in this role he had Department officials draw up preliminary rail nationalisation proposals-but nationalisation was rejected by the Irish cabinet to his disappointment, he later insisted.⁵¹² Lemass hinted many times publicly during this period he favoured nationalisation, but opposition in the Irish Senate (or second chamber) was a political constraint.

While land annuities and law and order issues had been most prominent in the 1932 campaign, railways were also accorded political space in the campaign, with Fianna Fáil accusing the previous government of failing to adequately curb competitors to the railways. Nationalisation continued to be supported by the Labour Party and railway trade unions, but was fiercely resisted at public meetings staged by railway shareholders in 1932. Rarely at these meetings did the issue of how shareholders would be treated in any nationalisation surface, with the very idea dismissed *a priori*.

This was somewhat peculiar in the context of Irish economic history at the time. Episodes where private capital and property was subordinated, via legislation, to facilitate national economic development goals did occur and revealed underlying economic philosophies toward capital

⁵¹⁰ The Great Southern Railways Company, Report of the Directors Year Ended, December 31, 1932, Author copy.

⁵¹¹ John Kurt Jacobson, *Chasing Progress in the Irish Republic* (New York: Cambridge University Press, 1994), 57

⁵¹² While not formally discussed in parliament at the time, Sean Lemass disclosed in interviews done in retirement he had sought nationalisation in the first instance. Sean Lemass Interviews, IE UCDA P 311, 3-32, transcripts consulted at UCD Archives, Dublin 4. Details of the origins of the interviews are available here: <https://bit.ly/3pvCwW4>

owners. The Shannon Electricity Act, which paved the way for an unprecedented hydroelectric scheme along Ireland's largest river, involved the compulsory purchase of privately held local property and fishing rights in the mid-1920s. In this case a system of arbitration was utilised to agree a compensation formula for the private interests, an approach used again when national utility, the Electricity Supply Company (ESB), was established in 1927 and privately owned generation companies were compulsorily acquired using a fixed method of assessing compensation overseen by an agreed arbitrator.⁵¹³ Negotiations were also staged with private capital in 1927 to purchase the assets of the Condensed Milk Company, a large enterprise which owned over 100 creameries throughout Ireland. The leading shareholder in this business was London butter and cheese merchants Lovell and Christmas. In this case compensation at a valuation agreed by the two sides for the business was paid, costing the state IR£455,000.⁵¹⁴

The other arguably more relevant instance where the rights and entitlements of private capital were explored occurred in 1933 when a large sugar beet factory in Country Carlow owned by Belgian industrialists was purchased compulsorily by the state. The factory, along with three others, were subsequently to be used to form the backbone of a new state-backed sugar beet company called the Irish Sugar Company. While the Belgian owners Lippens were reported by Lemass to be highly resistant to compulsory purchase initially, he claimed they eventually agreed to a purchase offer with all their capital invested in the business recouped in the final purchase price.⁵¹⁵ The exact price paid was shrouded, but newspaper reports suggest it was between IR£350,000 and IR£400,000.⁵¹⁶ While all invested capital was returned, claimed newspaper reports, the Belgian company according to Lemass exited Ireland complaining bitterly of how private capital was treated by the nationalist political establishment.⁵¹⁷ It was Lemass himself who was to connect this Belgian example with the drastic reduction in rail capital that is a key concern of this paper.

With nationalisation incapable of commanding political support within the Irish cabinet and parliament, Lemass adopted an alternative dual strategy for stabilising the railways, one by providing the GSR powers to compulsorily purchase its road transport competitors (Road Transport Act 1933) and two by reconstructing the capital of the company (Railways Act 1933) at the expense of capital owners.

⁵¹³ Maurice Manning and Moore McDowell, *The History of the ESB* (Dublin: Gill and Macmillan, 1985), 60.

⁵¹⁴ "The Dairying Industry," *The Irish Times*, March 16, 1927 [Irish Times Archive, Accessed on March 2, 2023]

⁵¹⁵ Seán Lemass Tapes, IE UCDA P311, 35.

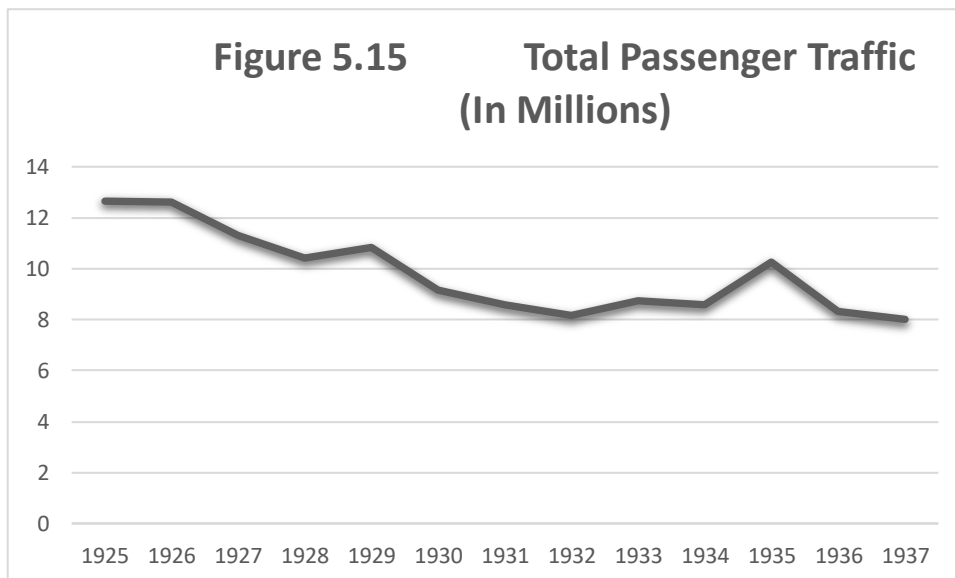
⁵¹⁶ "Sale of Sugar Factory," *Irish Independent*, Sept 19, 1933 [Irish Newspapers Archive, Accessed Feb 26, 2023].

⁵¹⁷ Seán Lemass Tapes, IE UCDA P311 35

He buttressed these two policy pillars with a more general aspiration that the new state’s policy of import substitution industrialisation (ISI) would generate additional traffic streams for the railway system. Both pieces of legislation to give effect to his strategy were introduced to parliament at the same time, with Lemass jettisoning nationalisation on the grounds that it would commit the state to substantial, yet unknown, subvention from public funds, something he personally resisted throughout the period. Lemass introducing the new legislative pairing sought to acknowledge for the first time the badly diminished utility of the railway system, particularly in a small geographical unit that was Ireland stating: “I think, that the railways are no longer essential. We could do without them.”⁵¹⁸ This acknowledgement of diminished utility and resource base translated in Lemass’s eyes to diminished obligation to capital holders, which translated into ultimately into a far-reaching capital reconstruction.

5.14 Road Competition & Compulsory Purchase

Road competition had been intensifying throughout the 1920s, with competition one of the triggers for the Irish government to legislate for rationalisation of the railway system in the 1924 Railways Act. Competition from buses, private motor cars and lorries impacted the GSR company in different ways. Between 1925 and 1937 the volume of goods traffic actually increased marginally, but passenger traffic numbers bore the largest scars from the disruption wrought by non-rail competition (See Table 5.15)



Source: “An Analysis of the Legislation, Published Accounts and Operating Statistics of the Great Southern Railways Co, 1924- 1937- Prof B.F. Shields

⁵¹⁸ Parliamentary Dáil Éireann debate, 8 Mar 1933, Vol. 46 No. 4.

Two of the largest passenger and freight competitors in the Irish Free State of the period were the Irish Omnibus Company (IOC), and John Wallis and Sons, and these companies had been increasingly working with the Great Southern Railways under contracting arrangements during the 1920s.⁵¹⁹ IOC had been a bus company running services between the main Irish cities and was to the forefront of the industry association representing bus operators, known as the Irish Bus Owners Protection Association.⁵²⁰ Wallis was for many years a cartage firm but moved into trucks and freight in its later years. They were both merged into the Great Southern Railways in 1933 to give it the capacity to mount its own non-rail transport efforts. This use of private bus and lorry companies by the dominant rail firm was not unique to the Irish context, with almost similar linkups occurring in the interwar British rail scene.⁵²¹

Lemass for his part steered the Road Transport Act 1933 through parliament making it possible for the GSR to apply to him for an order transferring to GSR the licence held by any independent non-rail competitor. On the surface this seemed a significant and sweeping concession allowing the rail company to behave monopolistically. It would involve allowing it to acquire its competition, with those acquired paid compensation as ordered by an arbitrator. While competition would be removed from the market for the rail company, it was not necessarily envisaged that once the rival licensee was acquired, replacement rail services were simply be offered in its place. Instead the legislation envisaged that GSR would most likely continue the road services itself. But the concession was conditional in another way - chiefly that the Minister would only make such orders if he perceived them to be in the 'public interest', a term which lacked definition.

After the Act was passed, Lemass's officials in June 1933 contacted GSR seeking to know what it planned to do about buying out road competition. While the idea of purchasing rail competitors was simple in conception, the logistics seemingly not. GSR said until legislation was implemented forcing tighter regulation on bus companies there was little merit to them being purchased, potentially at elevated valuations only made possible by lax regulation.⁵²² Even at that, fresh capital would be required to purchase the competitor firms, the company pointed out. Lemass was unmoved describing the companies reservations as 'indefensible'.⁵²³ He added they resulted from a lack of genuine effort to make the new dispensation work.⁵²⁴ In much of the correspondence from

⁵¹⁹ Mícheál Ó Riain, *On the Move – CIÉ 1945-1995* (Dublin: Gill and Macmillan, 1995), 18.

⁵²⁰ "Bus Owners Unit," *Irish Times*, Oct 29, 1928. [Irish Times Archive, Accessed Feb 24, 2022].

⁵²¹ Aldcroft, *British Railways in Transition*, 86.

⁵²² GSR General Managers Series, Irish Rail Record Society (IRRS) Archive, GSR Road Transport Act 1933 box file. 'Correspondence re merging of road services with the Railway Company' folder. Letter to Minister for Industry and Commerce, Sean Lemass, July 20, 1933, from J.X. Murphy, Deputy Chair GSR.

⁵²³ GSR General Manager's Series, IRRS Archive. GSR Road Transport Act 1933 box file.

'Correspondence re merging of road services with the Railway Company' folder. Copy of Letter to General Manager GSR, Aug 4, 1933, from Minister Sean Lemass.

⁵²⁴ Lemass letter to GSR, Aug 4th, 1933.

Lemass, sent via his Department officials, it was suggested in certain cases road traffic might entirely replace rail provision and he was open to reorganisation of the rail system to facilitate this. The rail directors had seemingly an alternative vision though.

While railway directors had seen the Road Transport and Railways Act 1933 as designed to 'save' the railways, Lemass in his letters of that year depicted this as a misreading. Instead the Act was introduced as a broad-based reorganisation of the national transport system, where railway transport was not to be privileged. While at times subtle, this difference of emphasis between the rail companies and Lemass over what the ultimate objective of the 1933 legislation was to persist for several years and caused significant tension. In 1935 Lemass corresponded with GSR to accuse the company of using the new powers to acquire road competitors, simply to eliminate them so as to reduce rail competition. Instead Lemass was seeking 'the fullest development of road transport'.⁵²⁵ In other correspondence he accused the company of not operating in the public interest by eliminating road transport services that had a value beyond mere transport.⁵²⁶

In a meeting designed to resolve differences in February 1935, officials from the Minister's department warned GSR representatives that the Minister was even coming under pressure to allow unlicensed operators to carry beet, turf and milk for free and 'it might be necessary to allow this'.⁵²⁷ At this meeting the rail company accused Lemass of effectively trying to bankrupt it- by forcing it to take over existing road competitors but at higher rates of pay and for lower hours worked than before his reorganisation.⁵²⁸ This was due to hours worked being reduced under reforms included in the Road Transport Act 1933.

The stance of the rail company was connected to its strong view that technology, convenience and general utility alone didn't explain the growth of non-rail transport, whereas low customer ticket prices subsidised by low wages did. Overall the expense of buying out non-rail competitors appears to have been considerable, by February 1935 it amounted to almost £100,000, with £500,000 budgeted for other licensees to be bought out.⁵²⁹ Overall the idea of creating a multi-modal transport quasi monopoly via the 1933 legislation was a failure if the objective was to stabilise the rail system. The rail company were permitted, if they were minded to, to remove non-rail competition, but

⁵²⁵ GSR General Manager's Files, GSR Road Transport Act 1933 Box 2, Department of Industry and Commerce Correspondence, Letter to General Manager, GSR, from Secretary General of Department, John Leydon, April 25, 1935.

⁵²⁶ GSR General Managers' Series, Road Transport Act Box 2, Letter from T.J. Flynn, Department of Industry and Commerce, Feb 16, 1935 to General Manager GSR.

⁵²⁷ GSR General Manager's Series. Box 2, memorandum of Dublin meeting between GSR representatives and Department of Industry and Commerce representatives, Feb 27th, 1935.

⁵²⁸ Memo, Feb 27, 1935 meeting.

⁵²⁹ Memo, Feb 27th 1935 meeting.

correspondence shows that this was subject to an undefined litmus test of meeting the ‘public interest’, a term that seemed to be wholly political and amorphous in the mid-1930s. The 1933 Act did not deal of course with private cars and passenger traffic continued to be the most grievously impacted part of GSR’s traffic volumes. When the legislation was introduced there were 1,356 licences granted to persons carrying on road transport and while this reduced significantly, there were still 886 licences in the hands of private operators by December 1938.⁵³⁰

In addition the compulsory purchase legislation exempted a range of geographical areas from its provisions, and while bus traffic was significantly impacted by the program of compulsory purchase, overall non-rail competition continued to erode the passenger and freight operations of the GSR, so much so that a government-appointed Tribunal of Enquiry in 1941 described the company as being in close to receivership, even with restrictions and buy-outs of various bus and truck operators.⁵³¹ For its part GSR wanted additional restrictions placed on non-rail competitors, which the tribunal dismissed as impractical.⁵³²

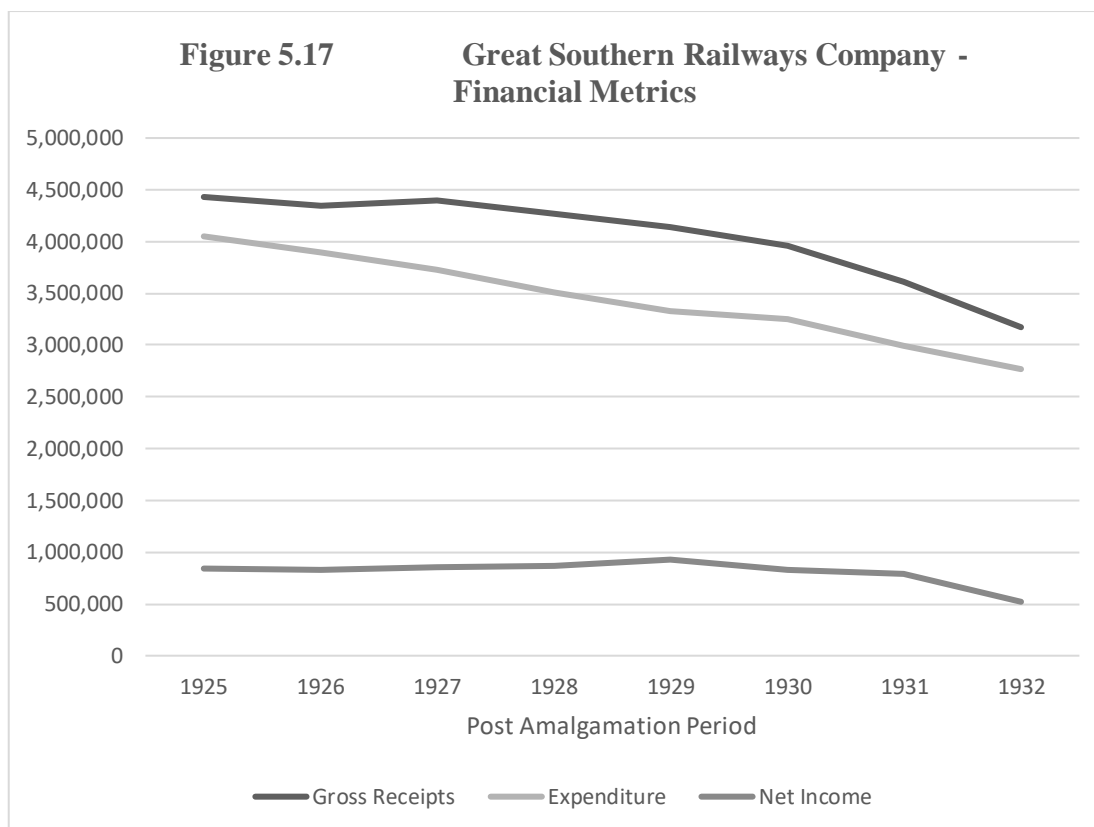
5.16 Capital Reconstruction- ‘Orphans or lost dogs’

As Lemass and the rail company pondered strategies to blunt the impact of non-rail competition, the financial strain on GSR was ever more apparent. In 1932 GSR was struggling with falling receipts and income (Table 5.17).

⁵³⁰ *Tribunal of Inquiry on Public Transport 1939*. Government Printing Office, 14.

⁵³¹ A good summary of the Tribunal majority report, known colloquially as the ‘Ingram Report’ (named after chairman John Ingram) can be found at Arthur Maltby and Brian McKenna, *Irish Official Publications: A Guide to Republic of Ireland Papers, with a Breviate of Reports 1922–1972* (Oxford: Pergamon, 1980), 239

⁵³² Malby and McKenna, *Irish Official Publications*, 240.



Source: Great Southern Railways Company, Report of the Directors, December 1932, 16

It had capital outstanding of £26m, of which over £17.2m were shares and over £8.7m were loans or debenture stock. By 1932 disbursements to all but debenture holders were either cancelled or deferred, while the still paid debenture interest represented almost 64% of the Great Southern's net profit/income, or 10% of its gross receipts by December 1932.

The position of debentures in Great Britain and Ireland in the period was that of a secured loan. The rights of debenture holders were governed by the Companies Clauses Act 1863 which made debenture stock prior charge capital, ranking ahead of other obligations. The legislation meant interest on debenture stock had priority of payment over all dividends or interest, whether for ordinary, preference or guaranteed shares. Debenture stock holders had the power to appoint a receiver in order to enforce payment of arrears of interest under this Act if required.⁵³³ A strong influence over the growth of debenture capital was the British Trustee Act 1893 which allowed trustees to invest, without personal liability for the performance of the securities, in a range of assets, known as trustee securities, of which railway stocks and debentures formed an important part. This brought additional liquidity to the rail shares market, equating many of them with British

⁵³³ A copy of the relevant legislation can be viewed here: <http://www.irishstatutebook.ie/eli/1863/act/118/enacted/en/print.html>

government securities in the minds of the ‘gentlemanly capitalists’ who invested in railway shares.⁵³⁴ The status of rail shares and debentures as trustee securities would become a specific political cudgel to beat Lemass in the debate over capital reconstruction, creating a sense that writing down such securities was breaching not just a legal framework, but rupturing grand Victorian-era assumptions.

Overall the growth of debenture finance was important because it protected rail capital from the vicissitudes of the market. Consequently rail companies increasingly were owned by passive *rentiers* less interested in issues around defining the public good and more interested in secure investment flow.⁵³⁵ The power of prior charge capital came via law, but its practical appeal was reduced vulnerability to policy intervention, which could in extremis manifest as confiscation or expropriation.

As railways struggled in the late 19th century to both cover costs and produce stable returns the solution was to issue new capital which investors absorbed. With a strong presence in debenture stock, rail capital was better insulated, but this did not mean concerns over confiscation abated. A British Railways Bill of 1886 that suggested railway charges could be reversed by the British Board of Trade had prompted a furious backlash and ironically land reform efforts in Ireland were often cited by British railway companies as foreshadowing confiscatory threats ahead.⁵³⁶ Data on rail shares and debenture ownership in Ireland in the 20th century is scant, with anecdote surrounding senior clerics holding large rail holdings, including the Archbishop of Dublin. As will be seen later in this paper some of this anecdotal material is accurate, but the largest Irish holders in the GSR appear to have been non-Catholic religious orders, but also Irish banks and Irish insurance companies.

5.18 Activist Irish Rail Shareholders

The view of Irish rail shareholders and Irish rail companies toward emerging alternative transport modes was to dismiss the utility advantages of these competitors and re-cast the problem almost exclusively as one of inadequate government regulation, with railways burdened with unjust government restrictions preventing them from being truly competitive. Motions to this effect were commonplace in the 1920s and 1930s among Irish rail stockholders. Lemass upon entering office in 1932 held a more nuanced view.

⁵³⁴ Stuart Sweeney, *Financing India's Imperial Railways, 1875-1914* (London; Routledge, 2016), 36

⁵³⁵ Timothy L Alborn, *Conceiving Companies- Joint Stock Politics in Victorian England* (London: Routledge, 1998), 238

⁵³⁶ Alborn, *Conceiving Companies*, 240.

As noted earlier, Lemass had not embraced capital reconstruction enthusiastically or as a first-choice policy option, but more as part of a recognition that nationalisation was politically unviable due to the parliamentary configuration of the period. As a result in late 1932/early 1933 he embarked instead upon an industry consultation, with a series of meetings throughout that year where he sought to impose his political vision of railways on the directors and management of GSR.

The first meeting between Lemass and GSR took place on September 12, 1932, in a Dublin hotel. At this meeting Lemass informed the GSR representatives that with the Labour Party maintaining strong policy influence over Fianna Fáil, his challenge was to find a legislative construct that could integrate rail capital and rail labour.⁵³⁷ During discussions with GSR board, Lemass suggested capital reconstruction be advanced by the company itself, potentially by advancing a private members bill through parliament via sympathetic legislators who would sponsor such legislation, any alternative course would be politically unpalatable. “The Minister said that if a public bill were introduced by the Government, it would have all the odium, without the advantages of nationalisation.”⁵³⁸

The Scottish accountancy firm, Mann Judd Gordon & Co were commissioned by the rail company to draw up a putative capital reconstruction scheme that could be discussed by Lemass and the company at this series of meetings. Perhaps reflecting fiduciary concerns, the GSR directors never entirely rejected the idea of a capital reconstruction, but strongly emphasised the idea that Lemass place such an idea before the company’s shareholders himself, in what would be a consensual write-down of capital. Dialogue between the company’s leadership and Lemass in late 1932 and 1933 eventually petered out as Lemass expressed his disillusionment that the directors would not assist him by sponsoring the capital reconstruction themselves.

The company set out in detail the defects as it saw them with Lemass’s transport legislation beyond capital reconstruction. These included the fact that Ministerial approval was needed for the closure or curtailment of lines or services, all costs associated with buying out rail competitors (such as arbitration over price or cost of court proceedings) would be absorbed by the rail company, the role of the Railway Tribunal would be extended to charges for road services by the railway company, all the existing railway directors would be retired with a new board elected by postal voting and the company would be obligated to establish a superannuation scheme for all company employees.

⁵³⁷ GSR Manager’s File Series. Road Transport Act 1933 box. Correspondence with Department of Industry and Commerce folder. GSR note of proceedings of meeting, 12th Sept, 1932, attended by Minister for Industry and Commerce Sean Lemass. Minutes of these meetings were agreed by both sides after their conclusion.

⁵³⁸ GSR Manager’s File Series, Road Transport Act 1933 Box 1, Resume of discussions between Minister and Company, entry for meeting Oct 14, 1932.

They did concede there were some gains for the company, including relief from payment of interest on existing government loans.⁵³⁹

Most curiously, it wasn't until May 1933, the latter phase of the legislative process, that rail debenture holders specifically held large public meetings designed to stymie capital reconstruction. A concern all along among rail capital activists had been that shareholders and debenture holders would not see their interests as fully coterminous and in May 1933, debenture holders representing IR€2.1m of capital, met at Dublin's Shelbourne Hotel, minus the wider grouping within rail capital. This group, representing almost 25% of of debenture stock, were animated by the legislation as it made its final journey towards law. The group were told by the chair of the meeting that not only was this the first-time rail securities were being written down compulsorily, but such an action would damage the wider credit of the Irish state as a sovereign borrower.⁵⁴⁰

Some of the political capital that could be called upon by the organisation was evident at the meeting, as it was attended by four TDs (or parliamentarians), including one a future Irish Prime Minister, John A Costello. Addressing the meeting Costello conceded that efforts to prevent a capital reorganisation was coming at a 'late stage', but Costello contended that late though it might be, it was not about simply protecting rail capital, but a larger principle of interference with the private property rights of individuals by statute.⁵⁴¹ Many other speakers said the biggest losers from reconstruction would be charitable institutions. Debenture holders were not shareholders, had no voice in the management of the company, they were effectively 'orphans or lost dogs' said Wilfred Fitzgerald, a speaker who represented many of these charities.

5.19 Holders of Irish Rail Capital

The holders of debentures in Irish railways were not recorded in a publicly available central register that survives, however this work has been able to identify some of the largest debenture holders in the Irish Free State by using the registration details of those who attended this Dublin meeting:

⁵³⁹ GSR Manager's File Series, Road Transport Act 1933 Box 1. Letter outlining the GSR's views on proposed transport legislation to former Lord Mayor of Dublin, Dr Lorcan Sherlock, March 16, 1933.

⁵⁴⁰ GSR Manager's File Series, Road Transport Act 1933 Box 1. Note of meeting of holders of debenture stock of GSR held at Dublin's Shelbourne Hotel, May 17th, 1933, opening address by Mr J.M.Maxwell, chair of meeting.

⁵⁴¹ GSR Manager's Files. Note of meeting of debenture holders, May 1933.

Figure 5.19.1: Rail Debenture holders in Free State

| <u>Proprietor</u> | <u>£ Holding</u> |
|-------------------------------------|------------------|
| Representative Church Body Anglican | 574,619 |
| Bank of Ireland | 449,857 |
| Royal Bank of Ireland | 122,973 |
| Archbishop of Dublin | 112,137 |
| Maynooth College Trustees | 80,315 |

Source: List of debenture stockholders at meeting at Shelbourne Hotel, Dublin, May 17th, 1933. Contained in General Manager’s Files, Note of Meeting of same date, (Irish Rail Records Society)

In addition attendance lists at other broader shareholder meetings illustrate a strong interest among the Catholic hierarchy. At a meeting of the Railway Stockholders’ Association in September 1932 the following Catholic bishops attended through their representatives: the Archbishop of Cashel, the Bishop of Ferns, Bishop of Ossory, Bishop of Killaloe, Bishop of Cloyne and the Bishop of Achonry.⁵⁴² The new state had placed the Catholic church in a strong ideological position and the Roman Catholic hierarchy were often consulted on pivotal issues in Irish political discourse, including on the state’s Constitution.⁵⁴³ In these early decades there was a ‘Catholic takeover’ of huge areas of economic, social and cultural life, historians have concluded, but less is known about church-state relations in the arena of finance and economic power.⁵⁴⁴

5.20 Limitations on Rail Capital Capacity

The debenture holders were disadvantaged in advancing their ultimate objective of no write-downs on their holdings by several factors. Their interests were potentially in conflict with those of other security holders such as preference and ordinary shareholders as long as rail profitability was in sharp decline. Secondly, debenture holders, but also the wider base of Irish rail shareholders, adopted many of the strategic approaches of rail capital owners in other jurisdictions and many of these approaches were arguably self-serving and consequently politically futile. Previous research on the politics of railways have identified these approaches as including, railway capital equating its interests with the public interest, rail capital expressing ‘statesmanlike’ sentiments about performing a public duty while funding railways, and rail capital comparing railway

⁵⁴² “Shareholders Meet at Limerick Junction,” *Cork Examiner*, Sept 15, 1932 [Irish Newspapers Archive, Accessed Feb 16, 2022].

⁵⁴³ Roy Foster, *Modern Ireland 1600-1972*, 534.

⁵⁴⁴ Tom Garvin, *Preventing the Future- Why was Ireland Poor for So Long?* (Dublin, 2004), 61

shares/debentures with sovereign debt.⁵⁴⁵ Most notably in an Irish rail context, rail shareholders often highlighted the apparently egalitarian profile of Irish railway capital ownership, where representation by charities and elements of the poor were pointed to. While there was undoubtedly a significant portion of the capital ownership base accounted for by churches and charities, the capital was passive *rentier* capital, born of the switch from equity ownership to debenture and debt ownership in the latter decades of the 19th century in the British/Irish rail industries, a switch designed to head off nascent ‘confiscatory’ intent which was starting to emerge among some elements of the state and rail users.⁵⁴⁶

For decades British rail capital, through successful political manoeuvring, had managed to meet its short-term economic goals and as early as 1919 Irish rail shareholders were seeking to borrow tactical insights from the British experience. At a meeting in April of that year in Dublin, a representative from the Scottish Rail Protection Association addressed Irish rail shareholders, who were framing their own strategy for fending off confiscatory public policy, post WW1.

This meeting records the Irish shareholder group acknowledging the value of Scottish ‘propaganda’ in forging their own public policy positions. But more importantly the meeting also revealed how Irish rail capital, tactically, intended to prevail over confiscatory policies of either the British administration or any succeeding Irish administration. This tactical approach would leave rail directors to negotiate with government directly, while rail capital as an organised group would seek to influence public opinion in particular, highlighting items like the railways contribution to the war effort. While the meeting was agreed moulding public opinion was the priority, some attendees suggested this wouldn’t be easy and would be expensive.⁵⁴⁷

The personification of this policy of seeking to mould public opinion was Adam Lloyd Blood, the chief spokesperson of the Irish Rail Stockholders’ Protection Association and its founder. Blood was a Church of Ireland solicitor, from a landed gentry family and a fixture in the Dublin commercial scene of the period. Involved in many highly publicised legal cases, Blood was a former vice-president of the Irish Incorporated Law Society and captain of Dublin’s most prestigious golf club, Royal Dublin.⁵⁴⁸ While such lineage was not untypical of Irish Protestant business elites of

⁵⁴⁵ For a detailed treatment of the approach of British rail capital to overcapitalisation and nationalisation threats, see Alborn, *Conceiving Companies*.

⁵⁴⁶ Alborn, *Conceiving Companies*. 238

⁵⁴⁷ “*Railway Control, Meeting of Irish Stockholders*”, *The Irish Times*, April 12th, 1919 [Irish Times Archive, Accessed on January 19th, 2022]

⁵⁴⁸ “*Mr A Lloyd Blood Obituary*,” *The Irish Times*, June 13, 1944 [Irish Times Archive, Accessed Jan 27, 2023].

the period, it contrasted sharply with social and economic milieu of the Catholic political elites making policy in the independent Ireland of the post-colonial era.

5.21 Lemass Decision Amid Rail Disunity

From 1919 onward Blood and his shareholder group held regular meetings in Dublin and other parts of Ireland. While the 1924 Cumman na nGaedheal decision to unify the network and reject nationalisation was something of a victory for the group, the arrival into power in 1932 of Lemass showed that wider public opinion was arguably less important than labour opinion, to which Lemass was sympathetic. As the Lemass legislation wended its way through parliament, a critical fracture in the previously cohesive rail capital movement was widening.

Unlike the other campaigning by the wider shareholder interests, the debenture holders group managed to quickly secure a meeting with Lemass on May 17, 1933. Unusually this meeting was attended by some of the most powerful ecclesiastical figures in the state, including legal representatives of the Archbishop of Dublin, Edward Byrne, and representatives of the Catholic ecclesiastical university, Maynooth College, transforming it into a significant church-state encounter. The delegation at the meeting asked for the writing-down of debentures to be removed from the Railways Bill as the securities were different other securities as they were contracted debt. Lemass was unresponsive, pointing to need for burden sharing among all the company's interests, with employees already sacrificing via reduced wages. In terms far blunter than used in parliamentary debates, Lemass confronted the group with a radical redefinition of railways economic role, which ran through his legislative approach and defense of capital reconstruction. "Railways were not in the same position as ordinary commercial businesses, and on practical grounds there was a strong case for the debenture holders sharing in the sacrifice, whatever was to be said on theoretical grounds" the delegation were told.⁵⁴⁹ The debenture holders made a last resort bid to dilute some of the force of this Lemass policy, by asking for a review of the debenture write-down in three or five years, a classic formulation for avoiding policy loss- delayed implementation. Lemass canvassed opinion on this among the Executive Council, but despite the civic influence of the requesters, there was no final concession. Lemass finally introduced his Railways Bill in early March 1933 and the capital write-down was accomplished in the following manner:

⁵⁴⁹ National Archives of Ireland (NAI), Department of Taoiseach File Series, Railways Act 1933 file, NAI SCH 6356, Note of Meeting between Minister for Industry and Commerce, Sean Lemass, and deputation of GSR debenture stockholders, May 22, 1933.

Table 5.21: Reconstruction of Rail Capital via Railway Act 1933

| GSR Co. Security | Reduced By % | Reduction Value | £M |
|--------------------------|--------------|-----------------|--------------|
| 4% Debenture Stock | 15 | | 1.2 |
| 4% Guaranteed Pref Stock | 50 | | 1.9 |
| 4% Preference Stock | 65 | | 3.2 |
| Ordinary Stock | 90 | | 6.9 |
| Total | | | £13.4 |

Source: Tribunal of Inquiry on Public Transport, 1939 ('known as Ingram Report')- Government Publications Office, P.10

The IR£13.4m capital write-down was occurring in an Irish economy with a nominal Gross National Product of IR£217m in 1933, in excess of a 6% hit.⁵⁵⁰ But the import of the move was less economic than deeply symbolic, as this was a drastic reduction in the issued capital stock of the Irish railway system, much of it subscribed over many decades. Overall it was reduced by 54% via the Lemass intervention.⁵⁵¹ The precise rationale for the percentage reductions in each security class was far from clear, with contemporary accounts concluding they were 'difficult to understand.'⁵⁵² For his part Lemass hinted they came from GSR accountants and he insisted he and his officials had subjected them to some 'rough tests' to check their equity.⁵⁵³ Lemass enunciated a number of defences for writing down the debentures in particular, crucially that their market price was £35 (versus issuance at £100), a low price for a guaranteed security bearing 4% interest. In his view this was a recognition that the Dublin commercial community believed there was little prospect of the company being able to pay that interest for any prolonged period of time.⁵⁵⁴

5.22 International Capital Reaction

Despite this, ripples from the decision reached the London capital market with its influential institutional voice, the *Financial Times*, describing the write-downs, done without reference to the

⁵⁵⁰ GNP figures are drawn from, John FitzGerald and Sean Kenny, "Managing a Century of Debt" in *Journal of The Statistical and Social Inquiry Society of Ireland* 48/1 (2018): 1-40.

⁵⁵¹ This figure is based on capital before of IR£25m, being reduced to IR£11.5m. These numbers are included in the 'Ingram Report', 10.

⁵⁵² B.F. Shields, "An Analysis of the Legislation, Published Accounts and Operating Statistics of the Great Southern Railways Co., 1924-1937." A paper presented to the Statistical and Social Enquiry Society of Ireland, May 25, 1938.

⁵⁵³ Daíl parliamentary debate on Railways Bill, 9 Mar, 1933, Vol. 46 No. 5.

⁵⁵⁴ Daíl debate, March 9th, 1933.

holders, as 'without precedent' and an 'indefensible abrogation' of the rights of investors and property holders.⁵⁵⁵

Financial Times, Editorial coverage of write-down of Irish rail capital (March 2, 1933, 4).

**AN INDEFENSIBLE
MEASURE.**

Many people have consoled themselves for Mr. de Valera's return to power with the belief that the strengthening of the Government's position relatively to the Irish Labour Party might make for a more moderate social programme. The hope has proved illusory. Two Bills shortly to be introduced in the new Dail Eireann, which opened yesterday, are clearly inspired by Labour propaganda. The paralysis of the Irish railways through the increasing bus and lorry competition and the economic depression has been engaging the Government's attention for a considerable time. In the Irish Free State, as in this country, the solution of the transport problem must be sought on similar lines. A more economic distribution of traffic over road and rail, based on the capacity of each system to provide the services that present conditions necessitate, on an equitable basis is essential. Such a policy, to be effective, must inevitably involve the closing of a large number of surplus branch railways, and is therefore vigorously opposed by the Irish Labour Party, which continues to demand nationalisation.

The capital reconstruction sections of the Railways Bill, the main provisions of which were set out in THE FINANCIAL TIMES yesterday, are obviously an attempt by the Government to avoid the stigma of capitulation to such a programme while conceding the substance of Labour's demands. In view of the critical position of the Great Southern Railways—an amalgamation of all the Free State systems, with the exception of the Great Northern, which extends into Northern Ireland—the members of the Dublin Stock Exchange have apparently taken the proposals philosophically. We are unable to share their equanimity. The action of the Free State Government in seeking arbitrarily to write off £14,000,000 of private capital, including prior charges which have never defaulted, without any reference to holders is, we believe, without precedent. The constitutional position at the moment appears somewhat obscure, but the inequity of the proposal is patent. We hope that stockholders and the London Midland and Scottish Railway, which has important interests in the railway, will make common cause in resisting such an indefensible abrogation of the rights of investors and property holders.

While the ordinary stock carried the usual vulnerability that accompanies an unsecured asset class, debenture holders had relied on two protections- one was the strict legal protection of Companies Clauses Act, 1863, but they also seemed to attach weight to the idea that any write-down undertaken by the Irish government of the 1930s would be proceeded by a negotiation process as had happened with other capital owners of the 1920s and pre-emption would never be politically attempted by an Irish administration. The decision of Lemass to upend this wisdom was highly significant in terms of business-government relations in Ireland.

⁵⁵⁵ "An Indefensible Measure" *Financial Times*, March 2, 1933.

5.23 Post-Lemass 1933 Capital Reconstruction

But private sector obligations, while drastically reduced in 1933, still existed post reorganisation. In addition, in order to purchase rail competitors such as truck firms and to fund other corporate purposes, the rail company (GSR) needed to raise fresh finance in future years, ironically including debenture stock, which meant further reconstructions of capital were highly challenging. Investors in the company raised an understandable query about the sanctity of such capital after the 1933 write-downs in 1936.⁵⁵⁶ The pricing of future fund raisings may have reflected eroded capital security triggered by the 1933 intervention, but it is difficult to map out the imposition of any risk premium due to lack of data availability. Either way Lemass was faced with a second episode of rail reorganisation in 1944. In this case he chose to reverse the pre-emption policy and seek consent of security holders, offering them a new dispensation, with debenture holders reducing their interest from 4% to 3%, but retaining their principal as established in the 1933 legislation and having it guaranteed specifically in law by government. A new capital structure, which amounted to IR£13.5m, was transferred from the GSR and housed in a new company called Córás Iompair Éireann (CIÉ) which would run the Irish rail system in future decades. The structure of this company was highly unusual in public (or private) administration in Ireland- a government appointed chairperson would run the company, supplemented by six directors from the government and six directors elected by security holders. The crucial difference between Lemass 1933 and 1944 was a less assertive stance toward private rail capital the second time around. Agreement was sought from rail capital in the latter instance and a guarantee given to debenture holders, the government would pay their interest no matter what, albeit at 3% not 4%. The debentures would roll off the books off the new transport company, via redemptions between 1950 and 1960. The different stances between 1933 and 1944 is outlined in the conclusion, but structural dependence on international and possibly domestic capital appeared to play a part.

Proof of the closer attention paid to the institutional protections for private capital owners the second time around can be found in Lemass's own parliamentary contributions, where he reminded the opposition of what debenture holders could do, if they wanted to resist any further diminishment of their entitlements:

“A debenture holder, as was very forcibly pointed out to me in 1933 when I was cutting the nominal value of debentures of the Great Southern Railways company, is in a different position from an ordinary stockholder. He has rights which are guaranteed to him in law. A debenture holder in any commercial enterprise has this particular right, that if there is a failure to pay his interest he can go

⁵⁵⁶ “Irish Railway Finances- Great Southern Company- Issue of Debenture Stock,” *Cork Examiner*, Jan 11, 1936, accessed via Irish Newspaper Archive.

in and take over the whole undertaking to which he has loaned his money and either run it himself until his interest obligations are fully discharged, or break it up and sell its assets to get him back his capital.”⁵⁵⁷

Whatever about the changed stance on private capital rights, overall this second attempt at mixing private profit earning capital and public utility obligations failed as well as CIÉ, quiet early on, was loss-making and struggled to satisfy either part of this equation with losses reaching IR£1.4m by 1948 as capital expenditure requirements deepened. Ireland’s first coalition government finally nationalised the rail system in 1949/1950, but with the existing debenture holders retaining their securities at 3%. Overall the new CIÉ company retained over IR£16m of capital, but the role of private capital was now purely passive and was reduced down by redemptions, with no further private capital raised again. Judged from 1933 onwards, the decision to write down capital on one level was a significant symbolic first defeat for rail capital in Ireland, but despite escalating losses and competition from other interests, rail capital’s exit from mass transport was a slow and stubborn one.

5.24 Conclusion

While the dominant pre-occupation of the early decades of Irish independence was self-definition against Britain, it is surprising perhaps how slavishly rail policy in Ireland followed the British policy sequencing of the 1920s and 1930s. The British rail system was suffering from falling returns and road competition too in the early decades of the 20th century and its first policy response was a rejection of nationalisation in favour of unification and rationalisation, via the 1921 Railways Act. This was followed almost identically by Irish policy makers, with nationalisation comprehended but also rejected in favour of unification, via the Railways Act of 1924. In the late 1920s to address road competition further, the British government brought in legislation (Railway Road Transport Acts of 1928) to allow rail companies to offer road transport of their own and yet again similar legislation was passed in Ireland in 1933 via the Road Transport Act, when GSR were enabled to purchase competing road services compulsorily.

5.24.1 Contrast to British Policy Response

Where the policy chain breaks however is that while the issue of overcapitalisation was prominent in railways debates in inter-war Britain and suggestions were occasionally advanced that it was appropriate to write down the capital in the system, this was strenuously resisted by British rail

⁵⁵⁷ Sean Lemass parliamentary contribution to debate on Transport (No.2) Bill, Jun 21, 1944, Vol. 94 No. 6.

management and shareowners.⁵⁵⁸ This underlines how the capital write-down in Ireland, in an era where British rail policy appeared to be almost carbon copied, was a novel event. This researcher has only identified one other instance in inter-war Europe where rail capital was written down. This occurred in Sweden where circumstances were different as the capital reorganisation was done in exchange for an overt investment by the Swedish rail company SJ in uncommercial rail lines, known as ‘cultural railways’, which linked up the larger main cities to peripheral border regions.⁵⁵⁹

The contrasting more assertive stance toward rail capital than found in the UK was all the more remarkable considering the risks, for a new fledgling state, of alienating both domestic capital owners and international capital providers. Looked at more widely, it also represented a strong repudiation of Irish political convention of the 1920s, that low taxes, strong legal protections and energetic encouragement of private capital was the optimum route to national economic development.⁵⁶⁰

Instead the policy direction of the 1930s was an acceptance that private capital could not always be remunerated at the same time as national developmental goals were pursued. As private rail capital slowly retreated from the Irish railways, it was replaced by government funding and subsidisation. The Irish rail system to this day operates on this basis- with 44% of railway revenues represented by state funding sources and subsidies.⁵⁶¹

5.24.2 Railways Ideologically Refashioned

The Lemass write-down and other changes amounted to a new policy approach which envisioned railways as multi-modal transport monopolies which were expected to make a contribution to national economic competitiveness. Railways were to be developmental assets for states; particularly at times when demand required bolstering, a la Keynes. At times this could be compatible with stable share ownership rights, other times not. This Lemass view, while somewhat submerged in the early 1930s, persisted into the outset of war and was expressed more unambiguously in 1939 when Lemass said government could use railways to make wartime capital expenditure investments and protect itself from ultimate loss ‘at the expense of shareholders in these concerns.’⁵⁶²

⁵⁵⁸ Gerald Crompton, “A Very Poor Bag of Physical Assets- the Railway Compensation Issue, 1921-47” *Accounting, Business and Financial History*, Vol 6, Num 1 (1996), 73-91.

⁵⁵⁹ For an account of the Swedish national rail company SJ and a capital write-off in exchange for investment in unprofitable lines, see Lena Andersson-Skog, “From state railway housekeeping to railway economics,” *Scandinavian Economic History Review*, 44:1 (December, 2011), 23-42.

⁵⁶⁰ Jacobsen, *Chasing Progress in the Irish Republic*, 52

⁵⁶¹ Iarnród Éireann Annual Report, Financial Year Ended 31 December 2019: 35. Available at <https://bit.ly/3vLnj7j>

⁵⁶² For an account of Lemass and Keynesian spending ideas in wartime, see Joseph Lee, *Ireland 1912-1985*, 225

Lemass conceded later that the writing down of debentures in the 1930s was ‘perhaps questionable’, in the sense that one of the rationales for the write-down was the falling market price of the debentures, a simple recognition of market reality. But he accepted this collided with the legal position that debentures were prior charge capital with trustee status, created precisely for their ability to be insulated from the market pricing mechanism.⁵⁶³ Lemass was in no doubt how risky capital write-downs were, particularly undertaking them ahead of a struggling British rail industry, when he revealed later that the Irish Free State was concerned that the part repudiation of debentures legal position in the 1930s had the potential to make it challenging for the Ireland and its firms to raise money in the London capital market where some of the holders of the relevant securities resided.⁵⁶⁴ The vituperative tone of the *Financial Times*, the institutional voice of London money market investors, certainly would suggest damage was done, at least for a time, to the reputation of the Irish government and its satellite companies in terms of perceived creditor reliability. A close reading of speeches from Lemass on the rail issue bears out the idea that the private capital, and its anticipated reaction, was prominent in policy deliberations. Lemass told parliament in June 1944 that the decision reached in 1933 had brought negative implications for Irish companies trying to raise debenture capital in London over the subsequent decades for instance, although direct empirical evidence of this claim is difficult to trace.⁵⁶⁵ Arguably more important, is that this was a key political motivation (exaggerated or not) for Irish authorities, suggesting that structuralist fears of business ‘exit’ (or capital strikes) were relevant to the period and the policy making dynamic.

5.24.3 Rail Capital Tactics and Strategies

For their part, rail capital was politically maladroit during the interwar period in Ireland, only forming a shareholders protection organisation in 1919, even though rail nationalisation was actively discussed politically from the late 19th century onwards and rail returns were sharply in decline from 1913.

The dependence and growth of the Labour movement in the 1920s and 1930s, including the dependence of Fianna Fáil on the Labour Party for support when it entered government in 1932, seemed to take rail shareholders by surprise and illustrated a failure of rail capital to adjust to the new economic forces of the 20th century. At peak Ireland had 3,442 miles of railway in 1920 just as centuries of British colonial rule were coming to an end. Railways have been described as ‘more or

⁵⁶³ Sean Lemass Tapes, IE UCDA P34, 3rd interview.

⁵⁶⁴ Sean Lemass Tapes, IE UCDA P35, 3rd interview.

⁵⁶⁵ Daíl speech by Sean Lemass, June 21st 1944, Vol. 94 No. 6, talks about the 1933 decision interfering ‘with the capacity of businesspeople in this country to raise money on debentures in the British market.’

less' irreversible physically and economically, constraining policy choice. Ireland's dramatically low yielding but heavily capitalised railways were a good example of such path dependencies. With the advent of motorised transport, such path dependencies were further exposed in a country where the length between the two largest cities is just over two hours by modern motorised vehicles. The Irish rail system had been established in many respects in the 19th century as a way to neutralise Irish nationalist sentiment, while ignoring unprepossessing geographical realities. At no point was public control ever entirely excised from rail policy debate in Ireland itself or Britain. In some ways the return of the Irish rail system to public ownership in 1950, thereby confounding the role of rail capital, was simply a reversion to the original conception, as envisioned in the 19th century.

ENDS

Chapter 6 ‘Suiting ourselves’- Capital scarcity and government-bank relations during 1950s ‘lost decade’

“The days of mere temporary accommodation from the banks for state capital purposes are over; accommodation from the banks for the exchequer will in future tend to be of a continuing and cumulative character, whatever its source, or form, may be.” (T.K. Whitaker, Department of Finance).⁵⁶⁶

6.1 Introduction

In the 1950s Ireland suffered a severe capital scarcity crisis which created a range of political, economic and financial tensions.⁵⁶⁷ The years 1955 and 1956 in particular saw relations between Ireland’s ‘Victorian style’ cartelised banks and the state degenerate sharply over two issues: interest rate policy and general access by government to borrowing controlled by the country’s banks. While dramatic steps, such as requisitioning bank funds by the state were comprehended to address the latter, ultimately both sides were able to accommodate their differing goals as Ireland’s Central Bank was persuaded to assume an influential role as a ‘lender of last resort’ (LOLR) to the banks. The assumption of this role presaged a greater involvement of this intermediary institution in the sector, and a weakening in the wall of resistance the Irish banks had to being utilised as residual lenders to the state, yoking the two parties much closer together for future decades.

While previous research in this era has focused on the role of interest rate policy in triggering capital outflows from banks during this period (due to deviations from British bank rate) and resulting tight fiscal policy (labelled the ‘macroeconomic crisis’ by economic historians), this chapter contends that pressure on banks to provide access to funding to government during this era was at least as crucial in terms of its influence over the long term government-bank relationship as disputes over cost of credit.⁵⁶⁸ In fact as will be identified in this chapter, when forced to choose between interest

⁵⁶⁶ This is from a speech given in June 1953 by then senior Department of Finance official, T.K. Whitaker, on the relationship between banks, the state, concerning capital spending priorities. The speech is captured in Ronan Fanning, *The Irish Department of Finance, 1922-1958* (Dublin: IPA, 1978), 426.

⁵⁶⁷ Capital scarcity here is defined as the inability of public savings to fully support public borrowing during the 1950s. According to an analysis by T.K. Whitaker, former Governor of the Central Bank and Secretary of the Department of Finance, sums of voluntary savings obtained via the public/companies still left a deficit in funding of public capital outlay of £10m on average in the years 1952/53 and 1954/55 and this grew to £14m in 1955/56. The deficit was bridged by realisation of sterling securities by the banks and by the state itself, running down its own sterling holdings. Details included in T.K. Whitaker, *Interests* (Dublin, IPA, 1983), 41. While clearly forced savings and draconian taxes could theoretically have nullified this scarcity this was not a political option taken at time of high unemployment, although some measures explored had a hint of financial repression, (see later in chapter).

⁵⁶⁸ The issue of the Ireland’s 1950s balance of payments problems and role of banking was addressed in Patrick Honohan and Cormac Ó’ Grada, “The Irish Macroeconomic Crisis of 1955/56- How Much Was Due to Monetary Policy,” *Irish Economic and Social History*, vol. 25, (1998), 52–80.

rate concessions and maintaining access to its own funding streams from the banks, the latter was accorded the greater preference.

While the Irish state eventually learned, painfully, that an autonomous interest policy was not feasible, while having complete capital mobility and a fixed change rate (a confirmation of the so-called Mundell-Fleming model or ‘unholy trinity’), less is known about the access to funding issue and how perilous that was to become in the 1950s.

How did the Irish state eventually co-opt the banking sector into becoming a more dependable and willing lender to the state, even though the sector had sacrosanct liquidity concerns that at times were portrayed as almost insurmountable. In addition the Irish banks sought for years to preserve autonomy over their credit allocation policies, a position that a government seeking increasing access to funds itself needed to eliminate or soften. Previously scholarly accounts have shed little light on how these positions were reconciled, or made less jagged, and what events precisely led to a greater integration between these diverse objectives as pertained in 1955/56. This chapter seeks to examine how government and business (in this case the banking sector) build structures of co-existence, amid deep differences. In particular the role and utility of intermediary institutions, like Central Banks, is studied as such institutions can form a large part of integrative efforts. The chapter also tests the idea of ‘business as capital’ (which includes banks as creditors of governments) and how controllers of capital can use threat of ‘exit’ to frustrate public policy priorities.⁵⁶⁹ Exit, in literature on globalisation, often translates as reduced inward investment, balance of payments challenges or suspicion of public funding for welfare or other social categories. In this case the exit is more subtle- with banks simply able to withhold lending, or to put their reserves in overseas markets with no perceived benefit to domestic Irish governments. That such ‘business as capital’ theories carry weight is uncontroversial, but the more pressing question is how governments address such structural realities and reduce or dilute their potency, which this paper aims to explore.

6.2 Savings and Hunt for Capital

The series of governments which led the Irish state in the first few decades of independence relied on internally sourced capital almost exclusively to fund capital spending not supported by general taxation. The pool of gross national saving was small until the 1960s and was particularly low immediately following the Second World War.⁵⁷⁰ It was not until the 1960s that savings grew more strongly and Irish governments broke with their traditional aversion toward foreign borrowing and

⁵⁶⁹ This concept is a key pillar of structural power arguments about business and the state, but is specifically theorised in Sylvia Maxfield and Ben Ross Schneider, *Business and the State in Developing Countries* (Cornell; Cornell University Press, 1997), 38-42.

⁵⁷⁰ Kieran A Kennedy, Thomas Giblin and Deirdre McHugh, *The Economic Development of Ireland in the 20th Century* (London: Routledge, 1988), 162.

could use external capital to help fund their programmes.⁵⁷¹ This has often prompted the question why did Ireland take so long to simply borrow from overseas capital markets, if internal resource were seemingly inadequate? One senses at times that overseas borrowing in the earlier decades was seen as something of political failure, with those who led Ireland's financial system in the mid-20th century citing more mundane technical reasons, such as the advent of the Eurodollar in the 1960s, as the reason that foreign borrowing could finally occur on a significant scale.⁵⁷²

Consequently various components of gross national savings had to be harnessed to fund state priorities in the decades prior to this, and when this proved insufficient recourse was made to Ireland's cartel of 'Victorian style' banks.⁵⁷³

Archival records from the Irish banking sector, politicians, civil servants and government departments covering the decade post-WW2, disclose the sizeable amount of political and administrative energy consumed by the search for capital to fund state priorities. This search for capital revolved around a dynamic blend of sources and instruments at different times: short term exchequer or Treasury bills, small savings, prize bonds, national loans, deposits sourced from the Trustee Savings Banks or post office network, import levies and occasionally Marshall Aid funds. Such was the search for capital and the need to inculcate an ethic of thrift and saving among the public, the state appointed its first national director of savings in 1953.⁵⁷⁴

This post war period represented the most intense period of capital dependency of the Irish state on the Irish banking sector, making it fertile territory for those with a research focus on government-bank relationships, one of the most important government-business relationships in terms of national economic policy. Capital scarcity has traditionally been a hallmark of countries experiencing economic convergence. Traditional texts in the area have seen capital scarcity as bestowing power upon banks in ways that may be inimical to their customers.⁵⁷⁵ In such examples customers eventually outgrow their banking masters and the relationship is permanently recast. Less frequently has been the focus on whether such a process is observable in relation to banks and

⁵⁷¹ Kennedy, Giblin and McHugh, *The Economic Development of Ireland in the 20th Century*, 163

⁵⁷² This is the explanation given by T.K. Whitaker, both a Governor of the Irish Central Bank and Secretary of the Irish Department of Finance at various times, in his book *Interests* (Dublin: IPA, 1983), 8.

⁵⁷³ This description of Ireland's banks, based on their 19th century focus on liquidity and short-term lending, is included in Patrick Honohan and Cormac O'Grada, "The Irish Macroeconomic Crisis of 1955–56: How Much Was Due to Monetary Policy?" *Journal of the Economic and Social History Society of Ireland*, Vol. 25 (1998), 52-80

⁵⁷⁴ Announcement made to parliament as part of Budget 1953. Dáil Éireann proceedings, 6 May, 1953 Vol. 138 No. 10.

⁵⁷⁵ Alexander Gerschenkron, *Economic Backwardness* (Harvard: Harvard University Press, 1962), 21. This deals with shifting power relations between banks and companies which are growing and becoming economically sovereign.

states, but this chapter will explore whether a simple master-servant power relationship is likely too narrow a device for explaining how banks and states engage in an atmosphere of extreme capital scarcity.

It was also a period of intense government engagement and policy tumult, in order to condense this, the author thought it useful to include a timeline of events (Table 6.3).

Table 6.3: Timeline of key developments in bank-state relationship, post 1940.

| Year | Development in state-bank relationship |
|------------|---|
| 1943 | Establishment of the Irish Central Bank, with powers to provide bank liquidity support via rediscounting. |
| 1945 | Appointment of interventionist Minister of Finance Frank Aiken TD. |
| 1946 | Failure by Aiken to get Irish banks to subscribe for Irish exchequer bills at UK Treasury rates |
| 1946 (May) | Interest rates on post office and Trustee Savings Banks' accounts reduced by Aiken, as part of cheap money policy. |
| 1949 | Irish banks agree to support a £5m bond issue by Dublin Corporation, after persuasion by Taoiseach John A Costello. |
| 1952 | Banks are successful in persuading Éamon de Valera-led government to replicate rises in UK bank rate |
| 1954 | A bond issue by Ireland's largest local authority in Dublin fails, under Minister for Finance Gerard Sweetman. |
| 1955 | Minister Sweetman blocks Irish banks from passing on UK rate increases in Ireland, causing significant capital outflows from the Irish financial system |
| 1955 | The Irish government relents and allows some rate increases to be passed thru. |
| 1955 | First rediscounting of commercial bills for state firm, Tea Importers Ltd. |
| 1956 | Amid further requests for accommodation from government from banks, first rediscounting of |

| | |
|--|--|
| | exchequer bills by Central Bank for Irish banking system |
|--|--|

6.4 Need for Control and Crowding Out

Through the lens of the traditional dichotomy, the Irish state during this period was an extreme example of a bank-based financial system, as opposed to market-based system. In a bank-based system banks play a prominent role in mobilising savings, allocating capital, overseeing the investment decisions of corporate leaders and assisting with risk management.⁵⁷⁶ In market-based systems securities markets share the stage with banks and directly connect savers with borrowers.⁵⁷⁷ In the case of Ireland while there was a stock market in the early decades of Irish independence, there was no formal wider capital market and frequent interventions by politicians in the banking sector referred to the need to establish a much wider channel for capital distribution than a network of domestic banks. This may have been a reflection of the often repeated observation that where banks strongly prevail, the development of alternative financial markets can be stymied or crowded out.⁵⁷⁸ Certainly in the post-war period data is suggestive of this trend (Table 6.5), with private sector raisings (known in official statistics as ‘other issues’ and marked in red) dwindling as state debt issues predominated.

Table 6.5 Post-war capital raised via marketable securities in Ireland (1947 – 1958)

| Issuers | Amount Raised IR£M |
|--|--------------------|
| Government Loans | 158.7 |
| Dublin and Cork Corporation | 31.4 |
| Industrial Credit Company (ICC) and ACC | 2.4 |
| Bank | |
| CIE | 9.9 |
| ESB | 15 |
| Other Issues | 16.9 |
| | |
| Total | £234.3m |

Source: “Some Aspects of the Industrial Capital Market in Ireland,” by CH Murray, March 1960 contained in paper delivered to Statistical and Social Inquiry Society of Ireland. (State owned entities are indicated in bold).

⁵⁷⁶ Asli Demirgüç-Kunt and Ross Levine, “Bank-Based and Market-Based Financial Systems: Cross-Country Comparisons,” World Bank Policy Research Working Papers (July 1999). Available at: <https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-2143>

⁵⁷⁷ Demirgüç-Kunt and Levine, “Bank Based and Market-Based Financial Systems.”

⁵⁷⁸ The subject of capital allocation and how different intermediation systems operate is addressed in Helmut Dietl, *Capital Markets and Corporate Governance in Japan, Germany and the United States: Organizational Response to Market Inefficiencies* (London: Routledge, 1997).

Whatever about the drawbacks of crowding out, the Irish state sought to exert significant control over the Irish banking system post-WW2 and a primary reason this control was sought was the expansion of the government's role in the Irish economy. Before the war state-financed capital expenditure was just one-seventh of overall capital expenditure, whereas by the 1950s it had risen to one-half, and occasionally more, of this total.⁵⁷⁹ This left the state in a stark position by the middle of this decade, with aggregated personal savings unable to cover the state's capital programme by a large distance.

The state capital programme was not solely concerned with funding for central Government, but also funding for the state's electricity company (ESB), its main transport firm (CIÉ) and the country's two largest local authorities in Dublin and Cork. By the middle of the decade savings were able to provide £27m, but the capital programme was running at £41m, leaving a £14m gap.⁵⁸⁰ Such gaps arising in the 1950s were met through an ad-hoc mixture of Marshall Aid finance, realisations of sterling securities both by the commercial banking system and the state, and other schemes. For example the Irish government launched a prize bond (sometimes known as premium bonds) scheme to help raise capital in 1957.

For reasons not fully ventilated in archival records at least, the Irish governments of the 1940s and 1950s either opposed resorting to overseas capital raising, or were unsuccessful in such endeavours, possibly motivated by the country's protectionist economic stance overall.⁵⁸¹ With a strong economic agenda post WW2 of restraining consumption, bolstering 'productive' investment, husbanding savings and building up infrastructure, it was no surprise that the relative placidity of state-bank relationship, inherited from the 1930s, was to be radically disturbed. In an international sense, this was not unusual, with state control over financial policy in general, and credit policy in particular, a hallmark of the political economy of many countries throughout the 20th century.⁵⁸²

Annual lending by Ireland's banks to the government sector never once exceeded IR£6.5m before WW2, but by the mid-1950s it was hitting peaks of almost £34m. Notable intensity in bank lending to government is observable in three particular years, 1955, 1956 and 1957, when lending exceeded £30m each year, meaning almost one in every five pounds the government raised in funding

⁵⁷⁹ Figures included in T.K. Whitaker, "Capital formation, saving and economic progress," *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XXIX (1955/1956), 184-209.

⁵⁸⁰ Figures drawn from Whitaker paper, "Capital Formation".

⁵⁸¹ A meeting between the Department of Finance and the bank cartel on June 6th, 1956, refers to seeking out overseas investment but the Minister for Finance is minuted as suggesting such an approach would not be 'desirable'. Irish Banks' Standing Committee (IBSC) Minute Book, Jan to June 1956 file. The IBSC minutes are held under the custodianship of Bank of Ireland HQ, Dublin 2.

⁵⁸² Michael Loriaux et al, *Capital Ungoverned* (New York: Cornell University Press, 1997), 2

(excluding taxes) was contributed by commercial bank lenders.⁵⁸³ This dependence on bank funds came amid difficult economic conditions, with the 1950s in Ireland often described as a ‘lost decade’ by historians where balance of payments imbalances were a ubiquitous backdrop.⁵⁸⁴ This precarious balance of payments position, which spilled into full deficit on several occasions in that decade, had the effect of lowering the net reserves of the commercial banks, making the sector additionally concerned about demands from government, which were seen as diminishing liquidity further.

Table 6.6 Post-WW2 Bank Exposure to Central Government Sector as a % of Domestic Credit

| Year | Domestic Credit £ | Government Credit £ | Government % of Domestic Credit |
|-------------|--------------------------|----------------------------|--|
| 1945 | 64.3 | 8.2 | 12.7 |
| 1946 | 71.6 | 8.0 | 11.1 |
| 1947 | 103.8 | 9.7 | 9.3 |
| 1948 | 114.8 | 12.8 | 11.1 |
| 1949 | 115.6 | 8.9 | 7.6 |
| 1950 | 133.2 | 11.7 | 8.7 |
| 1951 | 149.8 | 10.3 | 6.8 |
| 1952 | 145.0 | 11.0 | 7.5 |
| 1953 | 156.1 | 17.6 | 11.2 |
| 1954 | 174.9 | 22.9 | 13.0 |
| 1955 | 202.6 | 33.9 | 16.7 |
| 1956 | 202.0 | 32.2 | 16.4 |
| 1957 | 210.2 | 33.7 | 16.0 |
| 1958 | 207.8 | 26.8 | 12.8 |

Source: Moynihan, Currency and Central Banking in Ireland, 1922-1960, 532/533

6.7 Banking Power, Control of Capital and Mutual Dependence Theory

⁵⁸³ Maurice Moynihan, *Currency and Central Bank in Ireland* (Dublin: Gill and Macmillan, 1975), 532. (Appendix 12).

⁵⁸⁴ Dermot Keogh, *The Lost Decade: Ireland in the 1950s* (Dublin: Mercier Press, 2014).

A perennial question of political economy is whether it is possible to steer an economy against the interests and preferences of those who control productive wealth.⁵⁸⁵ This question is most viscerally tested when states intervene in arenas where the majority of the resources are privately held and directed. While characterised by an assortment of ownership models, 20th century banking in Ireland and Britain, two markets touched upon in this chapter, were defined by privately owned and managed banking entities. The ability of these banks to create credit and finance productive investment inevitably cast them as important targets of political attention.

Theories of business-state relations consider business influence across many different plains, but one of the most influential is business as capital. In this approach business controls investment which ultimately determines economic growth, hence decision making in a mixed economy is always constrained by anticipated private reaction.⁵⁸⁶ While banks and financial institutions can be seen to exercise other forms of influence within a mixed economy (individual institutional power for instance or networks), the concept of ‘business as capital’ is a useful avenue for describing why intervention in this sphere occurs with regularity. But each intervention has its own rationale. For some states an intervention occurs because the sector can be used as a vehicle for industrial and social policy, other times the sector is a source of power for the state and in some cases the sector can meaningfully help finance fiscal deficits. In many cases the intervention is an incorporation of all three factors.⁵⁸⁷

Predictably, the wisdom of intervention is intensely contested across the ideological spectrum, with some leading authorities suggesting that while interventions in banking often achieve impressive social and economic results, they need to be ‘well designed.’⁵⁸⁸ Sometimes interventions occur arguably as by-product- for example when government debt reaches levels where the banking sector is prevailed upon to support government debt issue, often known as state direct financing, a phenomenon particularly observable internationally after World War 2.⁵⁸⁹ In countries such as France and Spain resources were collected from public and semi-public institutions to assist in this direct financing. In France, the finance sector was not prevailed upon simply by the French

⁵⁸⁵ Adam Przeworski and Michael Wallerstein, “Structural Dependence of the State on Capital,” *The American Political Science Review*; Vol. 82, Issue 1 (Mar 1988), 11

⁵⁸⁶ Theories of business-state relations and ‘business as capital’ are analysed in Stephen Haggard et al in *Business and The State in Developing Countries*, edited by Sylvia Maxfield and Ben Ross Schneider (New York: Cornell University Press, 1997), 36-60.

⁵⁸⁷ Yoon Je Cho, “The Role of State Intervention in the Financial Sector: Crisis Prevention, Containment, and Resolution”. ADBI Working Paper Series (Feb, 2010).

⁵⁸⁸ Joseph Stiglitz, “The Role of the State in Financial Markets,” *The World Bank Economic Review*, Volume 7, (December 1993), 19–52.

⁵⁸⁹ Laure Quennouelle-Corre, “State and Finance,” in the *Oxford Handbook of Banking and Financial History*, edited by Youssef Cassis, Richard Grossman and Catherine R Schenk (Oxford: Oxford University Press, 2016) 420-439.

Treasury, but a separate public body, Caisse de Depots et Consignations, an investment arm of the French state, played a significant role post WW2 by using savings bank deposits to fund social housing, industry and infrastructure.⁵⁹⁰ In Japan the post office savings network was also utilised to support government debt requirements and the nexus between political parties and the financial system was additionally cemented when banks directly funded political parties.⁵⁹¹ In Britain after WW2 banks were obliged to hold an historically large proportion of their assets in government securities.

In the 1970s a corpus of literature was produced to substantiate the idea that the structural power of business arose from the dependence of states on business for economic resources. The leading advocate of this interpretive lens, Charles Lindblom, argued that business had a privileged position in society because governments depended on business to deliver employment, growth, and economic success. Failure to deliver a positive economic performance would ultimately harm the popularity of any government and so governments would always have a special consideration for business so as to avoid 'exit'.⁵⁹² This so-called structuralist school (as contrasted with overt instrumental business power such as lobbying, campaign contributions etc) has been frequently undermined by a litany of empirical work, offering substance to the idea that business often loses key political confrontations. As one writer has said if Lindblom's thesis was accepted fully, one would have to explain why environmental protections, commonly opposed by corporate power, exist in the United States.⁵⁹³ Others have theorised that when the state withdraws from certain public functions or important public service provision, business at that point acquires power. This is described by those theorists as institutional business power.⁵⁹⁴

Despite the range and depth of empirical accounts, the structuralist school, and allied work coming from a Marxist perspective, remains highly influential, if only as a foil or counterpoint on occasion. The proof of this influence can be observed in the amount of research devoted to questioning Lindblom's original ideas. The broad-brush nature of structuralist theories of business power, have been it appears superseded in more recent years by more nuanced explanatory frameworks relating to business power. These alternatives are conditioned by temporality and geography, but also by sector. Instead of business controlling capital and thus controlling a policy agenda, research now

⁵⁹⁰ Queennouelle-Corre, "State and Finance," 429.

⁵⁹¹ An account of how the Japanese financial system supported parts of the country's economic and political system post-WW2 is treated in Kent E Calder, "Assault on the Banker's Kingdom," in *Capital Ungoverned – Utilizing Finance in Intervention States*.

⁵⁹² Neil Rollings, "The Vast and Unsolved Enigma of Power: Business History and Business Power," *Enterprise & Society* 22: 4 (2021), 893–920.

⁵⁹³ Addressed in Fogel, "Political Science and the Study of Corporate Power: A Dissent from the New Conventional Wisdom."

⁵⁹⁴ Marius R. Busemeyer and Kathleen Thelen, "Institutional business power," *World Politics* 72, no. 3 (July 2020), 448–80

talks about ‘mutual or reciprocal dependency-type relationships’.⁵⁹⁵ An example, ironically with an Irish dimension, is the relationship between multinationals and a host government, wherein tax structures are fashioned in a purposeful manner in exchange for investment.⁵⁹⁶ Others have eschewed such mutual dependency approaches and gone back to the issue of salience and concluded that when an issue is frequently in the public eye, the consequent ‘noise’ make its less likely that business can deploy its influence without drawing some contending force.⁵⁹⁷

Due to its centrality over many centuries, the banking sector is one of the industries most investigated in terms of business power, although the literature can lack specificity and display a pre-occupation with the bank ‘bailouts’ of the global financial crisis. While this is a vital and research-rich event, it took place in an era of globalised finance when ‘exit’ by financial entities was highly relevant. But research focused on earlier eras must be more cautious as retail banking in many countries was often confined to national markets and there is research which acknowledges that the structural power of banks is conditioned by whether there is a dependence on the domestic market or not.⁵⁹⁸

Some of the theorising outlined above has grappled with the state-business relationship in banking, but the most useful insights for this paper come from a narrower literature set that considers the inherent sectoral characteristics of banking itself. For example banks, in almost any modern era, are large businesses by both employment number and asset value. They are also lenders of capital to business and individuals which gives them macroeconomic structural power. But more relevant is banks as lenders to governments and it is that which gives them direct influence over state financial viability. This latter intersection is of particular interest in the context of this chapter.

Mutual dependence (or sometimes the word ‘pact’) is one of the most commonly cited descriptions for the relationship between the state and banks during the mid-20th century. British observers in particular have described the relationship between banks, the Bank of England, and the Treasury as the ‘core institutional nexus’ of British society in the period.⁵⁹⁹ Ireland’s banks, like counterpart institutions in Britain, have a divergent history compared with banks in Germany or the United

⁵⁹⁵ Rollings, “The Vast and Unsolved Enigma of Power”, 908.

⁵⁹⁶ Bohle and Regan, *The Comparative Political Economy of Growth Models: Explaining the Continuity of FDI-Led Growth in Ireland and Hungary*, February 8, 2021

⁵⁹⁷ Pepper Culpepper, *Quiet Politics and Business Power, Corporate Control in Europe and Japan* (Cambridge: Cambridge University Press, 2010).

⁵⁹⁸ Pepper D. Culpepper and Raphael Reinke, “Structural Power and Bank Bailouts in the United Kingdom and the United States,” *Politics & Society*, Vol. 42, 4 (2014), 427–454.

⁵⁹⁹ G.C Peden, “The Treasury and the City,” in *The British Government and the City of London in the 20th century*, edited by Ranald Michie and Philip Williamson (Cambridge: Cambridge University Press, 2004), 117.

States.⁶⁰⁰ Unlike the latter Ireland's banks were not involved intimately in funding and shaping the strategy of businesses for most of the 20th century and were more comfortable in the early decades of the new state to lend short while jealously guarding their liquidity.

Developing industrial lending over longer term horizons was left to state-backed banks such as the Industrial Credit Corporation (ICC), established in 1933, which stepped in where the private sector apparently feared to tread. Ireland had no Central Bank until 1943 and this institution, while important in its early phase, was not granted a range of functions typically assigned to such institutions until much later.⁶⁰¹ Despite this an enclosed nexus of sorts did exist between the Irish banks, facilitated by their cartelisation, and the Irish state, but as this paper will make clear this nexus evolved and was critically strained in the post-WW2 period. The idea however of a nexus or a series of connections between systems or entities is still highly relevant for the period under review.

6.7.1 Bank Power and State-Finance Nexus

More recent work on financial, or banking power, has echoed the themes of earlier eras and also talked of a 'state-finance nexus'.⁶⁰² According to these accounts financial or banking power is nurtured by three factors. One is an exchange model, where banks lobby and 'buy off' the senior members of the government system, ultimately leading to some form of regulatory capture. Sometimes the exchange is very tangible, other times it is about an exchange of information and a type of 'cultural capture'. Second this nexus can be explained by banks and their institutional power and control over and access to funding, once this institutional order is established the participants in the relationship between bank and state are effectively locked into defined roles. The final factor explaining this type of network is where those in the network produce shared knowledge that then governs the behaviour of the network members. Sometimes such a network can be seen in communities like those connected to financial hubs like Wall Street.⁶⁰³

While diverse and supported by empirical work, often drawn from the global financial crisis, the above explanatory frameworks are arguably weakened by a number of factors. One they tend to rest on the assumption that financial firms always have an 'exit' option in a globalised environment, two that governments always share the foundational values of the banking sector and never hold

⁶⁰⁰ These nuances are explored by Michael Moran, *The Politics of Banking* (London: Palgrave, 1986).

⁶⁰¹ This view was expressed by a former Governor of the Irish Central Bank, Maurice Moynihan in his book *Currency and Central Banking in Ireland 1922-60*.

⁶⁰² This concept originally arises in David Harvey, *The Enigma of Capital: and the Crises of Capitalism* (Oxford: Oxford University Press, 2011). But it is contextualised further in a study of the global financial crisis, Cornelia Woll, *The Power of Inaction Bank Bailouts in Comparison* (Cornell: Cornell University Press, 2014).

⁶⁰³ Woll, *The Power of Inaction*, 175.

off-setting political objectives and thirdly they arguably forget to consider the wider arena in which banks and states often contend - the public arena, a field of significant disadvantage for banking participants. All three pieces of context will arise in this paper in different forms as they are highly relevant to the banking sector, post WW2.

Britain, Ireland and many other European states had either one of two political priorities post the conclusion of the Second World War- either they had enlarged national debts (such as Britain) that needed addressing and managing, or they required large capital inflows in order to rebuild their economies and execute important social reforms, particularly in housing and infrastructure (such as Ireland). Either way, banks and other financial intermediaries, as controllers of capital, were set to see any previously accumulated business power tested.

6.8 Ireland's Pool of Capital, Post-Independence Era

Ireland gained partial independence (known as 'dominion status') from United Kingdom in 1922 via the Anglo-Irish Treaty and effectively controlled much of its own economic destiny, though it maintained one-to-one parity with British sterling, as part of its membership of the so-called sterling area. Its final economic destiny was unclear however, with over 52% of workers engaged in agriculture, a number strongly out of kilter with its nearest neighbour and other western European countries.⁶⁰⁴ In terms of output of food and goods, food, brewing and tobacco were responsible for almost two-thirds of total manufacturing output.⁶⁰⁵ While the services sector and the professions were more buoyant than generally acknowledged, they were seen mainly as handmaidens to the agriculture segment.

This agrarian oriented state (known officially as the Irish Free State, or Saorstát Éireann, until 1937), was dominated by eight commercial or 'associated' banks, who had a large dependency on this agricultural sector for their chief business lines and deposit bases. These banks, before a merger wave in the late 1950s and 1960s, operated conservatively, lending short term, trading on widened credit spreads and investing much of their assets in the highly liquid London money market.⁶⁰⁶ Peculiarly, this constellation of banks, established in the 19th century, remained undisturbed well into the 20th century, even though over-banking was readily evident, with a bank office for every

⁶⁰⁴ Figures included in *Commission Of Inquiry Into Banking, Currency and Credit*. Dublin Stationery Office (1938). Appendix Number 3, p418. The figure for 'England and Wales' was 6.4%. Copy retained at Oireachtas Library.

⁶⁰⁵ Kennedy, Giblin and McHugh, *The Economic Development of Ireland in the 20th Century*, 231.

⁶⁰⁶ Patrick Honohan, *Currency, Credit and Crisis- Central Banking in Ireland and Europe* (Cambridge: Cambridge University Press, 2019), 108/109.

3,200 people, whereas the same metric was 9,000 in Holland, 4,500 in Great Britain, 7,000 in Sweden and 6,900 in Belgium, although in Scotland it was 2,900.⁶⁰⁷

In addition the Irish bank sector was characterised by a high dependence on deposit accounts bearing interest. Cartelised until the 1970s via the Irish Banks' Standing Committee (IBSC), the sector was the subject to a variety of political critiques during the early decades of the new state for conservative credit allocation policies and rent seeking behaviour. Much of this commentary was merited, for example Irish banks ensured that customers were not facilitated in moving their accounts from their current bank to another as part of a secret 'gentleman's agreement'.⁶⁰⁸ In addition Irish clearing banks had arrangements in place with London clearing banks to ensure that Irish depositors transferring funds out of Irish accounts would not receive any more than 1.5% interest for smaller deposits and no more than 2.5% for larger deposits (largest deposits being over IR£25,000). It seems this collusive arrangement, in place since January 1956, was not known publicly.⁶⁰⁹ Irish developmental goals were supposedly frustrated by such a conservative culture and proceedings of the Irish parliament (Dáil Éireann) were often dominated by energetic critiques of the business practices of the Irish banks. Irish banks were accused by their political and bureaucratic opponents of having an obsession with liquidity and security, ironically an accusation similarly made of British banks.

The relationship with the governments elected in the early decades of the new state had commenced on a tense footing with suspicions among bank elites about a new political dispensation founded on Irish nationalism and post-colonialism and at least superficial enmity toward embedded controllers of capital. For example Bank of Ireland, the largest bank on the island, feared its headquarters building in Dublin city centre could be expropriated by the political leadership which assumed power in 1922.⁶¹⁰ Such fears were arguably groundless since the first government established in the new state, led by the Cumman na nGaedheal party, was obsessive about maintaining social and political stability and adopted a cautious economic mindset, rejecting credit expansion or funding

⁶⁰⁷ Note on the density of banking offices in Ireland as per 1956. Included in a chart contained in Dr T.K. Whitaker Papers, UCD Archive. UCDA P175, 46, pp 165-171.

⁶⁰⁸ At a special meeting in January 1956 Irish bank representatives discuss a 'gentleman's agreement' in place for a number of years where accounts moving from one bank to a competitor bank should not be facilitated. The representatives agree it would not be in the interests of the banks were it to be known such a restriction was operating. Irish Banks' Standing Committee Minutes, c/o Bank of Ireland. Jan to June 1956 Volume. Special Meeting Minutes, Jan 13, 1956, comments by Mr F.L. Martin, Royal Bank of Ireland representative.

⁶⁰⁹ Reference to this agreement with the London Clearing Banks is contained in Irish Banks' Standing Committee minutes, Jan to June 1956 volume. The issue is mentioned at a special meeting of the banking cartel, minutes of meeting, April 20th, 1956.

⁶¹⁰ An account of these fears and others is included in F.S.L. Lyons, *Bank of Ireland 1783-1983*, edited by F.S.L Lyons (Dublin: Gill and Macmillan, 1983), 58-65.

of employment schemes.⁶¹¹ Some researchers have gone further and suggested the Irish banking system actively ‘obstructed’ development in the 1920s.⁶¹² Other research has pointed to low loan to deposit ratios among the Irish banks as evidence of conservatism at a time when a nascent business sector might have taken advantage of a more expansive credit stance.⁶¹³

Whatever these claims, public commentary on banks from Ireland’s political system continued to be hostile, with suggestions of the agricultural sector being ill served by the banks regularly circulating in parliament. The ruling party however favoured a policy where banking reform, if it were needed, would be shaped in large measure by banking representatives themselves. A commission to study the sector, set up in 1926 under US academic Prof. Henry Parker Willis adopted circumscribed terms of reference, which talked about studying whether law changes, ‘relative to banking and note issue’ only, were necessary or desirable.⁶¹⁴ The majority of its nine members were banking representatives.⁶¹⁵

The nexus between political and banking elites was however partly disrupted by the arrival of a new party Fianna Fáil into Irish parliamentary politics in 1927 – its leading members having previously formed part of the abstentionist Sinn Féin. This party, led by later Irish Taoiseach (or Prime Minister) Éamon De Valera, built a diverse political coalition of small farmers, former IRA members, elements of labour and the emerging native business class.⁶¹⁶ As a party, Fianna Fáil gave a home to the political resentment of many of these groups towards a banking sector perceived to be rationer of expensive credit. But Fianna Fáil’s ideas were inchoate and speeches by its leader on banking were had a tendency to be nebulous. In 1929 De Valera, speaking on legislation concerning Bank of Ireland, said:

“We all know that if there is to be any progress made in this country at all in regard to industrial reconstruction, it can only be done by having the proper financial machinery for doing it, and the existing banks and the existing system in our minds are not quite fitted for that.”⁶¹⁷

⁶¹¹ R.F Foster, *Modern Ireland 1600-1972* (London: Penguin, 1988) addresses this first administration and its policies.

⁶¹² Brian Girvin, *Between Two Worlds -Politics and Economy in Independent Ireland* (Dublin: Gill and Macmillan, 1989), 42.

⁶¹³ Cormac O’Grada, *Ireland A New Economic History 1780-1939* (New York: Oxford University Press 1994), 370.

⁶¹⁴ Parliamentary Dáil Éireann debate, 3 Feb 1926, Vol. 14 No. 4.

⁶¹⁵ Six of its members were bank or financial services executives. The remaining members were two Department of Finance officials and Prof. Parker Willis as chair.

⁶¹⁶ Foster, *Modern Ireland*, 543.

⁶¹⁷ Parliamentary Dáil Éireann debate on Bank of Ireland legislation - 18 Apr 1929, Vol. 29 No. 5.

This sense that the banking system as constituted in the 1930s- and beyond- was ‘not quite’ appropriate for industrial development was a central thread running through Fianna Fáil’s economic policy, but how to precisely refashion the Irish banking system in a way that could support economic development eluded the party for a long duration. The sense of a system unfit to meet national development goals persisted however and occasionally manifested itself via dissatisfaction with the indirect role played in the Irish economy by the Bank of England, with Irish bank rate effectively mirroring the rate set by the monetary authorities in Britain. Fianna Fáil established its own banking commission in 1934 to try turn fuzzy dissatisfaction into something more tangible, with this second commission asked to enquire more directly into ways the banking system could ‘promote the social and economic welfare of the community and the interests of agriculture and industry.’⁶¹⁸

But the commission issued recommendations that left the political thirst for banking reform unquenched, concluding that the lending facilities provided by the banks for industrial development were ‘generally satisfactory.’⁶¹⁹ Crucially the idea of the bringing the banking sector and a yet to be established Central Bank together as funders of government was strongly rejected on this occasion. The device for doing this, the rediscounting of short-term government bills, was specifically rejected by the commission. It claimed such bills would always be honoured by government and as a result they could be open to ‘abuse’. The commission’s objections were essentially two-fold, one that such rediscounting could involve moral hazard (what Central Bank would ever reject such bills as securities and as a result their use could get out of control) and secondly such activity could be generally inflationary.⁶²⁰

The two commissions of the 1920s/30s, while notable for their ability to bring expertise and data together, did not radically recast the relationship between the banks and the state. The Irish state, through its leading political parties at least, continued to view the sector somewhat suspiciously and the sector continued to view the political elites as potential sources of encroachment on banking autonomy and liquidity. But concealed suspicions aside, in terms of direct conflict the relationship remained reasonably placid. This position was to remain broadly undisturbed through much of the 1930s and 1940s, but the increasing capital requirements of the state, driven by the need to respond to periodic outflows of people and a sub-optimal growth performance, created the conditions for a more contentious era. Put simply how would a decisive developmentalist turn, post-WW2, by

⁶¹⁸ *Commission of Inquiry Into Banking, Currency and Credit 1938*, the Stationery Office, Dublin. Warrant of Appointment/Introduction. Available at

<https://opac.oireachtas.ie/AWData/Library3/Library2/DL056922.pdf>

⁶¹⁹ *Commission of Inquiry Into Banking, Currency and Credit*. Chapter IX, Capital for Industry Section (Introduction), 265. <https://opac.oireachtas.ie/AWData/Library3/Library2/DL056922.pdf>

⁶²⁰ *Commission Of Inquiry Into Banking, Currency and Credit*, 226.

Ireland's political and bureaucratic elites mesh with the long-preserved goals of the Irish banks- balance sheet autonomy and liquidity preference?

6.9 Influence of British Policy Policy & Post-War Irish Tensions

6.9.1 British influence on Monetary Policy

While the Irish governments of the 1920s and 1930s adopted extremely conversative fiscal stances, national debt did rise by 400% to £73m just before WW2 from a low base and debt per capita in the new state exceeded comparator economies, by population size, such as Denmark and Sweden.⁶²¹ The exposure of the banking system to the government sector stayed below 10% almost every year leading up to the war though (see Table 6.9.2).

**Table 6.9.2 Pre-WW2 Domestic Bank Credit Exposure to Government Sector
(Bills and Investments)**

| Year | Total Credit £ | Government Credit £ | Government Credit As a % |
|------|----------------|---------------------|--------------------------|
| 1932 | 57.9 | 4.6 | 7.9 |
| 1933 | 55.6 | 3.1 | 5.6 |
| 1934 | 58.5 | 4.2 | 7.2 |
| 1935 | 57.7 | 3.9 | 6.7 |
| 1936 | 58.8 | 4.6 | 7.8 |
| 1937 | 62.1 | 5.0 | 8.0 |
| 1938 | 63.9 | 6.5 | 10.2 |
| 1939 | 64.2 | 6.3 | 9.8 |
| 1940 | 65.8 | 6.5 | 9.9 |

Source: Maurice Moynihan, *Currency and Central Banking in Ireland, 1922-1972*, Dublin 1975 Appendix 12. 'Domestic Credit 1932-1972'

But like economic opinion in post-war Britain, the policy establishment in Ireland were increasingly receptive to Keynesian ideas and traditional assumptions about the Irish economy were no longer 'taken as read'.⁶²² Looking across the Irish Sea, Irish policy makers, who often gazed in that direction, would have seen from 1932 onward that country operating a so-called 'cheap money' policy, but with the appointment of Hugh Dalton as Chancellor in 1945 this was copper fastened further into a 'cheaper money policy' as Dalton tried to lower interest rates to 2.5% from their traditional 3%. Ultimately this policy failed due to the need to control inflation but was crucial in

⁶²¹ *Commission of Inquiry Into Banking, Currency and Credit*, 265.

⁶²² Roy Foster, *Modern Ireland 1600-1972*, 577.

how the political establishment in Ireland interacted with the banking system in the post 1945 period and how they perceived the potential of credit control policies. The more novel parts of British credit control policy were first established during the war years. For example the major banks were instructed each Friday to lend to the government whatever amount was required to cover the difference between current expenditure and revenue, by subscribing for either Treasury bills or a new instrument called a Treasury Deposit Receipt (or TDR). In addition the deposit bases of the Trustee Savings Banks and the Post Office Savings Banks were also utilised to provide a pool of funds for the purchase of government paper.⁶²³

The British government also prioritised the co-ordination of capital, making sure government issues did not collide with private sector issuances by setting up the co-ordinating body, the Capital Issues Committee (CIC). Supplementing all of this was a direction to the banks, a form of credit guidance, to restrict their lending to just loans for defense, exports, coal mining and agriculture.⁶²⁴ The effect of such measures was seen in the composition of British national debt, with short term obligations growing as a component and long-term gilt-edged debt shrinking commensurately.

Much of the agenda of Dalton as Chancellor would later be transposed into policy directions from Irish governing elites. The reasons given by Dalton for his policy choices were uncannily similar to those advanced by the Irish political establishment for their credit and monetary experimentations in the 1940s and 1950s. Dalton outlined a multi-faceted rationale for his cheaper money policies- to save money on national debt costs, to make income distribution across society more equitable by reducing rewards for rentiers, to encourage investment, and to safeguard full employment. But he also added additional reasons, for example to help local authorities to borrow at lower rates thereby facilitating house building.⁶²⁵ Many of these reasons would be repurposed in later years in an Irish economic and policy-making context. Essentially many of the policy goals above were what drove Irish governments to seek control over the banking sector in the period. Standing as an obstacle in the path of this search for control, was a lack of any effective independent monetary policy in first instance, but also bank autonomy, the idea that banks alone should have dominion over their lending, funding, liquidity standards, credit controls and depository activities.

The institutional tensions between the banking sector and the Irish state that arose in the post-war period around state financing revolved around a collection of loosely connected issues. One was the idea that the traditional lender-borrower relationship should be refashioned when the state was a customer, particularly when the state's ultimate objective was not just governmental cashflow,

⁶²³ Susan Howson, *British Monetary Policy 1945-51* (Oxford: Oxford University Press, 1993), 38

⁶²⁴ Howson, *British Monetary Policy* 38

⁶²⁵ Howson, *British Monetary Policy 1945-51*, 122.

but wider economic transformation. So for example this might manifest as the banking sector exhibiting a special consideration on interest for state facilities that might not be permitted for corporate or individual customers, however large.

The second issue was broader- that the banking sector should accommodate the state as far as feasible, with the only limitation being the sector's own solvency or profit. This second condition would remain unexamined territory, creating significant opportunity for mutual suspicion for both sides of the bank-state relationship. Archival material from the period does not contain reflections on what an 'acceptable' level of bank return on capital (ROC) might be, even in a highly interventionist era. This was somewhat peculiar in the sense that mandated levels of return in regulated industries were far from unknown in Ireland and beyond during this period- for example the rail industry had been operating with a standard revenue system where rail companies were permitted to earn up to a maximum return annually as set by a state tribunal, since the 1920s.⁶²⁶

Banks in this period were not regulated in the modern form, but equally they were not unregulated, and associated banks were given particular prominence in central bank legislation for instance from the 1940s. Often senior Irish civil servants during this period would talk about the banking sector being 'entrusted' by the state to create credit, and as part of this act of entrustment special consideration for government borrowing requirements was expected.⁶²⁷ While the supply of credit was a key battleground, more mundane and prosaic concerns often entered discussions. For example in summer of 1946, Dublin was beset by a docker's strike, which consequently lowered government revenues and this forced the Department of Finance to request the banks to subscribe for IR£1m of exchequer bills to provide some last-minute temporary liquidity which the banks agreed to.⁶²⁸

6.10 Minister Aiken V Bank Liquidity Preference

The first post war test of bank autonomy came with the appointment of a strongly interventionist new Minister for Finance, Frank Aiken, in June 1945. Aiken, a former IRA chief of staff, was seized with many of the cheap money ideas of Dalton. Early on in his time as Minister Aiken was moving on three fronts to initiate a new expansionary direction at the Department of Finance, with a cheap money policy and widespread utilisation of financial capital at its heart. In November 1945 he secured cabinet approval to make laws allowing him to loan money directly to local authorities,

⁶²⁶ The Railways Act of 1924 introduced a standard revenue system to the newly amalgamated Irish railway system. Details of how the system, overseen by a tribunal, was to operate can be read here: <https://www.irishstatutebook.ie/eli/1924/act/29/enacted/en/print.html>

⁶²⁷ IBSC Minute book, June to December 1947 file, contains a letter from the Department of Finance Secretary J.J. McElligott to bank representatives outlining his view that banks have been 'entrusted' with credit creation powers, but these should not be used to seek 'maximum profit'.

⁶²⁸ IBSC Minute Book, Jan-June 1946, copy of letter re funding, sent to J.J. McElligott, Secretary of Department of Finance, July 31, 1946.

from the local loans fund, in order for the local authorities to redeem any outstanding private debt they had incurred. He also gained permission to invest Post Office deposits in debt issues of local authorities. The third element however was more challenging- Aiken was authorised to approach the banks to provide short term accommodation via exchequer bills, but the banks were to be asked to only charge at the rates used by the British Treasury, which was lower than the 1% paid on Irish bank deposits of the time.⁶²⁹

The funds were needed to effectively tide over the exchequer before the flotation of a national loan. The idea of being bound by the discounting rate applying in Britain was rejected by the banks at several meetings when they pointed to the 1% plus rates paid on deposits generally in the Irish banking system and the heavy reliance of the system on interest-bearing deposit accounts. This refusal forced Aiken to threaten the use of sanctions available under the Central Bank Act 1942 which would have forced the banks to make a large non-interest-bearing deposit with the Central Bank, effectively a financial penalty.

The refusal of the banks to lower the discount rate on exchequer bills in this immediate post-war period was significant. Traditionally banks, and other credit issuers, will only part with liquidity if they are compensated for this loss in the form of higher money rewards.⁶³⁰ In this instance Aiken was directly undermining this concept by using the British rate regime to drive down the compensation. The banks' rejection drew a vituperative response from Aiken, which is worth quoting:

“The Minister regards it as a clear and unmistakable indication that the banks are prepared to undermine the welfare of our people rather than give them the same service as the British banks gave to the British people on the basis of voluntary co-operation during the war. Their motive is clearly not profit; it appears to be power or fear of loss of power, power to control as they think fit the volume and use of bank money within the state.”⁶³¹

In a reflection of his disillusionment, Aiken labelled the stance of the banks an ‘act of undeclared war upon our people.’⁶³² This episode, which played out mainly during December 1945, also crucially saw the Central Bank decline to sanction the banks over the issue and their opposition,

⁶²⁹ National Archive of Ireland (NAI), Department of Taoiseach File S 13749A. Cabinet Memo Nov 30, 1945.

⁶³⁰ Toshiaki Hirai, Maria Cristina Marcuzzo, Perry Mehrling, *Keynesian Reflections: Effective Demand, Money, Finance, and Policies in the Crisis* (Oxford: Oxford University Press, 2013)

⁶³¹ NAI Department of An Taoiseach file, S 13059. Memo prepared by the Department of Finance on behalf of Aiken, for the Irish cabinet, Jan 16, 1946.

⁶³² NAI File S13059, an undated memo for his own Department Secretary written by Aiken, contains this quotation.

plus seeming disinterest in the issue from cabinet colleagues, effectively deprived Aiken of leverage and the policy failed to advance.⁶³³ His own Department secretary, J.J. McElligott, had also undermined Aiken, pointing out that the Central Bank's sanctions against the banks- if they could be called that- could only be applied by the Central Bank itself and Aiken's threats were dismissed as a 'precipitate and premature' by McElligott. He also pointed out the political pragmatics of the situation- banks would be needed for future debt issues due from the state sector.⁶³⁴

While a brief reading of this episode may suggest Aiken was simply frustrated in his attempt to coerce the banks and undermine bank autonomy, Aiken's own view were more subtle, as he believed compliance by the banks on the discount rate could form part of a wider financial covenant- in exchange for interest rates outside the market mechanism the banks would be able to have their overall profitability state protected or insulated. A memo of the time suggested Minister Aiken would help the banks to "earn the same level of profits if they co-operated with him in carrying out the government's policy in the same manner as the British banks cooperated with the British government."⁶³⁵ This promise, albeit framed by loose rhetoric, was made during meetings in December 1945 and early 1946 and was a signal towards a form of joint steering of the financial system. Aiken's cheap money experiment, while frustrated in this first episode, was important in two key respects.

One was its intellectual reasoning. It was not purely about lowering the cost of state credit for its own sake. Aiken saw it as part of lowering the cost of credit across the whole economy, as the state would be able to lend the cheaper funds onto other recipients like local authorities, who could in turn finance housing projects at cheaper rates and consequently reduce rents for tenants. Secondly it indicated that the Irish Central Bank, established as recently as 1942, was now an important voice among those deciding credit and monetary policy, even if its full powers remained unused, particularly on liquidity support.

The idea of lowering the cost of credit economy-wide and using the state as credit distribution channel in that context brought Aiken to a position in the Budget of 1946 where he strongly pushed to lower interest on deposits available to those with savings accounts in the Trustee Savings Banks and Post Office networks. This was fraught territory as these institutions were generally used by

⁶³³ Aiken's failure to get over opposition from the Central Bank is addressed in his biography. Bryce Evans and Stephen Kelly, eds, *Frank Aiken Nationalist and Internationalist* (Kildare: Irish Academic Press, 2004), 171. A curt instruction for Aiken to 'consult' with the Central Bank is included in a Cabinet memo, NAI Department of An Taoiseach file, S 13732, 16 Oct, 1945.

⁶³⁴ NAI, Department of An Taoiseach file S 13749, 1946. Memo 'Exchequer Bills- Interest Rate' prepared by J.J. McElligott, Jan 1, 1946.

⁶³⁵ UCD Archive, Frank Aiken Papers. UCDA P104 3955. Memo covering negotiations between Department of Finance and banks on exchequer bills from December to Feb 1946.

poorer depositors and in particular the Post Office was often described in Departmental discussions as 'the poor man's bank'. Accounts there came with a deposit rate of 2.5% which was long established. Despite the different customer base to the banking sector, Aiken went ahead and reduced the Post Office savings rate to 2% for smaller accounts (below £300) and 1.25% for larger sums. The Trustee Savings Banks were instructed to replicate these Post Office rates. Aiken in tandem also lowered the yield on savings certificates. The aim was to borrow funds from Trustee Savings Bank and the Post Office, at this lower interest rate, and then deploy these funds into the housing market via local authorities.

In April 1946 Aiken yet again directed political attention onto the issue of the margin (rate of discount) Irish banks were levying on short term exchequer bills. Aiken was prepared this time to countenance offering one and one eighth per cent, which he said was twice as generous as the rate offered by the UK Treasury for similar British bills, but was not prepared to accept any higher margin. The banks however resisted again, pointing to different cost bases in Irish and British banking and the higher volumes of bill business that circulated in British banking.⁶³⁶

Aiken's position on the discounting rate was supported this time in forceful tones in December 1947 by McElligott, who said banks should not be seeking to generate 'maximum profits' from their position as creators of credit.⁶³⁷ Whether pivotal or not, the intervention of McElligott drew a concession on this occasion from the banks, who agreed to a rate of one and one eighth per cent for £1.4m in funds, strictly limited until March. Aiken after his earlier attempts to create a broader cheap money policy, had extracted a more minor concession, but he left office soon after, leaving the relationship with the banks to be shaped by Ireland's first inter-party government, elected in early 1948.

6.11 New Political Leadership and National Interest Banking

While Aiken had posed the biggest threat to date to the existing contours of the state-bank relationship inherited from the 1920s and 1930s, the multi-party government elected in 1948 (consisting of Fine Gael, Clann na Poblachta, the Labour Party and agrarian party Clann na Talmhan) brought an incipient radicalism to economic affairs.⁶³⁸ The Clann na Poblachta party in particular, led by ex-leading members of the IRA, maintained a significant heterodox stance and

⁶³⁶ IBSC Minute Book, Jan-June 1946. Note of Meeting with IBSC and Minister for Finance, 11 April 1946

⁶³⁷ IBSC Minute Book, June-December 1947. Comments included in letter to the IBSC from Secretary, Department of Finance, J.J. McElligott, Dec 23, 1947.

⁶³⁸ Foster, *Modern Ireland 1600-1972*, 566.

advocated for credit, bearing no interest, to be distributed by a new monetary authority whose *raison d'être* would be full employment.⁶³⁹

A new Taoiseach (or Prime Minister) John A Costello, a leading lawyer and former Attorney General, gave a landmark speech in November 1949 to the Institute of Bankers in Ireland, replete with Keynesian references and promises of a new economic dispensation for Ireland. This would be an economy where capital and current spending would be split in budgetary planning, capital investment that added to productivity would be prioritised and bank resources would be directed solely according to the national interest. While Aiken's earlier policy reflected similar thoughts, Costello was blunter on where the boundaries would be placed between the state's economic goals and bank autonomy.

"Like many other things, the banker's function has been changing. The banker is the trustee of the savings of the community, and the Government is entitled to indicate how these savings can best be utilised in the national interest. It has come to be generally accepted to-day that if the democratic system is to survive, Governments must undertake new functions and new responsibilities," Costello was quoted as saying.⁶⁴⁰

This was just days after Costello had met the banks to discuss providing finance (IR£5m) for Ireland's largest local authority, Dublin Corporation, for housing schemes after an earlier planned public issue was shelved. The banks, through the chair of Bank of Ireland Lord Glenavy, reiterated their now traditional liquidity objections, advancing £5m to the corporation would reduce their 'quick assets' by that amount and a bond issue of this sort was not readily realisable. A cash ratio (based on pure cash liquidity) across the banking system of 10% was the bare minimum required and the banks were already dangerously close to that lower limit, it was argued. The market for Irish securities was too small, Glenavy emphasised, and as a result fluctuations in prices were common due to lack of buyers. Costello replied by pointing out that public opinion was hostile toward banks on the basis of conservative lending practices which prized liquidity preference above all else.⁶⁴¹ The banks resisted the threats, but a second meeting saw Costello persuade the banks to subscribe for the funds.⁶⁴²

⁶³⁹ Foster, *Modern Ireland 1600-1972*, 566.

⁶⁴⁰ 'Sterling Assets May be Repatriated,' *Irish Independent*, Nov 21, 1949. Available at Irish Newspaper Archives.

⁶⁴¹ NAI, SPO File 13059 (c). Note of meeting with Taoiseach and banks concerning Dublin housing finance, Nov 16, 1949.

⁶⁴² '£5m for Dublin Housing,' *Irish Independent*, December 5, 1949. Also David McCullagh, *John A. Costello The Reluctant Taoiseach*. (Dublin: Gill and Macmillan, 2011) has an account of both meetings with the banks and Costello.

6.12 Sterling Assets and Dublin Capital Market Concept

Costello, in parallel with using bank accommodation to drive a fresh post-war housing drive, also made it official Government policy in his November speech to get the Irish banks to significantly reduce their sterling securities held in London money market. This issue of the so-called sterling deposits had been an aggravating factor in relations between the banks and the political classes for several decades, mainly due to the lopsided relationship between the level of Irish securities the banks maintained versus the level of British securities.

After the depredations of the war period and the need for domestic capital, the issue drew fresh political enquiry, fronted by Costello. At the end of 1949 the Irish Banks Standing Committee was requested to submit a memo to him explaining methods to reduce the sterling securities and recycle the funds into additional domestic assets. The banks reliance on liquidity preference and the ratio between so-called quick v slow assets was repeated by the banks to stymie any general policy change. The balance between assets that were realisable quickly v less liquid assets that might not find a convenient market was to the banks a structural impediment to being co-opted by Costello and the state. The lack of a deep capital market also cemented the insolubility of this problem, the banks argued.⁶⁴³ While Costello had prevailed over the banks in supporting the Dublin Corporation debt issue it did not signal a secular shift towards greater accommodation by the banks and while Costello had started to pose questions of their liquidity stance, these concerns would linger on well into the 1950s as the exposure of the banking system to the state intensified.

While the banking sector continued to be identified as a ‘trustee of the savings of the community’, where the trustee was directable by government (sometimes almost spontaneously), the governments of this period declined to develop alternative source of capital and liquidity for themselves. A proposal for Ireland’s first formally organised capital market, to be composed of banks, insurers, savings banks and some State organisations, was proposed in 1953, but failed to attract government support despite support in Dublin’s commercial community.⁶⁴⁴

Going into the 1950s the Central Bank commented that personal savings, even in aggregate, had not been sufficient in any recent years to cover the public capital outlay. The trend in condensed form in relation to personal savings in Ireland in the period was low levels of just £10m per annum from 1947 to 1951 inclusive, before a strong upsurge to £33m per annum between 1952 to 1954.

⁶⁴³ NAI, Department of An Taoiseach file, S10959 (c) Irish Banks’ Standing Committee Memo on repatriation of sterling assets. Dec 15th, 1949. Author uncited.

⁶⁴⁴ Maurice Moynihan, *Currency and Central Banking in Ireland 1922-1960*, 414. While a formalised capital market did not result, some limited market making activity was permitted to the Department of Finance and the Central Bank.

However this level plummeted again to £17m in 1955 and similar in 1956, creating the nub of a scarcity crisis.⁶⁴⁵

6.13 De Valera Return and Interest Rate Tensions

Ireland's most experienced political figure, Éamon de Valera, returned to power in June 1951 leading a single party government, but facing a daunting economic backdrop as Ireland experienced a balance of payments (BOP) crisis, which required Marshall Aid funds and a deflationary budget to ameliorate. Funding state projects with a reliable and sufficient source of capital continued to act as a constraint on the macroeconomy, but equally on the developmental ambitions of political elites. Whereas relations between the banks and the state in the immediate post WW2 period had revolved around credit availability, with De Valera in power and moves in Britain by Chancellor Rab Butler to raise bank rate, the cost of credit re-surfaced as a strong associated issue to be adjudicated upon within the state-bank relationship.⁶⁴⁶ In 1952 the Irish banks sought to match the bank rate increases of Butler, fearing a wedge between the two jurisdictions would cause outflows, as per the warnings implicit in the so-called 'impossible trinity' as devised by economists Robert Mundell and Marcus Fleming, where smaller states cannot simultaneously have a fixed exchange rate, free capital movement, and an independent monetary policy.

These fears were met blithely by De Valera who said previous occasions when a wedge had opened up no substantial outflows had occurred.⁶⁴⁷ The banks demurred from his account, but the crucial intervention that effectively allowed the UK bank rate rise to be replicated in Ireland were direct discussions between the Governor of the Central Bank, Joseph Brennan, and De Valera.⁶⁴⁸

6.14 Capital Scarcity Emerges

The economic picture however was darkening and capital availability was deteriorating drastically. National loans, a chunky and important source of capital, were no longer plugging the gaps as subscriptions to issues weakened, with banks diminishing their sterling securities in order to meet state requests, the capital outlays of the 1950s were starting to become critically underfunded (See Table 6.15.1). In addition the government bond market itself in Dublin, small as it was, was

⁶⁴⁵ Note prepared for the Capital Investment Advisory Committee (CIAC), marked 'Secret' from Department of Finance. Undated. CB File 4062-15. The CIAC was appointed in November 1956 by the Minister for Finance. It was charged with investigating the volume of public investment, the priorities within that spending and how they might be financed. It was mainly made up of economists and civil servants.

⁶⁴⁶ Michael Collins, *Money and Banking in the UK* (2012, Abingdon: Routledge, 2012), 468, addresses the activist monetary policy of R.A. Butler.

⁶⁴⁷ NAI, Department of An Taoiseach file, S 15221, Department Minute of Meeting with banking sector and Taoiseach Éamon De Valera, March 18, 1952.

⁶⁴⁸ Honohan and O'Grada, "The Irish macroeconomic crisis of 1955-56," 61.

witnessing selloffs in government bonds and some small-scale purchasing took place to prevent steeper price slippages.

Table 6.15.1 Response of public to government national loan issues in 1940s/1950s

| Loan | Date of Issue | Amount of Issue £ | Take-up by public £ |
|----------------------------------|---------------|-------------------|---------------------|
| 3% Exchequer Bond 1965/70 | March 1943 | 12m | 11.3m |
| 3% Exchequer Bond 1965/70 | March 1949 | 12m | 6.3m |
| 3.5% Exchequer Bond 1965/1970 | Sept 1950 | 15m | 8.7m |

Source: Extract from 'Memorandum for Government on Borrowing Potential, 19th March, 1952. Department of Finance.⁶⁴⁹

A budgetary gap of some £32m was envisaged for 1952 according to government documents. In the Budget of that year the Minister for Finance, Sean MacEntee, warned that funding such a gap would be arduous. In the end resort to the banks was avoided when a IR£20m national loan, the largest at that point in the state's history- was raised. The banks did however play a role elsewhere, underwriting a separate loan issue for Dublin Corporation and a IR£2.5m issue of Government-guaranteed transport stock for the railways. MacEntee also spoke of the banks providing unexplained 'assistance' with a public issue by Cork Corporation.⁶⁵⁰

As calls on the public via national loans intensified, MacEntee reflected on the sensitive subject of how much direction or policy coercion a state should undertake to direct capital toward it, potentially at the cost of other segments of the economy.

"Control over savings would, of course, raise important ethical considerations as to the right of the individual to dispose of his income or his capital," said MacEntee presenting the 1953 Budget.⁶⁵¹ This was a reference to suggestions that Ireland should be more interventionist in markets, to actually co-ordinate capital issues by the public and private sector, so that the state would have a greater security in obtaining capital as a result. Britain, since 1939, had embarked on such a course, with the establishment of a Capital Issues Committee (CIC). The decisions of Irish politicians in the 1950s not to emulate this intervention in the wider capital markets was a significant deviation between the two jurisdictions in how controllers of capital would be constrained or co-ordinated.

⁶⁴⁹ NAI, Department of An Taoiseach file, S 13149. Department of Finance Memo on Borrowing Potential. March 1952.

⁶⁵⁰ Dáil Éireann parliamentary debate -6 May 1953, Vol. 138 No. 10

⁶⁵¹ Dáil Éireann parliamentary debate - 6 May 1953, Vol. 138 No. 10

Despite this seeming reluctance to step up intervention, the reliance on the banking sector was significantly widening and deepening, often out of sight.

6.16 Accommodation For State Companies

While earlier figures included in this paper place the banking exposure to the government sector, depending on the year, at between almost 7% and 17%, these figures are an undercount as they refer to state bond issues and short-term securities banks subscribed to for the benefit of central government or local authorities. They do not count wider commercial arrangements entered into by banks with state entities such as direct loans advanced to state companies where the loans were guaranteed by government. A detailed picture of this area of exposure is challenging to assemble but through episodic parliamentary questions one gets a reasonable sense of scale (see Table 6.16.1). These exposures were seeded in wartime, but they continued into the 1950s.

Table 6.16.1: State Liabilities to Banks - Companies With Borrowings Guaranteed by the State

| State body | IR£ | 1949 | 1950 | 1951 | 1952 |
|----------------------------|------------|---------|---------|---------|---------|
| Butter Marketing Committee | | 1.8m | 1m | 924,664 | 1m |
| Fuel Importers (Eire) | | 4.3m | 4m | 1.8m | 2.5m |
| Grain Importers (Eire) | | 2.5m | 2.6m | 3.5m | 3.9m |
| Irish Steel Holdings | | 224,132 | 233,678 | 199,665 | 232,549 |
| Oil and Fats (Eire) | | 6,460 | 00 | 00 | 00 |
| Pigs and Bacon Commission | | 00 | 00 | 1.2m | 00 |
| Tea Importers Ltd | | 2.7m | 3.5m | 5.4m | 3.8m |
| Total | IR£ | 11.5m | 11.3m | 12.9m | 11.4 |

Source: Parliamentary reply, Minister for Finance, Sean MacEntee. 26 March 1953, Vol. 137 No. 8.

While the total level of such non-core exposures figure is potentially illuminating, the sheer number of companies is more instructive about the scope of the lending operations between the state and the banks at the time. While about five to six companies had loans with government guarantees, in addition another 11 State companies had overdraft borrowings, without a specific guarantee and these ranged from a chemical company (Ceimici Teoranta), to the turf cutting company (Bord na Móna) to the official Government news agency (Irish News Agency).⁶⁵² The servicing of these exposures- both guaranteed lending and overdraft-based lending- was considerable and a large

⁶⁵² The list of companies, 16 in total, is included in a 1953 memo from the Irish Banks Standing Committee.

segment of the minutes of the bank cartel in the late 1940s and mid-1950s are taken up by detailed discussion about these facilities.

6.17 Liquidity Ratios Seen As Crucial

While the stance of the Irish banking sector toward taking on Government debt oscillates during the period, the sector's defense of its liquidity position, both in terms of individual institutions and sectorally, did not wane. Yet the Irish banks saw their liquidity ratios deteriorate markedly; in tandem the capital demands of government were rising in the mid-1950s. For example the influential ratio of 'liquid assets' (in the case of Irish banks primarily sterling securities) as a percentage of overall deposits had fallen as low as 27% by 1955, with £281m in deposit liabilities, backed up by £75m of liquid assets and some of this was not considered entirely liquid by Department of Finance staff.⁶⁵³ Providing comparatives on this metric is challenging, but it is useful to consider that in a similar period a 30% 'liquid assets' ratio was insisted upon by the authorities overseeing the London clearing banks.⁶⁵⁴ However banks in later eras were expected to operate with much lower ratios.

Not only was available capital scarce, the banking system itself went to great lengths to ensure that its existing deposit levels were not diminished by negative customer actions. One group, farmers, were of particular sensitivity. In the late 1950s this group maintained £16.4m in outstanding loans across the domestic banking system, but this was surpassed by the £82.9m in deposits they maintained, a loan to deposit ratio of less than 20%.⁶⁵⁵ This underleverage among the farming community was a fact the bank cartel sought to keep from public disclosure for several years, as they were concerned farmers would seek additional loan accommodation on the basis of their large deposits and this would bring forward too many applications from the 'non credit-worthy class'.⁶⁵⁶

6.18 Sweetman and Monetary Policy Experimentation

In 1954 Fianna Fáil lost office again and a second inter-party government was formed in June 1954, this time an amalgam of Fine Gael, the Labour Party and Clann na Talmhan. The radical component of the first inter-party government, Clann na Poblachta, was not part of this second administration,

⁶⁵³ Note prepared by Department of Finance for Capital Investment Advisory Committee (CIAC), marked 'secret' on public capital outlay, December 12 1956. CB File Ref 4062-15 Part 06, Governor McElligott Papers. (F1611682).

⁶⁵⁴ While definitions of what constitutes a 'liquid asset' vary across regulatory geographies, the operation of a specific ratio is assessed by, William A Allen, *Monetary Policy and Financial Repression in Britain* (London: Palgrave, 2014), 183. While British banks and the Bank of England saw the ratio as key to 'prudent banking practice', others have taken a strong contrary view, including Allen, suggesting the ratio was excessive.

⁶⁵⁵ Analysis of Deposits and Advances for 1957, compiled by Irish Banks' Standing Committee, Feb 28th, 1958 sent to Secretary, Irish Central Bank. Copy in CB File 4647, Analysis of Bank Advances and Deposits (F2585220).

⁶⁵⁶ Letter to Secretary of Irish Central Bank from Irish Banks' Standing Committee Secretary, Oct 7, 1952, contained in Central Bank File 4647, Analysis of Bank Advances and Deposits (F2585220).

although it often voted in support of it. The politician on this occasion responsible for the relationship with Ireland's banks was Gerard Sweetman, a lawyer from a wealthy Dublin background described by some political scientists as moderniser prepared to question political verities.⁶⁵⁷ Sweetman had a disastrous start as Minister in relation to managing the machinery of capital raising. In late June 1954 Dublin Corporation, the country's largest local authority, went to raise £5m in a fresh bond issue at 4.5% coupon, but the public only subscribed for £864,360, leaving the banks and government as underwriters reluctantly absorbing the remainder. This failed sale was described as a 'fiasco' in the press and would be mentioned regularly in subsequent engagements between the banks and government, with banks pointing to the event as evidence of how contingent public support of government borrowing could be.⁶⁵⁸ In early 1955 rates were increased by 1% in Britain by Chancellor Butler again, which immediately prompted a request from the Irish banks to respond in kind in order to prevent any interest rate differential, or 'wedge', emerging.

While the banks were prepared to compromise and only introduce a 0.75% increase, any rate rise was strongly resisted by Sweetman who threatened to seek special government powers allowing him to specifically prohibit a rise in lending rates. This threat to trigger a stronger interventionist response, forced the banks to discard their request to raise lending rates, although they reserved the option to return to the subject as developments evolved.⁶⁵⁹ Sweetman's threat was described by the banks as an attempt to erode their freedom and take the management of banks out of the hands of those it was entrusted to. Several follow up meetings saw Sweetman hold the line and strongly dismiss any danger of capital flight from the Irish banking system due to a differential. But by September the bank cartel group were noticing a 'heavy drain of moneys' out of the banking system and mentioned that a policy of credit rationing might be needed as part of the response.⁶⁶⁰ This latter idea was discussed at subsequent meetings, but consensus on implementation proved elusive.

As a BOP crisis in the wider economy deepened in late 1955, Sweetman finally relented on the issue of rates and agreed that December to increase bank overdraft rates and deposit rates. This episode is accorded significant importance by economists who've studied the subsequent restrictive budget introduced.⁶⁶¹ Despite this belated concession by Sweetman to the logic of Fleming Mundell

⁶⁵⁷ Tom Garvin, *News from a New Republic: Ireland in the 1950s* (Dublin: Gill and Macmillan, 2010) assess the pros and cons of Sweetman as a Minister for Finance.

⁶⁵⁸ "New Corporation Issue Fiasco," *Irish Independent*, June 28, 1954.

⁶⁵⁹ Letter to Department of Finance, from Secretary of Irish Banks' Standing Committee, March 4, 1955. Irish Banks Standing Committee Jan to June 1955 volume of minutes.

⁶⁶⁰ Irish Banks's Standing Committee, June to December Minutes Volume. Minute of meeting of bank reps, Sept 9, 1955.

⁶⁶¹ The decision to allow a differential to linger between Irish and British rates in 1955, thereby causing capital outflows and then prompting an austere fiscal reaction is documented in Honohan and Ó' Gráda, "*the Irish macroeconomic crisis of 1955-56 : how much was due to monetary policy*". Clearly this was an

and the unholy trinity, the relationship between banks and government remained seriously strained, with the banks continuing to try to safeguard their operational autonomy in other areas, most starkly in relation to government borrowing accommodation.

6.19 Borrowing Strains Emerge

The scale, administrative burden and liquidity impact of this government borrowing had become intense by the mid-1950s. Often the Irish banks felt compelled to call special meetings among themselves at short notice to discuss the pressing nature of such credit management. The health of the national savings pool, needed to fund government borrowing issues at this time was reported to be fragile, as evidenced by the fact that the banks at this juncture spent time discussing the exact timing of cattle sales and how this might bolster faltering savings at bank branches.⁶⁶² The banks, while facing further government funding requests, had increased their own political resources, with one of Ireland's most senior civil servants joining the National Bank, one of the constituent banks of the cartel, as a director. John Leydon had been recently Secretary of the Department of Industry and Commerce and was a key architect of Ireland's ISI policies of the 1930s and 1940s and close associate of the former Minister for Industry and Commerce, Sean Lemass, now in opposition.

The arrival of Leydon into the cartel structure appears to have emboldened the banks to restate their traditional stance against using them as the residual lenders who got called in, typically late in the calendar year, by a funding-strapped government. Leydon's position, voiced at the first meeting he attended of the bankers, was the sector should 'resist' further long-term lending involvement with government, until the state outline what its future funding requirements over several years would be.

6.20 Credit Selectivity Briefly Floated

For decades the Irish banking system had eschewed any kind of differentiated credit decisions, but the now persistent moves by the British government to increase rates made the Irish authorities experiment with the idea at least once, according to archival records. That moment arrived during 1956 when the British authorities again pushed up lending rates. Sweetman used the latest emerging threat of a wedge between British and Irish deposit rates to propose a highly significant change in Irish bank policy.

Sweetman proposed that four 'productive' sectors (farming/agriculture, mining and manufacturing, construction, and shipping/transport) be exempted from any pending increase in lending rates in

important event, with implications for balance of payments dynamics and bank profitability too. But the issue of government demands for banking accommodation were also following their own individual course and creating significant strain (and administrative burden) on the bank-state relationship.

⁶⁶² Irish Banks Standing Committee Minutes, Jan-June, 1956 Volume. Special meeting minutes; The Irish macroeconomic crisis of 1955-56 : how much was due to monetary policy?

what would have represented a significant economic policy alteration. This switch to a broad-based credit selectivity policy would have been formidable to implement logistically, yet Sweetman pledged to provide all the support the banks might need to implement it. The idea was explored over a number of meetings with the banking sector and a sub-committee was established to consider the idea, but it was ultimately judged to be impractical by the banks. Its worth noting the banks did not have a principled objection to the idea initially, but did balk at the practicalities and likely customer resistance later.⁶⁶³ Sweetman expressed profound disappointment at the banks reluctance to move toward a credit selectivity policy, with one of his most senior officials, T.K.Whitaker calling on the banks to operate differentiated rates as part of the banks contribution toward strengthening national production.⁶⁶⁴

6.21 Rate Increase Exchanged for Continued Funding Access

The two intertwined issues which the state-bank relationship pivoted around in the the 1940s and 1950s had been the rate of interest on lending and deposits and access by government to credit from the banking system, both short and long term. The need for capital by the state was such that for the first time Sweetman and his officials started to consider seeking funding sources from outside Ireland in the summer of 1956 such was the pressure exerted upon domestic banking sources.⁶⁶⁵ The inter-party Government likewise was forced to reveal its ranking of priorities- which was more important access to government specific funding, or the cost of credit across an economy seeking development? By the summer of 1956 Sweetman and his officials, finally answered this question, when they offered to agree politically to the latest UK-led rate rise and removing any fresh wedge, as long as the banks consented to their funding requests which amounted in the short term to £8m.⁶⁶⁶ At this point an intervention came from the Governor of the Central Bank, J.J.McElligott, which summed up the bank's position in the preceding years, when he described the Irish bank system as 'second to none', with no failures in over a century. He said no minimum liquidity ratio for the banking system had ever been defined and as a result banks had to use their best judgement on a safe margin for liquidity. He alleged the reliance of state companies, state bodies and local authorities on bank funding sources was under appreciated, and such were the calls on the banking

⁶⁶³ The idea was first proposed formally at a meeting between Sweetman and the banks on February 27th, 1956. Irish Banks' Standing Committee minutes, Jan to June volume 1956.

⁶⁶⁴ Irish Banks' Standing Committee, Jan to June 1956 volume. Minutes of meeting between Minister Sweetman, TK Whitaker and bank representatives, March 9th, 1956.

⁶⁶⁵ Irish Banks' Standing Committee Minutes, Jan to June volume. Reference to seeking sources beyond Ireland are contained in minutes of meeting between Sweetman, T.K.Whitaker and bank representatives, June 6, 1956.

⁶⁶⁶ The offer of a concession over rates in exchange for funding, was discussed between Sweetman and the banks on June 15, 1956. Minutes of their meeting are contained in Irish Banks' Standing Committee Minutes, Jan to June volume 1956. Sweetman is recorded as offering the banks a meeting with Taoiseach John A Costello to elaborate further on this exchange idea.

system by the state that capital markets were being ‘monopolised’ by one form of borrowing, with industrial and commercial creditors crowded out.⁶⁶⁷

In October of that year discussions over government funding continued, but this time an altered tone was noticeable from McElligott, a former head of the Department of Finance, who stepped forward and assumed (albeit seemingly reluctantly), responsibility for shoring up traditional nexus between government, the banks and Central Bank. During that month a new £12m 5.5% national loan was agreed by Sweetman with the banks, with the intervention of the Central Bank highly influential, with Governor McElligott insisting that any decision, short of the banks acting as underwriters for the loan, would be disastrous for the perception of the state as a credit worthy issuer.⁶⁶⁸ Invited to address the banks directly at their own meeting, McElligott told them:

“They should be careful not to take any steps which might damage a delicate piece of machinery which had worked so well for so long.”⁶⁶⁹ At this time he relied on several reasons for the banks to lend their support, one was the raising of fresh money was simply to allow existing exchequer bills to be repaid, but secondly, and more crucially, he pointed out that rediscounting facilities from the Central Bank were now in place at the disposal of the banks, as part of changes put in place earlier that year. This second point and the enhanced shaping role of the Central Bank is important to to revert back to and explore.

6.22 Central Bank and Liquidity Support to the Foreground

McElligott’s Central Bank had crucially started providing rediscounting facilities to commercial banks from early in 1956 (Jan 2nd), allowing banks to exchange government debt securities for funding from the Central Bank for the first time.⁶⁷⁰ Such liquidity support had been vociferously rejected by the 1930s Banking Commission and its worthwhile revisiting these reservations, which that commission claimed could result in ‘abuse’ if not heeded.

“In a number of markets, Treasury bills (i.e. short-dated Government bills) have taken the place of commercial bills as a basis for rediscount by central banks, but they less closely reflect current business developments. They are not self-liquidating; they lend themselves more easily to abuse, in

⁶⁶⁷ Irish Banks’s Standing Committee Minutes, Jan to June Volume. Minutes of meeting between banks and Minister for Finance Gerard Sweetman and Governor of Central Bank J.J. McElligott, June 22, 1956.

⁶⁶⁸ Irish Banks’ Standing Committee, June to December 1956 Volume of Minutes. Meeting between banks and J.J. McElligott, Minute October 10, 1956.

⁶⁶⁹ Standing Committee Meeting Minute, Oct 10, 1956.

⁶⁷⁰ The reliance on rediscounting and the date of commencement is addressed in Maurice Moynihan, *Currency and Central Banking in Ireland*. The practice began with a state-owned tea company before being extended to the banks. 18. The official chronology of the Irish Central Bank puts the start of the practice at Jan 2nd, 1956. Chronology available here: <https://www.centralbank.ie/docs/default-source/publications/the-history-of-the-central-bank-1943-2013.pdf?sfvrsn=8>

that rediscounting of Treasury bills may be an indirect method of Government financing of an inflationary character. If credit difficulties arise, commercial bills may up to a point be allowed to run off without renewal, businesspeople obtaining credit facilities appropriate from other sources, eventually from abroad. Treasury bills, on the other hand, must always be repaid by the Government, and if the market does not absorb them and the Government has no funds at its disposal, the central bank may be compelled, not only to retain those it has, but to accept a larger amount in order to prevent a government default.”⁶⁷¹

This reasoning was part of a wider view that it would be unlikely the banks would ever need such accommodation in order to fund government.

“There are some strong reasons why borrowing by the Government should be directly from the credit system, and not from the monetary authority. It is true that in a number of countries the Treasury may obtain limited advances from central banks to carry it over the lean months of the financial year..[But] as no difficulties have been experienced in the Free State in obtaining short term accommodation for the exchequer directly from the commercial banks, we recommend that this system should in substance be continued. It should be noted that, if the monetary authority used its resources for lending to the Government, it would thereby restrict the amounts available for its other functions.”⁶⁷²

Despite these strong reservations, the power to rediscount exchequer bills and bills of local authorities had been bestowed upon the Central Bank in section 7(e) of its 1942 founding legislation, but lay dormant for more than a decade. It could be suggested such powers were not used due to the conservatism of McElligott’s predecessor, Joseph Brennan.⁶⁷³ Further, a tentative agreement was reached in 1946 with previous Finance Minister, Frank Aiken, to rediscount exchequer bills, but it never happened.⁶⁷⁴ By 1953 this lack of alacrity on rediscounting seemed to be something which McElligott was comfortable with, and he crucially pointed out that the banks had not expressed any desire for such facilities.⁶⁷⁵

Whatever about this, it seems McElligott even by late 1955 remained reluctant to cross this Central Bank rubicon. Meeting bank representatives in December 1955 McElligott revealed to them his ‘reluctance’ to put a rediscounting proposal to his board, which would have created new money for the banks to utilise in their interactions with government.

⁶⁷¹ Commission of Enquiry Into Banking, Currency and Credit 1938, Dublin Stationery Office, 226.

⁶⁷² Commission of Enquiry Into Banking, Currency and Credit, 233.

⁶⁷³ The career and influence of Brennan is addressed in Frank Barry and Eoin Drea, “A reappraisal of Joseph Brennan and the achievements of Irish banking and currency policy 1922–1943,” *Financial History Review*, 28(1), 45-66.

⁶⁷⁴ The Aiken agreement is detailed in Moynihan’s *Currency and Central Banking*, 330.

⁶⁷⁵ Moynihan, 408. This talks about McElligott not seeing a justification for any early action in this area.

6.23 Role of Rediscounting

Such a change in policy on rediscounting had the observable effect of making the banks more pliant in relation to government funding requests, a significant event in terms of the evolution of Irish credit policy, but also in relations between the state and the banks. While the amount of transformation in the bank-state relationship rediscounting brought about can be argued over, there is no doubt it oiled the wheels of the relationship significantly, by starting to remove one substantial technical objection the banks had to being a substantial residual government lender, thereby nudging the banks towards the government's conception of banking - that banks were part of national infrastructure, given their powers and economic role by an implied but unsaid licence granted by the state.

It also presaged a greater role for the Irish Central Bank in the banking sector more broadly and a localisation of liquidity, away from London and toward Dublin. For example, by 1958 Dublin bank clearing was settled by cheques on the Central Bank which meant a growth in bank deposits at the Central Bank.⁶⁷⁶ In addition, in 1964 the Central Bank was empowered to pay interest on deposits that the Irish banks themselves placed with the Central Bank, leading to the Central Bank growing further the level of balances that the banks retained with it.⁶⁷⁷ All of these steps, resulted in the late 1960s in the sterling securities of the Irish banks, stored and built up since the 19th century, shifting to the Central Bank where they also went on deposit with the Central Bank.⁶⁷⁸ The rediscounting move has been described by one economic historian as a 'landmark' decision, but little has research has been done on what precipitated the change and how perilous the bank-state relationship had become by this stage.⁶⁷⁹ Researchers, deprived of the archival records up to now, have differed over what precisely triggered the rediscounting move.⁶⁸⁰

6.24 Liquidity Crisis Prompts Central Bank To Become Intermediate Institution

An intriguing question remains however concerning who or what made McElligott (and his board) alter their position in the mid-50s, when one considers how unambiguous the banking commission of the late 1930s had been about liquidity support (using state securities) being potentially inflationary and prone to moral hazard as it wouldn't involve self-liquidating loans. Archival

⁶⁷⁶ Brendan R Dowling, "The development of the financial sector in Ireland, 1949-72," *Journal of the Statistical and Social Enquiry Society of Ireland*, Vol XXIII (1973), 1-53.

⁶⁷⁷ Pdraig McGowan, "Money and Banking in Ireland, Origins, Development and Future," *Journal of the Statistical and Social Enquiry Society of Ireland*, XXVI (1988), 1-88.

⁶⁷⁸ This milestone event, outside the scope of this chapter, is noted by McGowan, "Money and Banking in Ireland," 57.

⁶⁷⁹ The 'landmark' description comes from James Meenan, "The Evolution of the Modern Bank," in *Bicentenary Essays Bank of Ireland 1783-1983*, edited by F.S.L. Lyons (Dublin: Gill and Macmillan, 1983), 182.

⁶⁸⁰ The different possible explanations are treated in Francis John Kennedy, "Institutional effects: studies from the sterling area in the 1950s-60s" (London School of Economics, PhD Diss, 2018), 256.

records at the Irish Central Bank were examined to assess the decision-making journey the Central Bank took before agreeing to rediscounting of exchequer bills in early 1956. According to these minutes discussion on this issue began as early as March 30th 1955, with Governor McElligott telling the executive committee of the Central Bank the time had come for the bank to modify its ‘previous attitude’ on using its funds to rediscount bills.⁶⁸¹ A start would be made with a state company, Tea Importers Ltd, and this decision was only permitted on the basis that on this occasion the loans involved were self-liquidating, or one-offs.⁶⁸² It is worth quoting McElligott, via a minute, on his views to the board, on his rationale at this juncture:

“The Central Bank in his opinion, could not refrain indefinitely from making some use of the powers entrusted to it and perhaps by exercising them, even in a limited way, the influence of the bank in other and more important spheres of activity might be enhanced. This latter was a desirable objective and reasonable means of attempting to secure it should not be overlooked.”⁶⁸³

This idea of gaining ‘influence’ in other more important spheres seemed to hint towards a greater role by the bank in wider credit decisions and bank activity, and maybe government financing arrangements. At this point governor McElligott was asked to talk to the banks about how a new system of rediscounting might work for them. Such was the acute liquidity crisis that followed in later months that the Central Bank felt it necessary to hold a ‘special board meeting’ on December 19, 1955 to address an emerging problem. At this meeting it was disclosed that three unnamed banks refused to roll over IR£2.5m of exchequer bills and were instead requesting prompt payment, forcing Minister Sweetman to persuade the Central Bank to step into the breach.⁶⁸⁴

6.25 Crisis Meeting And Bank Refusal

Clearly the system of providing short term funding to government had broken down. The bank’s refusal was one thing, but Sweetman also revealed he needed accommodation for a fresh IR£5m of funding too, leaving the state effectively facing an urgent deficit of IR£7.5m, a classic liquidity crisis.⁶⁸⁵ The failure of the banks and government to integrate their differing interests now seemed to suggest a potentially dangerous impasse had been reached. The solution was for the Central Bank to effectively tide the commercial banks over, using the rediscounting mechanism to absorb the

⁶⁸¹ Central Bank Archive. CBI General Secretariat, Minute Book No.5, File 4548/15 (F1893299). Minutes for March 30, 1955. The physical minute book itself is retained at the Central Bank archive.

⁶⁸² Central Bank Archive. CBI General Secretariat, Minute Book No.5, File 4548/15 (F1893299). Minutes for March 30, 1955. The decision on Tea Importers was the result of a ‘compromise’ with the Minister for Finance, minutes of August 10th record.

⁶⁸³ Central Bank Minute book, March 30th, March 1955. File 4548/15 (F1893299)

⁶⁸⁴ Central Bank minutes, CBI Minute Book No 5, File 5448/15 (F1893299), December 19, 1955, 11 AM, special board meeting minutes.

⁶⁸⁵ December 19th, 1955 meeting, CB Minute Book 5, File 4548/15 (F1893299).

IR£2.5m of unwanted exchequer bills with a promise of a more sympathetic discount if required (plus a promise of further funding too in March of 1956 if they were still ‘pressed for funds’). In addition a fresh £2.5m of other exchequer bills would also be rediscounted, even though this apparently broke limits previously set down for rediscounting in any one single transaction. Meanwhile the government was prepared to address its own funding problems by selling securities of the post office savings bank. Based on these three separate but linked solutions, a tripartite agreement was able to cure the liquidity challenge, but it took two meetings, as the banks found the first iteration of the deal not ‘adequate.’⁶⁸⁶

While the Central Bank had finally crossed a previously inconceivable rubicon (that is utilising monetary sources of funding) and stood in the gap between the banks and the government, Minister Sweetman was left to ponder a sour warning shot - the bank’s General Fund, smaller than the Legal Tender Fund traditionally, would not be able to perform other functions as a result of extending such liquidity support.⁶⁸⁷

6.26 Measuring the Crisis

While these meetings would appear significant in their own right, they also indicate how parlous the funding of both banks and government was in the latter stages of 1955 and into 1956. Effectively unless the Central Bank was mobilised, commercial banks were no longer prepared to supply exchequer bill funding and were requesting payment instead. Effectively the system had ruptured, due to bank obstinacy (the state view) or understandable impatience (the bank view). Whether the banks would ultimately have allowed funding to actually dry up is speculative. However in correspondence in 1962 with then Governor of the Central Bank, Maurice Moynihan, T.K. Whitaker, by then Secretary of the Department of Finance, outlined the kind of far reaching measures the government had comprehended in 1955/56, based on its perception that the banks were being uncooperative as suppliers of funds and too accommodative to the competing requirements of the private sector and his quotation is worthwhile reflecting on:

“I recall that when the balance of payments deteriorated in 1955/56, the arrangements for joint provision of even short term exchequer needs by the banks creaked badly and at one point I had to discuss with the then Governor legislation to transfer the Exchequer account to the Central Bank and enable the Central Bank to requisition funds, to an appropriate extent, for this account, from the banks. There appeared at the time to be a disposition on the part of the commercial banks to regard the needs of the private sector as having first claim on their resources. Fortunately, these

⁶⁸⁶ Special board held on Dec 20th, 1955, following meeting the day previous. CB Minute Book No. 5, 4548/15 (F1893299).

⁶⁸⁷ Central Bank special board meeting Dec 20th minutes, File 4548/15. (F1893299)

difficulties were overcome as a result of stringent measures taken to rectify the balance of payments and the help extended to the commercial banks by way of Central Bank rediscounting of bills.’⁶⁸⁸

6.27 Amid Stand Off - Bank Disunity

The disclosure that only some banks refused to grant further accommodation in late 1955 confirms much of the discussions at the Irish Banks’s Standing Committee, where a common banking approach was rarely in evidence. In fact close study of the cartels proceedings in late 1955 indicate much internal rancour about how much accommodation should be provided to the state. This research has been able to identify the three specific banks who were no longer prepared to renew exchequer bill lending at this important juncture of late 1955: the Provincial Bank, the Royal Bank of Ireland and Hibernian Bank.⁶⁸⁹ While refusing was one thing, some of the banks sardonically suggested that Bank of Ireland, which held the prestigious role of official government banker, should fund the entire requirement at this point.⁶⁹⁰ Many of the banks also pointed to the onerous funding lines they were already providing to state companies and the overall tone of the meetings in December 1955 was one of exasperation with government, but also much internal recrimination.

6.28 Whitaker and Banking Reform

The idea that the government of the time would ‘requisition’ funds from the banks was certainly novel and appears indicative of a highly strained relationship at the time. Threats of far-reaching policy change were common in the period when the relationship between the banks and government ‘creaked’, to use Whitaker’s phrase. For example in 1956 Sweetman had threatened to acquire additional legislative powers to prevent any rate rise by the banks. Was there unseen complexity to all this, beyond governments simply wanting a reliable funding source?

Archival records suggest the starting point for management of the banking sector, as seen within the Department of Finance at least, was a remaking of the relationship with the industry in favour of the state. In advice given to Minister for Finance, Gerard Sweetman, in March 1955, Whitaker wrote:

“If we are aiming at a financial policy which suits ourselves first attention must be given, not merely to interest rates, but to other aspects of credit conditions.”

⁶⁸⁸ Letter from T.K. Whitaker, Secretary of Department of Finance to Maurice Moynihan, Jan 24, 1962. Included in T.K. Whitaker papers at UCD Archive. UCDA 175 45, first page.

⁶⁸⁹ Minutes of the Irish Banks’s Standing Committee minute book, June to Dec 1955. Meeting Dec 9, 1955, contains contributions from these three banks declining to advance any further exchequer bill accommodation.

⁶⁹⁰ This point was made most forcefully by the Provincial Bank of Ireland representative, Dec 9th meeting.

Whitaker added while powers of rediscounting had been given to the Central Bank in 1942 such powers were in danger of atrophy due to lack of use and banks continued to lend short to industrial customers while prizing liquidity above all else. This last preoccupation of the banks was the issue most in need of amelioration, suggested Whitaker and the banks must be deprived of any 'technical reason for regarding the holding of Irish securities as being less desirable than British securities because of inferior liquidity.'⁶⁹¹ This sort of language and intent, suggests that throughout 1955 bureaucratic and political sources were manoeuvring the Central Bank into position as a lender of last resort with the departure of the more conservative governor Joseph Brennan in 1953 helping clear away any institutional resistance.

While Whitaker's support for more accommodative funding of government, using the Central Bank as an intermediary institution, was not novel, some of his other proposals in 1955 were more heterodox- for example he called for two state lenders, ACC and ICC to be effectively wound up and replaced by the commercial banks. Whitaker also called for the Central Bank itself to underwrite larger national loans and those raised for local authority housing, a move not supported by the 1942 Central Bank Act. While the reforms came with multiple implications, the overall policy direction was one of displacing the commercial banks from certain areas (core government funding, advise on credit), while enjoining them to participate in other developmental areas (housing, agriculture and industrial lending).

Suggestions that the capital base of Ireland was stretched close to capacity during this period was confirmed more definitively in 1956 when the second inter-party government, set up a Capital Investment Advisory Committee (CIAC), with a specific brief to advise on the value of large capital investments, the order of priority for these investments and how they might be financed.⁶⁹² The report, while given a broad term of reference, was also expected to provide immediate advise to Sweetman on what spending projects might be advanced or dropped. The committee immediately identified a IR£12m deficiency in public support for Ireland's capital programme.

While it suggested severe economies in state spending could be achieved in various areas to at least substantially reduce this deficiency, a deficiency of £2m would remain outstanding and bank accommodation would be the remaining option. But for the first time in an official document of the era, the committee asserted that any further accommodation from the bank sector was likely to be

⁶⁹¹ Letter of advice to Gerard Sweetman, Minister for Finance, from T.K.Whitaker, March 29, 1955. Whitaker papers, UCDA File 175 45, page 26.

⁶⁹² Capital Investment Advisory Committee (CIAC) First Report (Introduction). Central Bank File CB4062-15, Governor McElligott Papers - Capital Investment Advisory Committee Reports.

at the expense of the private sector.⁶⁹³ The importance of this document was that it was one of the influences which compelled the Irish state to explore additional funding sources. For example in 1957 the government made an application to the World Bank seeking access to its capital funding programmes, citing the exhaustion of domestic banking sources among the reasons for the application. In this document it was pointed out that domestic banks had a liquidity ratio (net external assets as a percentage of deposits) of just over 30% and utilisation of domestic banks as a funding source would be ‘very limited’ in future.⁶⁹⁴

By 1966 the Irish State was issuing debt in sterling and deutschmarks to British and German investors, with the bonds trading on large European exchanges.⁶⁹⁵ Despite the exploration of overseas borrowing sources, the Irish banking system remained vital to government funding efforts in the 1960s, but unlike previous decades it was supported by extensive use of Central Bank rediscounting.

For example the decade of the 1960s saw rediscounting of exchequer bills total almost £130m, a figure larger than all the short term accommodations provided to government by the banking system throughout the 1930s, 1940s and 1950s combined.⁶⁹⁶ Central Bank correspondence suggests that in the early 1960s a £9m limit per year on rediscounting was in place and banks were not expected to use this channel of funding unless there was an ‘established need’.⁶⁹⁷ Other correspondence suggests the Central Bank saw rediscounting as a route to acquire more insight into the banking sector, with banks expected to explain last minute usage of the facility and why such fluctuations in funding might be occurring.⁶⁹⁸ This was vital information for any Central Bank with ambitions to expand its institutional remit and fits with historic literature in the area which talks of rediscounting providing Central Banks with a chance to ‘develop contacts’ in the banking system and enforce other policies (discount rate) it values in the monetary space.⁶⁹⁹

Table 6.28.1 Exchequer Bills Rediscounted at Irish Central Bank

⁶⁹³ CIAC First Report.

⁶⁹⁴ Department of Finance Memo, for the International Bank, ‘*Irish Economic Position and Capital Development Needs*’, September 1957. Copy in Central Bank of Ireland Archive, CBI GSD F1611679, Governor McElligott Correspondence File, Part 5 - Economic Topics.

⁶⁹⁵ “*Eire Bond Issue*,” *Belfast Newsletter*, March 2nd, 1966. Accessed via Irish Newspaper Archive

⁶⁹⁶ Exchequer bill discounting figures are contained in Moynihan’s *Currency and Central Banking in Ireland*, 535.

⁶⁹⁷ Central Bank archive. Internal note to directors re Rediscounting of exchequer bills, June 30, 1965 CBI File 0610951, ‘Copies of Board decision’ file.

⁶⁹⁸ Letter sent to banks by the Irish Banks’s Standing Committee on August 4, 1965 concerning recent talks with the Central Bank about rediscounting. Copy of letter contained in CBI File 0610951. ‘Copies of Board Decision’ file.

⁶⁹⁹ R.S Sayers, *Modern Banking* (Oxford: Oxford University Press, 1967), 267.

| Year Ended March 31 | IR£m |
|----------------------------|-------------|
| 1960 | 0 |
| 1961 | 8 |
| 1962 | 8.6 |
| 1963 | 11 |
| 1964 | 8.2 |
| 1965 | 38.6 |
| 1966 | 35.6 |
| 1967 | 10.4 |
| 1968 | 1 |
| 1969 | 6.1 |

Source: Currency and Central Banking in Ireland 1922-1060, Maurice Moynihan (1975, Dublin): Appendix 14, 535.

6.29 Banking Commercial Motivations and Complexity

If rediscounting had not been activated generally, one wonders what direction the state-bank relationship might have taken. Banks themselves were in a delicate dance, unhappy with assuming greater illiquid assets, but equally nervous about spurning government business entirely. Throughout the 1940s and 1950s the banking sector was confronted with requests for loan finance from government and wider public bodies. The level of accommodation granted in response to these requests was often capricious with little evidence that the banks operated a highly systemised risk-based approach. A strong recurring theme was a concern that too rigid a credit posture toward state-linked borrowers could jeopardise business entirely, with the beneficiaries being insurance companies who it was claimed were offering loan finance over longer durations and at lower rates. Despite this supposed danger, the banks indicated no enthusiasm for responding to competition from insurers.⁷⁰⁰ Also motivating them may have been their own cartelised arrangements, if they had been more obdurate in government engagements, could those arrangements have come under review? Archival records say little about this, which suggests the arrangements were accepted as a permanent feature, with upsides for governments, such as stability, a block on foreign lenders and more general co-ordination benefits.

Evidence to fortify the notion that the relationship, while frequently acrimonious, was more of an exchange model is reasonably strong. For example the Agriculture Credit Corporation (ACC), a state backed competitor set up in the 1920s to provide long term loan finance to the farming community, was a lender that often attracted suspicion from the mainstream retail banks. The

⁷⁰⁰ Irish Banks Standing Committee (IBSC) Files, Jan-June 1946. Minutes of Meeting, June 13 1946.

suspicion was matched by a desire to control the development of this bank. As part of engagements in the mid-1940s the banks managed to get modifications to a key piece of legislation governing the operation of this bank, via the Agriculture Credit Act 1947. While it is difficult to be precise about what changes were of its doing, correspondence suggests tight restrictions around who ACC could lend to and how much government assistance could be provided to the bank were introduced on foot of pressure from the banking sector.⁷⁰¹ In similar support of an exchange model were requests from the banking sector (expressed in 1946) that stamp duty on banks for issuing consolidated bank notes should be reduced in order to allow banks to earn a higher margin on currency issuance.⁷⁰² The Minister at the time Aiken was not opposed to lowering the tax taken, but postponed a decision on the basis that it might draw a negative reaction from other economic interests.

6.30 Overall Policy Approach on Scarcity- Financial Repression Tested

Using an exchange model to explain the state-banking relationship in the early decades of the new Irish state is a viable explanatory framework. Public choice literature, from where the exchange model was first conceived, sees relations between the state and business as a series of inducements where self-interested parties privilege reciprocity over a sustained period. While the relationship morphs, it is always contained within the boundaries of an exchange. But such frameworks offer meagre explanatory power unless they help explore how such exchanges fit into the wider objectives of the two parties. In the case of independent Ireland, political elites and bureaucrats, with some exceptions, had little intellectual curiosity about the financial sector in its own right, instead viewing the sector purely as a means to facilitate developmental goals. With the exception of highly authoritarian and centralised command-style economies, governments accept the pursuit of their economic policy goals will rarely be linear or entirely successful. Instead the goals will shift and change and have to co-exist alongside the goals of other parties.

While governments may have an assortment of social, cultural and economic goals, none of these can be fulfilled if another goal- acquiring adequate and reliable sources of capital- cannot be met. While taxation is the primary source of capital for the state, depending on political conditions, it may be deemed political unacceptable to increase this burden further, or if may be decided that while current spending can be funded by taxation revenues, capital spending must be funded from

⁷⁰¹ IBSC Minute Book, June to December 1946 File. This contains correspondence, 29 October 1946, between the Department of Finance and the IBSC where the Department outlines a series of modifications to the Agriculture Credit Bill 1946 that it says were undertaken following suggestions put forward by the banks. Highlighted in pen are two provisions relating to defining agricultural customers and how much financial support the Minister may advance to the ACC under the new legislation.

⁷⁰² IBSC Minutes, June to September 1946. IBSC Note of Meeting between the IBSC and Minister for Finance Frank Aiken, Sept 23, 1946. The issue of stamp duty on consolidate banks notes was addressed by Lord Glenavy, known earlier as Gordon Campbell.

non-taxation sources. If these two conditions are in place, it can alter the relationship between the state and the banking sector significantly, increasing the latter's importance but also its vulnerability to assertive approaches from the state. At the most extreme of end of such continuum of action is financial repression, where governments take policy actions, some subtle, some more overt, to finance national debt as easily and efficiently as possible via the financial system.

Government debt rose strongly across the western world post WW2 and resort to financial repression policies were commonplace as a result. Commonplace though the practice may have been, scholarly agreement on the term itself has remained elusive. The most widely agreed definition is government measures that direct lendable funds toward the sovereign's publicly issued debt, often on attractive terms.⁷⁰³ Whatever about definitions, what of characteristics? Typically captive domestic providers of credit, such as banks or insurance companies, are subject to moral suasion, effectively compelling them to participate in public debt financing, via mechanisms such as reserve requirements that force them to hold a certain level of government securities, exchange and capital controls that restrict institutions/individuals to just domestic savings/investments, preferential tax treatment for government debt over other competing financial instruments, such as equities, interest rate caps in the form of rate ceilings or other indirect measures that help maintain low interest rates.⁷⁰⁴

While definitions of repression tend to be protean, most research tends to agree on the specific measures that make up such a policy, although some goes as far as to suggest unexpected inflation itself is a form of financial repression.⁷⁰⁵ While early work in the area has suggested such policies retard economic growth, other work drawing on industrial policy in Asia has offered the counterpoint that selective credit policies can boost economic growth.⁷⁰⁶

Financial repression was not a term used by Irish political elites and any consideration of this question must be open to the idea that financial repression, if practiced at all, may have been inadvertent or unconscious. Historical research on this subject is curiously absent from Irish scholarly work, but one cannot side-step the enquiry, did capital scarcity pre- and post-WW2 impel governments to implement financially repressive policies in order to alleviate that scarcity.

⁷⁰³Garrick Hileman, "Identifying and Measuring Financial Repression: The British Case in the Mid-20th Century," (May 24, 2017). Available at SSRN: <https://ssrn.com/abstract=2973254>

⁷⁰⁴ Hileman, "Identifying and Measuring Financial Repression."

⁷⁰⁵ Allen, *Monetary Policy and Financial Repression in Britain, 1951-59*. This mentions the inflation point, but mainly recites the characteristics to be found in, Carmen M Reinhart and M Belen Sbranca's, *Liquidation of Government Debt*, 2011, available: <https://www.imf.org/external/np/seminars/eng/2011/res2/pdf/crbs.pdf>

⁷⁰⁶ Murat A. Yülek, "Why governments may opt for financial repression policies: selective credits and endogenous growth", *Economic Research-Ekonomska Istraživanja*, 30:1 (2017), 1390-1405. This covers both the Asian case, but also earlier US-based work which strongly critiqued such policies.

Arguably more nuanced is to ask did governments attempt- but fail- to implement such policies? This paper has sought to isolate, using annual Budget speeches and other legislation and policy changes, any decisions between 1945 and 1960 when capital scarcity was most acute that could be reasonably argued falls under the traditional definition of financial repression as first conceived by researchers such as Edward Shaw and Ronald McKinnon. In appraising these decisions, the test used is, was the policy ‘likely, purposefully or inadvertently, to lead to the more efficient and advantageous channelling of savings (and other funds) toward the Governments in office during the period’.⁷⁰⁷ Included are both firm decisions (including legislation), but also policy initiatives that may not have ultimately occurred due to vested interest resistance or lack of political support.

6.31 Financial Repression in Independent Ireland- Decisions and Policy Initiatives Reviewed

| | |
|-------------|--|
| 1946 | Minister for Finance Frank Aiken lowers interest rates on Post Office and Trustee Savings Banks deposits, in order for the State to borrow from these institutions as lower rates for capital spending programmes. Yields on State savings certificates are also lowered for same purpose. These two measures are later reversed in 1948 |
| 1947 | Minister for Finance Frank Aiken doubles duties payable on the transfer of stocks, shares or marketable securities by deed |
| 1955 | Minister of Finance Gerard Sweetman removes stock issues of Dublin Corporation and other local authorities from the deduction of tax on dividends, in an attempt to make the issues more attractive to investors |
| 1956 | Minister of Finance Gerard Sweetman exempts from income tax the first £25 of total interest arising from deposits with the Post Office Savings Bank, the Trustee Savings Banks or the commercial banks. |
| 1956 | Minister for Finance Gerard Sweetman in talks with banks proposes lower interest rates on selected ‘productive’ sectors, in an effort to shield these sectors from higher borrowing costs |
| 1958 | Minister for Finance James Ryan removes foreign securities from the list of investments trustees can invest in on behalf of their clients, covered under the Trustee (Authorised Investments) Act, 1958. He cites the rationale that domestic capital is ‘scarce’ and it is inappropriate that trustees should be permitted to invest funds outside the State. |

⁷⁰⁷ A similar research task on financial repression in Britain is included in Hileman, *Identifying and Measuring Financial Repression: The British Case in the Mid-20th Century* (May 24, 2017). Available at SSRN: <https://ssrn.com/abstract=2973254>

| | |
|-------------|--|
| 1959 | Minister for Industry and Commerce Jack Lynch starts negotiations in 1958 with overseas life insurers doing business in Ireland. Under an agreement reached in 1959 they are compelled to invest in Irish securities to the value of £2m annually. |
|-------------|--|

Source: Budget measures/speeches, press announcements concerning savings/investment

6.32 Financial Repression Overview

There is no doubt that the political leadership of the era were certainly aware of the trade-offs that are produced when capital is scarce, but there is a concomitant political imperative towards development. How much control and dominion a state should have over private savings was a question pondered at the time.

Speaking while presenting his Budget in 1953 Minister for Finance Sean MacEntee said: “Control over savings would, of course, raise important ethical considerations as to the right of the individual to dispose of his income or his capital.”⁷⁰⁸

One issue that arose in this context was conversions of national loans. Those holding national loan securities were occasionally offered the opportunity to convert their existing holdings into new loans, effectively rolling over their monies in favour of the Government, rather than taking cash. As capital was scarce this was an important consideration, with governments anxious to keep these private funds at their disposal. Legislation in 1935 automatically converted security holders’ monies into a new loan, unless they indicated otherwise. A similar idea was considered again in 1951, but opposition from the Department of Finance on this occasion halted the effort.

The canonical texts about financial repression mainly concern the artificial suppression of financial returns, particularly in lagging economies. In these cases unattractive yields on assets are established, rates of return can no longer be used to discriminate between investment alternatives and savings only flow through narrow channels which are not subject to the discipline of relative price. While it may not be acknowledged holdings of government securities by banks is often effectively compulsory.⁷⁰⁹ Clearly several Irish finance ministers openly sought to channel funds to government, at the expense of savers, and arguably by extension their financial institutions. Ministers Aiken and Sweetman in particular saw their role as ensuring the state had the maximum resource available for capital development. The restriction on overseas trustees and the lowering of deposit rates on smaller depositors in post offices and Trustee Savings banks were certainly exercises in repressive policy.

⁷⁰⁸ Budget speech, May 6th 1953. Vol. 138 No. 10

⁷⁰⁹ The classic features of financial repression and their impact on banks is outlined in Edward S Shaw, *Financial Deepening in Economic Development* (Oxford, Oxford University Press, 1973).

The opposition to Irish banks raising rates, in lock step with competitors' institutions in Britain, were meanwhile motivated by myriad reasons. One was to suppress financing costs across the economy, part of a developmentalist mindset and bolstering competitiveness. But it would be excessive to suggest that the political elites of the time pondered deeply on what was the optimum cost of credit. The pricing of national loans to the public and cost of exchequer bills with the banks for example were highly dynamic questions and ad hoc in the period. Equally Irish policy makers did not implement some of the harder edged repressive policies seen in Britain in the period- for example there a capital issues committee was set up, where government approval was required for private sector fundraisings.

Overall there is evidence that financial repression dilemmas were considered by Irish policy makers and politicians in the period, but equally there was an acknowledgement that there were limits to the monopolisation of capital market resources by the state, even if little was done to address such imbalances or crowding out in practical terms. The urgency of the capital scarcity crisis was such that wider reflections on the effects of the policies of the 1950s were rarely considered. While financial repression literature talks about funds being channelled to government priorities, it is worth nothing where government investment was being placed in the 1950s. While space precludes a detailed analysis of the capital programmes throughout these years the constituents of the 1956/57 programme were relatively typical, with a heavy skew toward housing spending and state-owned companies.

Table 6.33 Capital Budget, 1956-57 – As Per Budget Speech May 1956 (IR£)

| | |
|---------------------------------|------|
| Housing | 7.96 |
| Sanitary Services | 1.10 |
| Hospitals | 1.95 |
| Agricultural Development | 4.63 |
| Turf Development | 1.00 |
| Telephone Infrastructure | 1.50 |
| Schools and State buildings | 1.82 |
| Shipping/Other transport | 5.10 |
| Afforestation | 0.98 |
| Fisheries | 0.07 |
| Industrial Credit Company | 0.25 |
| Supplementary Unemployment Fund | 0.03 |

| | |
|---|--------------|
| National Development Fund (expenditure) | 1.25 |
| Total | 27.6m |

Analysis of years 1947-1955 indicates that housing represented over a third of the state's capital programme, with electricity development the next biggest category at over one fifth.⁷¹⁰ Whatever about its constituent elements, the most dramatic pattern is the sheer scale of increase in post-war capital spending, from £8m in 1947 to £33m by the mid-1950s. It was this ramping up of capital spending that brought the pool of savings available in Ireland, and how banks allocated credit, into the domain of politics, rupturing previous relationships.

6.34 Conclusion

What was the ultimate aim of the political establishment of the post-WW2 generation in trying to exert control over the banking sector in the area of credit? Other academic work suggests an ideological motivation- bank credit could be used to address threats, both internal and external, to the survival of the capitalist order of the time.⁷¹¹ After such a calamitous event as the war, it was inevitable that the political scene across Europe would be open to regenerative thinking with the aim of refashioning capitalism. Whether new thinking was germane or not, Europe underwent a period of exceptionally rapid growth from the end of World War 2 through to the 1960s.⁷¹² Southern Ireland was an absent character from these 'golden age' plotlines, with real national income stagnating between 1950 and 1958, emigration soaring and a 'corrosive pessimism' seizing national life.⁷¹³ Governing amid such an unprepossessing economic landscape was plainly testing and capital formation was not just constrained by factor endowment limitations, but arguably by intellectual paralysis.

Ireland in the 1950s was capital constrained to such an extent that a key report for government, from the Capital Investment Advisory Committee (CIAC) in 1957, asserted that Ireland had reached a precarious point of zero sum credit allocation – any further lending to the state would now be at the expense of the private sector.⁷¹⁴ The years leading up to this point had seen tensions between the state and the banking system escalate. These tensions might have been containable if lending to

⁷¹⁰ The constituents of the capital programme are included in T.K. Whitaker, *Interests*, 38.

⁷¹¹ Loriaux et al, *Capital Ungoverned*. 212

⁷¹² Barry Eichengreen, *The European Economy since 1945* (Princeton: Princeton University Press, 2007), 4.

⁷¹³ Cormac O'Grada, *A Rocky Road, The Irish Economy Since the 1920s* (Manchester: Manchester University Press, 1997), 27.

⁷¹⁴ The first report of CIAC was published in 1957 and was followed by two later reports. The first report, which contained reservations by some members, focused on Ireland's poor balance of payments position and waning external assets and the ability of commercial banks to fund any further significant capital outlays.

the state had been narrowly targeted, ordered and predictable. On the contrary lending was often disordered, often last minute and often labour intensive for those involved. Many of the state companies for example borrowing from the banking system were funding their day-to-day operations via overdraft facilities. Others were borrowing based on state guarantees, legislated for by parliament. At a central government level, lending was done via short term exchequer bills, through national loans, which banks either subscribed to directly or underwrote. While it is impossible to gauge the numbers involved in all this activity it much have been considerable. The cost of this credit was also vitally important to many of the Ministers of the period due to downstream effects in the macro economy, but access was the primary concern.

Archival material suggests policy makers in the Department of Finance acknowledged such a system could not continue. But this group were balanced out by more conservative figures such as the Governor of the Central Bank, Joseph Brennan and some of the individual bankers. It is arguably no co-incidence that using the Central Bank to rediscount exchequer bills in the 1950s came after Brennan had departed, to be replaced by the more accommodating figure of J.J. McElligott. Brennan however was not a one-dimensional figure and his stance on sound money did provide Ireland with banking and currency stability for a sustained period.⁷¹⁵

6.34.1 ‘Business as capital’ and Structuralist Power

For the banking sector it was a period of contradictions. One on the one hand they were suppliers of precious credit, at a time when other alternatives were unavailable. This gave the sector the typical private sector power (the threat of ‘exit’) as envisaged in the structuralists writings of Lindblom and conceptualised by others as ‘business as capital’. But on the other hand, controlling capital at a time of scarcity invited broader state scrutiny and encroachment, disturbing bank autonomy. The banks may well have acceded to government wishes at times because a worse outcome- a wholesale dismantling of their cartel arrangements- could have been comprehended, although there is little questioning of these arrangements in the archival records of the period relevant to this chapter.

While never definitively settled at a particular number, the bank’s liquidity margin was something the banks jealously guarded, but their failure to cohere around a particular liquidity standard (or to articulate one) left the industry open to challenge and weakening by the state. In the end, the conflict over government funding was a collision between state developmentalism and banking autonomy,

⁷¹⁵ Eoin Drea and Frank Barry, “A reappraisal of Joseph Brennan and the achievements of Irish banking and currency policy, 1922 to 1943.”

or more viscerally between the state seeking economic transformation and an industry group seeking to retain the primacy of the market mechanism and structural power. This fault line was made less jagged and stark by the introduction of the Irish Central Bank into a previously bilateral relationship replete with myriad red lines. In decades ahead the Central Bank would act as an important mediator between the banks and the state, using its lender of last resort (LOLR) powers to simultaneously ease government funding concerns and bank liquidity concerns, with a new nexus, commonplace across Europe, now forming in Ireland too. The state could not, short of entire nationalisation of the system, entirely remove the structural power of the banks, but by using the intermediate power of the Central Bank, with its strong information advantages and expertise, it could place restraints around that power, reduce significantly its autonomy and put another counterweight into the set of power relationships. The banks, possibly fearing the greater threat of their cartel being dismantled, permitted this new dispensation and tried to equally shape it, just as the state was doing. But was one key constituency, ironically, neglected in these shifts?

6.35 Banks, the State and Missing Constituencies

Reflecting on the events of the 1950s, one can see the growth of building societies, key banking competitors, in this period as being at least partly explained by the lack of attention focused on customers in the financial services industry. While the Irish banks were focused on profitability, liquidity and branch numbers, and the government on capital availability, neither paid much attention to what customers wanted to do with their funds, at least this is what archival evidence suggests strongly. There was very little, if any, reflection on banking as an industry in its own right with potential to grow and innovate, arguably by either side. As a result capital mobility, externally in terms of outflows to British institutions, and internally in terms of flows to building societies, was a neglected pillar of the financial conversation of the time. If it occurred at all it was wholly defensive.

6.36 Conflict in Banking and its Contribution to Outward Orientation

The contentions of the State and the banking sector of the 1950s were important in another respect—the political and bureaucratic elites of Ireland were forced to confront the capital and capacity constraints of the Irish economy and look outward as a result, both for capital but also fresh perspectives. By the mid-1950s Ireland's economy was still heavily reliant on agriculture with an industrial base that remained underdeveloped. Average income per head was one half of that of Britain and one fifth of that of the United States. Catch up economic growth lay ahead and the aspiration that the banking system could prove pivotal to such a phenomenon was not fanciful – for

example influential observers have tied Germany's successful industrialisation in the late 19th century to the role of credit creation on the part of the banking system.⁷¹⁶

The conflicts with the banking sector of the 1950s were ultimately about forcing the banking sector to move towards the state's conception of how the banking should operate. It was also aimed at reducing the sector's power vis a vis the state by curbing its autonomy and reliance on the London money markets. However it did not do this by sheer brute political force (for example the banks were still allowed operate as a cartel), but by taking away technical reasons the banks cited for resisting being a partner to the state and bringing the Irish Central Bank more into the foreground as an intermediary institution. Also a search for stable alternatives to the Irish banks got underway, including reaching out to international institutions such as the World Bank, which Ireland applied to in 1957 for access to capital, plus the international investment community. In that sense the conflicts of the 1950s set in motion a journey towards the modernisation of the Irish economy and the thorny mutual dependencies of the state and the banks were not to reach such a level of intensity again until arguably the financial crisis of 2008.

ENDS

⁷¹⁶ Alexander Gerschenkron, *Economic Backwardness*, 14.

Chapter 7: Conclusion

7.1 Introduction

In this conclusion, the aim is to isolate and synthesise some commonalities extracted from the three historical episodes and from these arrive at some wider empirical findings and shared thematics.

In order to support that process, it will be important to first sketch out and assess the posture, strengths/weaknesses of government and business coming into the relevant period, before going on to evaluate how they interacted and influenced the evolution of key services categories subsequently.

Then in the second part of this concluding chapter the empirical material will be used, as per business history common practice, to concisely test some of the most influential and canonical theories on government-business relations, mainly those drawn from the political science and economic fields and outlined in the earlier literature review. While space does not permit a prolonged exercise in such theory appraisal, the preliminary and tentative findings ideally can be built on by future researchers undertaking enquiry in the same period and context. At the end some final observations will be made about government-business relations and their dynamics when translated into the services segment of the economy in particular.

7.2 Elite Enmity Toward Services and Business Sector

In the early decades of Irish independence, the new political elites had an uneasy and sceptical perspective on economically critical parts of the services sector, while broadly ignoring the area in its aggregated form. For some elites there were simply too many banks.⁷¹⁷ Insurance was perceived as extractive and quasi-colonial, with the Irish economy perceived to be deprived of the funds raised and controlled by that sector.⁷¹⁸ Railway firms meanwhile were perceived to be excessively deferential to the interests of their stockholders, at the expense of labour and domestic business/agrarian interests, major users of the railways. The 1920s political establishment had inherited a business sector which had some very discernible distinguishing features, much of it was

⁷¹⁷ “Too Many Banking Institutions.” *Irish Independent*, April 19, 1929. This contains a report on comments by Minister for Finance, Ernest Blythe, that the new state has an excess of banking firms.

⁷¹⁸ “Mr Lemass Fears for Irish Industry.” *Irish Independent*, Dec 02, 1929. This talks of an annual net loss of IR£1m due to premiums leaving the Irish jurisdiction.

Protestant-controlled, much of it was apprehensive about a new nationalist political dispensation and much of it was dependent on an agriculture sector trading almost exclusively with Britain. While the political figures of these early years are sometimes derided as free trade ideologues only interested in ‘continuity’ with the previous British colonial system, this is a somewhat selective caricature. The attempt to consolidate Ireland’s rail system in 1924 for instance revealed considerable enmity between the new nationalist political elites and the business establishment. For instance, W.T.Cosgrave, President of the Executive Council introducing his 1924 rail bill, displayed caustic impatience with Ireland’s inherited business elite and seemed to question their very fealty towards the entire nationalist project.

“If they want to know what my opinion of them is, it is this: If there is one class in this community more responsible than another for the disorder that has taken place during the last two years, it is the so-called businessmen. Not one of them made an effort to develop business, or to show any public spirit or to indicate what confidence they had in their country.”⁷¹⁹

Cosgrave’s description of the business community as ‘antique furniture’ in the same speech was instructive, with its emphasis on embedded and inherited market power, developed as it was from a pre-independence colonial order. This surface enmity was one thing rhetorically, but was there a substantial animating theme buried beneath this rhetoric? In the work contained here, a commonality or thematic can be identified and stretched across the three cases.

7.3 Development Thematic

All three were examples of government attempts to radically reconfigure individual markets with the primary goal (although not ruling out associated goals) of national economic development, as defined and framed by the promoters.

Reconfiguring of markets by government can cover a multitude: preferring some firms over others (protectionism would fall into this category), adjusting production levels, adjusting prices, raising entry barriers, nationalising a whole sector etc. Such reconfiguring can include include making firms, or the sector itself, more responsive to government’s own narrow inward needs (these needs may have a follow-on socio-political purpose). While dismissing none of these intentions individually, discernible in the context studied here is arguably an overarching synthesis of many of these- a need by the state to drive economic development, potentially by co-opting the larger services categories into such a project. This had the potential at many junctures of colliding with the profit making and maximising prerogative of the business sector, setting the stage for potential conflict. The mutual strengths/weaknesses of government and business would then be tested.

⁷¹⁹ Speech by W.T.Cosgrave, to Dáil Éireann, introducing the Railways Bill 1924, Apr 1,1924, Vol. 6 No. 40.

7.4 Ireland As a ‘Strong State’

The Irish state was seemingly in a strong position relative to private capital, post-independence. It was a new state with a rare chance to ignore the orthodoxies of the previous colonial hegemon. It was fiscally sound, a creditor nation able to borrow at low rates with at least some space and public patience to undertake ideological experimentation. Even its political elites, while hardly radicals, had no reason on the surface to seek the affirmation of wealthy overseas insurance interests or Protestant rail company stockholders. In essence factors can be grouped together to argue that the Irish Free State, and its constitutional successors, possessed the ingredients to act like what theorists call a ‘strong state’. Factors weakening these apparent strengths were the lack of an international credit profile, a very modestly sized business sector, a group of nationalists who remained implacably opposed to the Anglo-Irish settlement itself, and a seeming adherence to Gladstonian finance, which meant fiscal experimentation was frowned upon. In addition, there was a lot of loose speculation about what former Protestant elites, many of them English landlords, had done with their wealth post-independence, with one source suggesting £100m had been taken out of the Irish economy by Protestant *rentiers* before, during and after independence.⁷²⁰ While these latter factors were economic and political negatives, the slate was at least clean for a new cadre of political leaders to actualise the Irish nationalist project. If the new state was ‘a strong state’ though it really only started to have ambitions towards fulfilling such a descriptor in the 1930s.

In that decade Fianna Fáil transformed that earlier unsettled view of the new political elites into a wider systematic platform, built around disaffection with the economic status quo. But in a reflection of economic realities the first priority of this administration were policies aimed at protecting and enhancing domestic industrial production, using the device, among others, of the Control of Manufactures Act, 1932. This somewhat enigmatic piece of legislation was ostensibly about lifting domestic production through a quasi-national effort and its worth repeating the rationale Minister for Industry and Commerce, Sean Lemass provided, for spearheading this change of direction:

“We are endeavouring to undertake and promote rapid industrial development in this country. We are in the process of imposing a system of protective tariffs designed to ensure the production in this country in much greater volume, of goods which were produced here heretofore, and some classes of goods which were not produced in this country before this.”⁷²¹

⁷²⁰ This figure is an attempt to calculate how much land changed hands under the various land acts of the late 19th century and early 20th century, when tenant farmers purchased land from mainly British and Anglo-Irish landlords. It is included in T.K. Daniel, “Griffith on His Noble Head,” 208.

⁷²¹ Speech of Sean Lemass, Minister for Industry and Commerce, introducing the Control of Manufactures Bill 1932. Dáil Éireann debate, 14 Jun 1932, Vol. 42 No. 9.

This resort to economic autarchy had multiple motivations, including the need to deliver on the promise of the independence struggle of previous decades. In addition global heterodox economic ideas such as demand stimulus and the socialisation of investment, amid the Great Depression, were also relevant.⁷²² While the employment present in the manufacturing sector was clear and acted as a trigger for political action, the scale of the services sector, when measured in alternative ways, was large and inevitably going to drive political interest, in time.

Table 7.5: Employment in Various Services Sectors – Census Irish Free State, 1926

| Sector | People Employed |
|------------------|-----------------|
| Domestic Service | 85,492 |
| Retail (Grocery) | 19,495 |
| Public Houses | 18,652 |
| Railways | 17,610 |
| Retail (Drapery) | 15,040 |
| Banking | 4,330 |
| Insurance | 3,504 |

Table 7.6: Capital levels in various sectors by scale & number of Firms 1931

| Sector | Nominal Share Capital IR£ | No. of Companies in Sector |
|-----------------------------------|---------------------------|----------------------------|
| Banking | 5.7m | 5 |
| Shipping | 3.9m | 24 |
| Drapers, Milliners, Outfitters | 2.9m | 110 |
| Insurance | 2.2m | 16 |

Source: Companies' Office Annual Report, Ended 1931, Department of Industry and Commerce. Government Publications Office. This report does not contain data on rail firms which were captured in a separate register annually; not all insurers were categorised as 'Irish companies'.

But Lemass and colleagues were not driven by the capital tied up in the services sector, at least not directly, but by the services made possible by that capital.

7.7 Business View of Independence

⁷²² These ideas are explored in multiple geographies in Peter Gourevitch, "Breaking with Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s." *International Organization* 38, no. 1 (1984), 95–129.

A complete sense of how the business establishment viewed independence itself is difficult to ascertain, although strategic ambiguity and conditionality could be apt descriptions, with the Dublin Chamber of Commerce, a powerful business voice, supporting just ‘a measure’ of self-government for Ireland.⁷²³ However a data-led study explains that that the bulk of the business elite of the time strongly favoured retention of the status quo, opposing secession from Britain.⁷²⁴ Clearly this stance would reverberate for many years later and shape, at an apex level, relations between government and business, potentially reducing overall goodwill towards the sector.

But delving further what of services segments more particularly and the relationships contained within? All three sectors had a strong Protestant profile in a state now run chiefly by Catholic and nationalist politicians and civil servants. However a certain pragmatism also emerged- Bank of Ireland became the banker of the new nationalist governing elites for instance and the transport industry eventually started to reflect more the religious profile of the new state- for example the brother of Sean Lemass, Frank Lemass, was to become the senior manager of Ireland’s largest train company in time.⁷²⁵

As outlined, all three sectors studied here were politically and ideologically questioned in the early years of independence. Against that background, while the governments of the 1920s were prepared to tentatively try out some embryonic policy initiatives (e.g. the rail consolidation of 1924, the appointment of an expert committee to look at industrial insurance in 1923) that work was very much ongoing by the time Fianna Fáil assumed power in 1932. It was only when that party’s autarkic programme got underway that the objectives of government and the three business sectors studied here collided most forcefully. From this period onwards, it was inevitable policy ‘winners’ and ‘losers’ would be created and made identifiable.

7.8 Business and Policy ‘Loss’

It is important to ask in that context, what is ‘policy loss’? Political scientists explain that whenever governments change policies, whether that is tax, expenditure, or regulatory policies, even if the changes are net socially beneficial, there will typically be ‘losers’.⁷²⁶

“These losers will have made investments of one kind or another, physical, financial or human, predicated on, or even deliberately induced by the pre-reform set of policies. Very few policy

⁷²³ Debate in the Chamber about independence is captured in L.M.Cullen, “*Princes and Pirates*,” (Dublin Chamber of Commerce Publishing: Dublin, 1983).

⁷²⁴ Frank Barry, “Business Establishment Opposition to Southern Ireland’s Exit from the United Kingdom.” *Enterprise & Society* 23, no. 4 (2022): 984–1018.

⁷²⁵ Frank Lemass, Dictionary of Irish Biography entry. Available here: <https://www.dib.ie/biography/lemass-frank-a4784>

⁷²⁶ Michael J Trebilcock, *Dealing with Losers: The Political Economy of Policy Transitions* (Oxford: Oxford University Press, 2014), 1.

changes make somebody better off and nobody worse off, according to their own subjective valuations (the economists' concept of Pareto efficiency). Rather, policy changes reallocate social benefits and costs in different ways.⁷²⁷

Clearly at different times during the period under review, 'policy loss' was sustained by the services businesses studied:

- Shareholders and debenture holders had their investments drastically reduced in value in the Railways Act 1933, when the capital of the GSR was reconstructed.
- Large British insurers were forced, via a form of political duress, to exit the Irish life insurance market in the 1930s.
- Banks were forced to grant additional accommodations to the Irish government, despite their misgiving over credit autonomy and liquidity standards, in the mid-1950s and beyond.

But 'loss' is rarely permanent and rarely total. Often when an economic constituency sustains a policy loss it is mitigated by devices such as government compensation, grandfathering, or phased or postponed implementation.⁷²⁸ While policy loss can be defined, just looking at original objectives and whether they were achieved or not, is also a useful analytical tool for assessing the government-business relations in a particular era. This is not an exact measure as accounts of objective gains or losses are challenged by temporality. But summarising the objectives of government and business and then mapping which side made progress on these can be helpful:

Table 7.9: Government-Business Relations in Post-Independence Economic Dispensation

| Sector | Government objective | Business objective | Outcome |
|---------|--|--|--|
| Banking | Bank support for state funding questioned, with the objective of government to get the banks to privilege government borrowing over private borrowing, making the banks residual lenders to the state to further national economic development goals at a time of capital scarcity. Bring UK assets of the Irish banks back under Irish native control | Determination to preserve liquidity ratio, credit autonomy and operational control. Reluctant to be residual suppliers of government capital and resisted idea of a wholesale move toward investing in Irish securities, at expense of more liquid British securities. | Two Commissions set up to study the banking sector- the sector retained considerable autonomy, although competitors set up via state-owned banks ACC, ICC. Deterioration in relationship in 1950s over loan support as 3 banks stage capital strike. Central Bank plays role as mediating institution, allowing for first time |

⁷²⁷ Trebilock, *Dealing with Losers*, 2.

⁷²⁸ Trebilock, *Dealing with Losers*, 3.

| | | | |
|----------------|---|---|--|
| | | | liquidity support. UK located assets gradually move back to native control. |
| Insurance | In the insurance restructurings of the 1930s, the objective of government was to reconfigure the industry, transforming it into a domestically controlled one, where the capital produced was made available for national economic development purposes. | Bi-furcation of industry- overseas insurers support attempt to have a negotiated exit and avoid being tied to domestic investment rules; domestic insurers were seeking rigorous protection, and state preference. | Landmark legislation in form of Insurance Act 1936, leads to negotiated exit of large British players, effective and generous bailout of domestic players, but sector overall remains strongly influenced by overseas players, although one 'national champion' created |
| Rail Transport | In the episode concerning the railway industry and restructurings of the 1930s, the objective of government is to stabilise the railway by diluting the presence of private capital (via a capital write- down) and allowing it to eliminate its road competition in exchange. This does not stabilise railways in subsequent debates, but negotiations with rail capital moves into a voluntary in nature as concern arises over perception of international capital | Following reform of 1924, effectively Great Southern Railways becomes main rail company. Management prepared to support restructuring ideas, rail capital opposed, distrustful of nationalisation, opposed to capital write-down as violating private property rights. Debentures protected by strong legal protections from 19 th century | Rail capital is subject to capital reconstruction via Railways Act 1933, and given powers to compulsorily purchase road competition in same year in exchange. Neither prevents worsening rail financial performance, eventual nationalisation occurs in 1950, although it occurs in negotiated form and the 1933 write down of rail capital are not repeated |

While the above relates to final policy directions/destinations, one must be careful to avoid being deterministic. In most instances above, alternative policy options were available, although they would have triggered different political, social and economic consequences. The events outlined above are capable of multiple interpretations, policy 'loss' and 'gains' can be ambiguous and impacted by what snapshot of time is deployed. But this work has identified in all three episodes, a modification of original state policy activism and a drift toward a more reciprocal positioning and this leads one to ask what theoretical constructs might explain this.

7.10 Theory Testing

Having outlined the potential ‘strengths’ of business and government coming into this period we can use these three empirically researched episodes to test and explore, in a preliminary and embryonic sense, some explanatory frameworks and theories (outlined in the literature review) concerning government-business relations and assess their explanatory power. This is a first stage endeavour and further research by others should complement this work. Some of the theories below are structural power theories, that is non-intentional, while others are more instrumental, intentional.

As ever, one has to be wary of anachronism and imposing values, belief systems and motivations of today on those who existed in the past and the events involving them. However business history has set itself a disciplinary mission, of making theoretical contributions on the basis of historical research.⁷²⁹ Such engagement is part of an effort by business historians to refute the familiar criticism of being ‘inveterate empiricists’.⁷³⁰ Secondly one has to be modest in uncovering regularities, each sector had its own historical dynamic and market structure. However to bring coherence to the work, it is worth revisiting the literature review outlined in Chapter Two, and assessing what theoretical concepts may have applicability to the period and empirical episodes researched here. These concepts include rent seeking/regulatory capture from the public choice school and constructs gathered from the political science field (directly bearing on government-business relations), including, pluralism/interest group theory, neo-corporatism, elite networks, ideological dominance and structural dependence definitions of business.

7.11 Pluralism and Interest Group Contestation

The pluralist idea, while theoretically coherent, is difficult to measure within period in its fullest as the consumer influence, key to services businesses, was so starkly missing from the industry segments studied here. In fact at times it was effectively ignored (e.g. tariffs and protectionism).⁷³¹ While other groups had an influence in policy discussions, most notably labour in some of the episodes, archival research suggests labour was rarely a participant at crucial turning points or meetings when decisions were made, although its influence over the Labour Party was not insignificant.

Clearly contestation took place in all three cases, but ultimately, when one considers labour’s limited role, the contestation was one where business was not opposed by a countervailing force of

⁷²⁹ Stephanie Decker, “Paradigms lost: integrating history and organization studies,” *Management & Organizational History*, 11, 4 (2016): 364-379.

⁷³⁰ Peter Clark and Michael Rowlinson, “The Treatment of History in Organisation Studies: Towards an ‘Historic Turn’?”, *Business History*, 46, 3 (2007): 331-352.

⁷³¹ Consumers were not addressed in the speech introducing the Control of Manufactures Act 1932 by Minister Lemass in June 1932, although opposition politicians did briefly address the subject.

similar political weight. In addition corporatist structures were not present in any formal sense in the episodes studied here. Access to government decision makers was granted liberally, but at times was also withdrawn (the railway companies for instance were angered when rail legislation was constructed by Sean Lemass without their input in 1933). Instead often engagement between government and business was ad hoc, proceeding according to the ebb and flow of discussions, rather than put in place with any long term strategic or institutional purpose.

Pluralist descriptions of contestation suggest business has resource advantages, but these are checked by any number of policy competitors, including environmentalists, consumers and labour. There are instances in the research where labour's influence was important- for example the Labour Party's sway over the Fianna Fáil party in the 1930s, was a factor in propelling Lemass to write down rail capital, but it only had so much potency, as institutional protections for private capital (plus fear over international reaction in money markets) appears to have carried more weight later on, particularly when the Labour Party's parliamentary support was no longer needed. In relation to banking customers, they were anything but a counterweight, in fact active policy was to prevent them exerting any policy or market leverage, as evidenced by secret agreements designed to prevent them moving their business between institution and geography easily. There is no suggestion the Irish state had any reservations about this at the time and depositors were actively seen as a source of repressed and cheap money for political priorities, including by post-WW2 finance Minister Frank Aiken.

7.12 Elite Networks- Formation and Impact

Elite networks, which are part of instrumental business power/influence, would certainly have explanatory power that could contextualise the three episodes- for example the generous payoffs given to insurance directors following the restructuring of the mid-1930s have a strong suggestion of crony capitalism. These payoffs were to managers running balance sheet insolvent companies, it must be remembered. In addition many of those running the domestic insurance companies were former nationalist leaders (Michael O'Reilly, of the New Ireland Insurance was one example) and hence colleagues of the revolutionary era just like policy makers Sean Lemass or Éamon De Valera, potentially a form of kinship network. Finally, some parliamentarians occupied dual and questionable roles, as drafters of legislation but also members of insurance company boards, the subject of such legislation. In the banking arena one can also witness former civil servants switching from their state role to a position in bank leadership (John Leydon, the former head of the Department of Industry and Commerce joined the National Bank as a director in the 1950s for

instance).⁷³² These type of revolving door network associations are important, as are the seeming privileged access given to insurance executives and their political allies. Scholars however caution on what network analysis can do, seeing it sometimes as descriptive rather than explanatory and pointing out that it does not necessarily correlate to political outcomes.⁷³³

Synthesizing the range of research discoveries in this work is certainly suggestive that networks had a part to play in the policy outcomes that occurred in the industries under review. Whether the relevant networks arose from a generalised ethnic or interest-based homophily, is harder to answer. But archival evidence is not sufficient in this researcher's view to lay definitive weight on networks as a primary explanatory factor. Certainly insiders gained rents, such as insurance executives after the 1930s restructurings, but at other times, powerful forces, such as the Catholic church, suffered loss- writing down of rail shares. The more modest finding that networks certainly produced privileged access for key actors and at times of great importance can be substantiated, a less easy finding to support is that the networks were the primary causation of the political outcomes captured here. Further work would be required to draw out a stronger inference, likewise in relation to issues of ideological dominance.

Similar might be said of rent seeking as explanatory causation. Clearly the domestic insurance industry manipulated the political environment of the 1930s to gain 'rents' (such as compensation) even though their companies were seemingly badly managed and lacking sufficient capital safeguards. But were the political elites willing to be manipulated? If so why? This work argues the necessity of economic development at a macro level, provided fertile ground for rent seeking to be successful at times. Change and economic risk taking had to be induced and business had to be incentivised at intervals to get change delivered (much of it socially progressive- .e.g. housing provision), this permitted some instances of rent seeking behaviour, but its not clear allowing rent seeking was the first and primary motivation of the central political characters in the period.

7.13 Ideological Dominance

While an Irish nationalist ideology permeated much of the policy making circles of the period, this was shared by most of the participants, rather than imposed. It was shared by both business figures on one side, and politicians and bureaucrats on the other. Developmentalist thinking, in the sense of Ireland needed to increase national output, create additional employment opportunities and lower emigration, was accepted by virtually all civic voices. While much was rhetorical, the business and

⁷³² Details of John Leydon's career are captured by the researchers at the Dictionary of Irish Biography. Their research suggests Leyon was an 'unofficial' advisor to Sean Lemass until 1966. Leydon was appointed to the National Bank as chairman in the 1950s and took part in discussions with government on thorny issues that decade such as government funding for several years, under the auspices of the Irish Banks' Standing Committee. This opens up the intriguing possibility that Mr Leydon was representing his bank's interests at a senior level, was also advising his former political master Sean Lemass.

⁷³³ Bernhagen, *the Political Power of Business*, 38.

government relationship was not split over the ultimate idea that output and national income needed special priority after secession from Britain, whatever the mechanics of achieving this. Review of the messages put into mass media by bank executives, insurance executives and railway interests often sounded similar to those of government, suggesting other ideological alternatives faced a struggle for momentum (Marxism for instance was repudiated by both sides equally).

To this researcher the most germane and arguably revelatory theoretical question to pose of the episodes gathered here, is the question often described as the most important of all to ask in the domain of government-business relations and it is worth quoting verbatim.

“Perhaps the classic question about business and the state has been the power relationship between them. Is business dominated and controlled by the state or are states dominated and controlled by businesses?”

For pluralists the answer is situational, each time a new set of contending forces, of which business is just one, line up and create a new power dynamic and this gets endlessly recontested. This idea is more relevant to the latter 20th century this researcher argues, when the circle of contention was broader, enlarged by then with consumer groups and resurgent labour unions, not to mention NGOS and civic groups.

7.14 Structural Power of Business

This leaves arguably the most canonical and influential theoretical construct that may pose as a primary explainer of the business government relationship, that is the structural arguments of Charles Lindblom and others. This is the suggestion that the control business has over economic resources (capital, tax revenues, employment) gives it an in-built advantage in influencing governments, who crave these resources for electoral success. In other words business is the one which shapes industry evolution ultimately. In short, business can vote twice, one as a physical voting bloc, but two by threatening capital strikes and using such leverage to reach its objectives in relation to market structure.

On first view, the historic services economy would seem to buttress this point further, as many services such as insurance, banking and transport were highly economically critical, and in many ways indispensable to operating a 20th century economy, making the structural argument potentially persuasive. The structural explanation of business influence or power, is not without its critics in the 21st century, who argue that the concept cannot explain variations in experience across time and place.⁷³⁴ Also, it is difficult empirically to distinguish between instrumental (lobbying, access, campaign financing etc) and structural power. In the instance of the episodes gathered here,

⁷³⁴ Neil Rollings, “The Vast and Unsolved Enigma of Power’: Business History and Business Power.” *Enterprise & Society* 22, no. 4 (2021): 893–920

this is a little more clear-cut as instrumental power, in the strict sense of campaign financing or professionalised lobbying was absent.⁷³⁵ By eliminating some of obstacles to clear theoretical exposition, this leads to the firm suggestion that structural power explains at least some of how services were shaped in the period under review by government and business.

7.15 Irish Search for Development

Before weighing this, it is important to briefly outline the issue of developmentalist thinking at the time, which was an influential among civil servants and the political elites. Writing on statism, as an explainer for government-business relations, emphasises that these two groups are not merely instruments of other groups, but have their own priorities and agendas, hence the need to consider the latter. Macro economists tend to be sanguine about Irish economic performance in the early decades of independence, seeking to maybe puncture some of the more emotive accounts, with one economist describing the performance in the inter-war period as ‘poor but not atypical’.⁷³⁶ But the political tenor of the inter-war period was one of heightened anxiety about stunted economic potential, there was a specific desire for capital accumulation, with redistribution less emphasised (for example the income tax rate had been radically reduced in the 1920s). Some of the economic alarm bells rung would have had a deafening effect, even just temporarily. For example Sean Lemass in November 1932 sent a government memorandum warning of a recurrence of the 19th century potato famine and a collapsing economic system.⁷³⁷

It was in this atmosphere of gloom that policy prescriptions, impacting private capital, were to be designed. The political scientist Peter Gourevitch has identified the 1930s as a period when globally private capital and business was enveloped, against its will, in a new economic paradigm- the socialisation of investment. This was the belief that private control of investment was incompatible with full employment and that employment generating initiatives must be wrenched from the hands of private interests.⁷³⁸ While we do not know for certain if these precise nostrums were animating Lemass and others in the inter-war period and beyond, his own personal records would suggest Lemass was governed by a core objective of loosening the grip of capital over investment. In interviews in the late 1960s (known as the ‘Lemass Tapes’) with a friend called Dermot A Ryan, the former Minister talked throughout about the need to subjugate the interests of private capital to those of government in order to drive employment creation.⁷³⁹ Compulsory purchases of business and property were part of this. Lemass was however sensitive to how his policy direction in areas

⁷³⁵ This research is not aware of any organised registers of donations or political contributions from this period.

⁷³⁶ Cormac Ó’Gráda and Kevin O’Rourke, “The Irish economy during the century after partition,” the *Economic History Review*, Vol 75, Issue 2 (2022): 336-370.

⁷³⁷ Horgan, *Sean Lemass- The Enigmatic Patriot*, 71.

⁷³⁸ Gourevitch, *Breaking with Orthodoxy*.

⁷³⁹ Sean Lemass Tapes collection is held at UCD Archives.

like rail capital and property rights would be received by capitalistic interests in London for instance. This sensitivity, and doubtless a domestic version as well, were important in modifying the developmentalist drift of Irish policy at this time.

This work has identified instances in insurance and railways where the structural constraints imposed by private capital were, at the very least, highly germane to the policy calculus. This was evident in the concern over the impact of writing down the value of rail capital and its reputational impact with creditors. Secondly similar sentiments were visible when the impact of any insolvency in any Irish insurance company was comprehended and what impact this might have on ‘the national credit’.⁷⁴⁰ Such an impact was regarded as unacceptable, hence the building of a momentum towards rescuing these insurance firms.

While overseas borrowing by the new state was unusual in the early decades, there is no doubt that offending capital, both domestic and overseas, was a factor in the shaping of industry evolution. Counterfactuals are helpful in drawing out this point. For example if the British insurance presence in Ireland had not been so large and indispensable, would the Fianna Fáil party simply have tariffed overseas providers out of the market, or banned them entirely, as per legislation later experimented with by India. In relation to railways, if the London money markets had not reacted so negatively to the rail capital write-downs of 1933, would Lemass have gone further in further restructuring and eroded the value of such stock further, or even force a default? In relation to banks the same question arises, would the Central Bank have been brought in to offer rediscounting services in late 1955 if three crucial banks had not signalled their intention to stop short term government funding for the first time?

Irish historiography, which goes beyond business history, has suggested that two factors were at play in terms of creating structural dependence on business, one conventional, the other more subtle. The first is that owners of capital, due to perfect capital mobility, always had the option to transfer their funds out of the Irish Free State (and its successors), so disastrous capital ‘exit’ was always something to be avoided. Two, *rentier* capital had been against secession, so the new political elites wanted to maintain the confidence of such groups, and show ultimately, they could be trusted with the rules of capitalism.⁷⁴¹ This is important as the structural power of business is not solely about an actual dependence on business for economic performance, but also a form of unobservable phenomena, where state managers and elites internalise the values and preferences of capitalistic

⁷⁴⁰ This warning was made in a memo prepared for Minister for Industry and Commerce, Patrick McGilligan and passed to President of Executive Council’s office. Memo dated, 20 Nov, 1928. NAI TSCH S2348, P.19

⁷⁴¹ Daniel, “Griffith on His Noble Head,” 208.

interests, leading one Marxist writer to quip: ‘the ruling class does not rule, it does not have to’.⁷⁴² In the case of Ireland’s state managers it is a formidable exercise to substantiate such ideas. A more modest, but important finding, is that the centrality (and dependence) of capital, in various forms and various times, was a mitigant of developmental ambitions in the services sector, as promoted by its authors.

This view is supported because all the three episodes involved a dilution, or mitigation of the original government policy intention. That is a core commonality or pattern. In the case of insurance, the creation of a domestic insurance industry was not achieved, although one prominent Irish firm did emerge (Irish Life), in the case of rail restructuring, after an initially ambitious policy to sideline rail capital a more moderated position was adopted, with full nationalisation of the rail system put on hold for many years and private capital eventually remunerated, albeit at reduced levels. Finally the attempts to transform banks to act as residual last resort lenders to government was only achieved by taking more cognisance of banking sector’s influence and invoking a mediating role for the Irish Central Bank, a move previously spurned by state bureaucrats.

7.16 Reciprocal Consent

It is argued that to understand the government-business relations studied here it is important to recognise that to achieve policy aims, many of them radical and far reaching for their era, an exchange relationship with private business had to be formed and conceded to. This position has been theorised before in Japanese business history, in a concept known as *reciprocal consent*. This is the idea that relations between business and government are about mutual accommodation and shifting compacts. Private business is allowed use of public resources, and in exchange it grants the state some jurisdiction over industrial structure in the national interest.⁷⁴³ While this formula leans heavily on reciprocity and constantly evolving accommodation, it does not entirely dispel the traditional idea of the structural power of business, but suggests a form of mutual shaping of sectors.

7.17 Path Dependence

Another question that dovetails with the idea of structural dependence on business, is does the dependence have a ‘locked in’ element? This reformulates the structural question this way- were government intentions in these services industries modified by the simple overwhelming control of economic resources by capitalists in economically critical areas, who benefitted from path dependent advantages arising from the British colonial overhang, including certain legal

⁷⁴² Bernhagen, the *Political Power of Business*, 46, talks about the ability of powerful interests to ‘induce’ in others their preferences, even though these interests may run counter to their real interests. It must be stressed that Bernhagen is somewhat sceptical of this idea.

⁷⁴³ The concept of reciprocal consent is outlined in Richard Samuels, “The business of the Japanese state,” in Ed, Martin Chick, *Government, Industrial and Markets* (Edward Elgar: Aldershot, UK, 1990).

frameworks? For example the protections for debenture holders in rail firms, arising from laws established in the era of ‘gentlemanly capitalists’ in the 19th century, were firm path dependencies that proved hard to shake off. Was the irreversibility of physical rail lines, stations (and jobs), attached to the railway system, also a consideration in the level of radicalism (or lack) of reform efforts?

While they had their colonial roots, other path dependencies were created in a different context. For example the need to negotiate with British insurance firms in the 1930s was driven by two factors— one, these firms had embedded market power that could not be easily addressed by simple tariff policy, and secondly they had technical information advantages and expertise coveted by the political and bureaucratic system, which meant their exit had to be negotiated, not just simply achieved via tariffs or onerous regulation. In addition, any reconfiguration of the industry to make it wholly domestically controlled was going to have to grapple with comparative advantage which sees insurance as best offered by larger core capital-rich clusters like London or New York.⁷⁴⁴ Services of all kinds are notoriously difficult to measure so users often depend on ‘tangible cues’ before making a purchasing commitment, such as esteemed brand or reputation.⁷⁴⁵ If this is accepted, it bestowed on British insurers an advantage, with their larger balance sheets (proxy for safety) and well-recognised backers (reputation).⁷⁴⁶

Another factor that arguably needs inclusion relates to the potential of state coercion in helping a government to achieve its aims. The banking episode illustrates that despite a range of tactics (moral suasion, threats of nationalisation, deal making over the cost of credit) the banks resisted governments attempts to transform their sector into a residual state lender, at least without the backstop of Central Bank liquidity support. This highlights that interventions that fall short of coercive measures, such as nationalisation and running crucial services from a government department, are automatically going to have to be the result of a compromise with business. Another way to represent this is the state wanting certain policy goals to be delivered at a remove, but employing, in a metaphorical sense, private business to deliver these, a principal-agency relationship.

The finding that the structural power of business, domestic and international, constrains the policy ambitions of political elites is echoed in other geographies and contexts, including within historical

⁷⁴⁴ The dominance of London and New York in insurance and financial services more generally is due to centralisation, which reduces cost, and the international political and economic environment there, says Ronald Shelp in his *Beyond Industrialization (Ascendancy of the Global Service Economy)* book. The reasons for Edinburgh’s strong showing in this sector in Europe may counter this suggestion, to some extent.

⁷⁴⁵ Leonard Berry, “Cultivating service brand equity”, *Journal of the Academy of Marketing Science*, 28 (1), (2000):128-137.

⁷⁴⁶ The wealthy Charles Rothschild was associated with Alliance Insurance, an operator in Ireland and this was emphasised in Irish adverts.

research. This constraint is said to expand when the state is ‘non-core’. The social democratic regime of Salvador Allende in Chile is cited as a proof point that states with ambitious programmes of transformation will either have to reverse them, or modify them due to the influence of capital.⁷⁴⁷ Others assert that such governments either compromise their original programs, including total reversals, like that committed by the French Socialists.⁷⁴⁸

7.18 Services Sectors and Economic Function

In addition to uncovering theoretical constructs of relevance to business-government relations, what of services industries in particular? It is worth exploring what characteristics of these industries may have been relevant to the policy outcomes of the era reviewed? A worthwhile reason for doing this is because other work can lack specificity, conceptualising sectoral interests based on diffuse criterion such as dependence on trade or on factoral lines.⁷⁴⁹ The latter in particular may be particularly unsatisfactory for those studying the economy beyond simple aggregates, as business historians do.

Developmentalism was a political creed in the early decades of Irish independence, if one accepts the meaning of this term as referring to structural change that aims at increasing output, typically from shifting from agriculture to industry.⁷⁵⁰ But this type of structural change did not encompass services industries in their totality and this was curious, some have observed.

“Services were always a disproportionately large part of Irish economic activity and rather oddly, that sector tended to be disregarded by economic planners, with the partial exception of tourism. In the long run, it was this somewhat notional tertiary sector and within it, the high tech and information technology businesses, that were to become the leading sectors in the economy.”⁷⁵¹

Explanations for this neglect are varied, including one from Garvin himself, suggesting that Irish social culture put a premium on hard physical labour, an echo of a physiocrat mentality, where there was something ignoble about creating economic value from behind a desk. Nevertheless, the traditional distinguishing characteristics of services (far from unchallengeable) are worth revisiting.

Services may be characterised in many ways but are usually defined by their intangibility (no physical product, hard to judge quality) inseparability (the supply and consumption of a service

⁷⁴⁷ Dietrich Rueschemeyer and Peter B Evans, “The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention,” in *Bringing the State Back In*, edited by Peter B Evans, Dietrich Rueschemeyer and Theda Skocpol (Cambridge: Press Syndicate, 1985): 44-78.

⁷⁴⁸ Adam Przeworski and Michael Wallerstein, “Dependence of the State on Capital,” the *American Political Science Review*, Vol. 82, No. 1(Mar 1988): 11-29.

⁷⁴⁹ Haggard, Maxfield and Schneider, “Theories of Business & Business-State Relations,” 42/43.

⁷⁵⁰ The various forms of development are discussed in Adrian Leftwich, *States of Development* (Cambridge: Polity Press, 2000)

⁷⁵¹ Tom Garvin, “*Preventing the Future- Why was Ireland Poor for So Long?*” (Gill and MacMillan: Dublin, 2004) 34.

cannot be separated), heterogeneity (mixture of activities and level of performance) and perishability (a service cannot be stored long term).⁷⁵² While many of these characteristics are questioned and exceptions strongly pointed to, an intriguing question is, could such characteristics transpose into how service industries are shaped by governments and business?

7.18.1 Potential Political Economy Implications of Services, Based on Core Characteristics⁷⁵³

| Traditional Characteristics | Potential Political Economy Implications |
|--|---|
| Intangibility- A service is rarely standardised and with no physical product, service recipients cannot touch, taste, feel a service. | Service provision is inexact and hard to define, making it difficult to measure and control for political actors. Services are marketed less on price as a result, but more on reputation, reliability and longevity, which political actors also have to project if assuming a role in such an arena |
| Inseparability- the supply of a service cannot be separated from its consumption. Customers are directly involved when a service is rendered | There is a direct relationship between the service provider and consumer, which can create political salience and allow strong shared opinions to develop about a service, causing ‘noisy politics’. |
| Heterogeneity- Service levels can vary and oscillate from producer to producer | The provision of a service is infected with political risk and needs careful monitoring if it comes with a state role. Technical content can be large, causing state to grapple with information asymmetry |
| Perishability- Services are rendered at the time, not stored. | The lack of services inventory means service interruption more likely, represents significant economy risk (e.g., breakdown in banking, IT or transport infrastructure). Also means matching supply and demand is dynamic, making it challenging for state to administer, forcing dependence on private actors. |

The intangibility of services can translate into lack of measurement, difficulty of control and inelasticity of pricing. As one observer notes- what is a ‘good education’ for instance and without knowing the answer, what price should one pay for it?⁷⁵⁴

The intangibility, subjectivity and variability of a service each time one is consumed, arguably makes the area hard to exert political control over. How does one say what a ‘good’ rail service is?

⁷⁵² Sheelagh Matear, Brendan Gray, Tony Garrett, and Ken Deans, “Moderating Effects of Service Characteristics on the Sources of Competitive Advantage,” Available here: <https://rb.gy/jn25s>

⁷⁵³ Characteristics derived from Philip Kotler and Kevin Lane Keller, “A Framework for Marketing Management,” (New Jersey: Prentice Hall, 2011) and Valarie A. Zeithaml, A. Parasuraman and Leonard L. Berry, “Problems and Strategies in Services Marketing,” *Journal of Marketing*, Vol. 49, No. 2 (1985):33-46.

⁷⁵⁴ Richard Batley, Claire Mcloughlin, “The Politics of Public Services: A Service Characteristics Approach,” *World Development*, Vol 74 (2015): 275-285.

First and third-class passengers may answer differently. How does one form a judgement on whether a health or education services is operating well or not, or even a bank? Resources of considerable depth are needed. If one is not going to have a Government department running a crucial service category directly, a more traditional principal-agent relationship between government and private sector takes its place, with all the challenges implicit in that, including information asymmetry.

Such challenges certainly arose in the railway stream of this work, rail business users often portrayed the rail service as a poor performer, but to test this claim was difficult for the government system light on domain experts. In addition services can have a high technical content- such as financial services- making it challenging for government to police and exert control over an area where standardisation is elusive. This was directly noticeable in the Irish insurance sector in the 1930s as English expertise was brought in, with nobody within Ireland judged to be sufficiently technically informed.

The inseparability characteristic by definition puts consumers and users directly into a stronger information position and allows consumers, when are aggregated together, to formed share opinions of services and their providers, although this did not mean much in the period under review as consumers were noticeable by their institutional absence.⁷⁵⁵ It does mean services companies are directly in contact with their users, potentially providing them with opportunity to mobilise the group on their side. This was seen with the banking sector, where customers' confidence in government bond issues was shaped by whether banks endorsed them or not. Perishability and lack of storage can mean that substitution, unlike manufacturing, is difficult, which increases the state's dependence on service providers as the consumption of a service is often instantaneous. The visibility of services and their spontaneity results in an overall characteristic of services- they are prone to politicisation. Schools are something politicians like to build and then open, more than more elusive ambitions like long term improvements in standards, which are complex due to the measurement issue above.⁷⁵⁶

But most centrally this research sees the political economy of services as being more visible when one talks of their economic role, best described as economic criticality. Major services categories, including those perceived as natural monopolies, acquire particular political salience when the services they provide, which theoretically can be to just one individual, get aggregated and acquire society-wide dimensions, based on pure economic function. From economic function comes salience. This work finds that services have an intense double-sided salience, based on one their

⁷⁵⁵ Batley and McLoughlin, "The Politics of Public Services," 281.

⁷⁵⁶ Batley and McLoughlin, "The Politics of Public Services: A Service Characteristics Approach," 281.

large public user base when aggregated, but also because in addition to this they feed into a wider national production relationship, through backward and forward linkages.

Services categories were seen by many politicians and civil servants of the era reviewed here as having to demonstrate their ability to integrate into an increased production project (so called producer services in modern parlance). Some call this interdependence or intersectoral dependence. For example, railways can generate backward linkages into engineering works and the iron industry. The way services could 'integrate' into second production varied. While this could be direct (cheap rail fares to get agricultural goods to export market departure points), it could be seen more indirect (insurance firms control of pools of capital that could be invested in Irish infrastructural spending projects).

Manufacturing or extractive industries it may be argued can possess similar characteristics, but their storability post-production alters the calculus and allows longer periods of substitution (see role of pre-production of coal in British miner strike of the 1980s), in addition many manufacturing goods are so dispersed, substitution is easier to conjure up than more aggregated, less dispersed, human services. Such arguments and definitional questions will ultimately be contingent, but this work has sought to ascertain why services categories, like the ones selected, drew the policy response they did. Once banking, insurance and railways were seen as adjuncts to production by the state, the interests of their business owners could, by default, be perceived or depicted as sectional or obstructionist. Initially this meant moving toward social investment strategies including infringing upon previously untouchable private property/shareholder rights such as the rail reconstruction episode (but not stretching as far as expropriation), but in time it meant submitting to a more accommodating compact, where change by the state had to be paid for.

7.19 Cost to Expanded State Role

From the period and industries studied, the discernible pattern of government action was to co-opt the private economy into a concerted economic transformation drive, as expected of many decolonising and newly independent states of the 20th century.⁷⁵⁷ Initially this meant embracing social investment strategies, including infringing upon previously untouchable private property/shareholder rights such as the rail reconstruction episode (but not stretching as far as expropriation) and encroaching on credit allocation autonomy in banking, but in time it meant submitting to a more accommodating compact, based on reciprocity and compensation in exchange for specific policy change.

⁷⁵⁷ The Irish economic experience can be placed among an assortment of historical contexts. One persuasive placing might be among the newly independent Eastern European states of the inter-war period, but other academic work has placed the Irish story more centrally among African decolonising states.

When the state decides to intervene in an economic arena previously dominated by private enterprise, the vehicles of intervention, institutionally, are reasonably narrow.⁷⁵⁸ There is the option to run the activity via a government department (e.g. as a monopoly like the postal services in Britain or Ireland for much of the 20th century), or through a public corporation, where staff are not civil servants and the company has financial autonomy (like the electricity supply company of Ireland, or its rail company, CIÉ). Adopting either route represents a formidable political decision, with the danger of an open-ended subsidisation of the activity in question, however socially vital. The complexity and risk implicit in such policy decisions makes working with private interests, as long as possible, worthwhile in a politically pragmatic sense.

In all three episodes here, private capitalistic interests were compensated or mollified in exchange for withdrawing opposition to, or opting into, state-led developmental priorities.⁷⁵⁹ The compensation or support was sometimes based on hard-to-dislodge legal entitlements, other times it was pure expediency. In all three cases the state (and its agencies) was willing to play a larger role in key service categories supplanting a previous private sector presence or dynamic. The episodes researched demonstrate this could be done, but compensation was the price for such role supplanting. The indispensability, intangibility and spontaneity of services industries, combined with their role inputting into wider national economic relationships made such compensatory outcomes additionally unavoidable, altering the evolution of key services industries radically.

⁷⁵⁸ The options are outlined in Robert Millward, *Private and Public Enterprise in Europe* (Cambridge: Cambridge University Press, 2005), 182/183.

⁷⁵⁹ In railways, after radically diluting private capital in the railways pre-emptively in the 1930s, later policy in WW2 was by negotiation and despite the severe difficulties of the rail system, the nominal value of debenture securities were not reduced again in the period; in insurance domestic insurance directors were paid generous compensation in order to agree to government restructuring, while British insurers benefitted from an accommodative valuation method and were allowed design the terms of their exit from the market; in banking a capital strike by some Irish banks in the mid-1950s triggered the use of liquidity support for the first time to prop up government lending during a strained period for the Irish economy. This would see the Irish Central Bank taking on a greater role as a state intermediary institution.

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Chapters 1-3,7 (Introduction/Literature Review/Methodology/Conclusion)

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