

A reappraisal of Joseph Brennan and the achievements of Irish banking and currency policy 1922–1943

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Joseph Brennan, as secretary of the Irish Department of Finance (1923–7) and chair of the Irish Currency Commission (1927–43), was a pivotal influence on Irish banking and currency affairs. Yet, within the existing literature, his adherence to conservative British norms is seen as providing a ‘bleak prescription’ for the Irish economy. However, such a view ignores the fact that Brennan was far from dogmatic on banking and currency issues and underplays his incrementalist, and often internationalist, approach to the development of Irish monetary institutions. Brennan’s actions up to the early 1940s were based on the realities of Ireland’s slowly receding economic and intellectual dependency on Britain, a ‘dependency’ often misrepresented in the existing literature as a more primitive, pre-Keynesian, conservative approach. However, rather than acting as a restraining influence on Irish economic development, the policies Brennan advocated enabled Ireland to avoid the instability associated with many smaller, emerging nation states in the 1920s and 1930s. The focus on continuity – which guaranteed currency and banking stability – represented the realities of Ireland’s reliance on the sluggish British economy in the decades after independence. Brennan’s achievement, in helping to sustain banking and currency stability notwithstanding economic uncertainty, a fragile political environment (and suspicious banking interests), deserves wider acknowledgement.

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As Auditor and Comptroller General of the Irish Provisional Government in 1922, secretary of the Irish Department of Finance 1923–7, chair of the Irish Currency Commission 1927–43 and governor of the Central Bank of Ireland

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1943–53 Joseph Brennan was a pivotal influence on Irish banking and currency affairs.¹ Yet within the existing literature his views, and the direction of Irish economic policy generally during this period, are seen as providing a ‘bleak prescription’ for the Irish economy (Fanning 1978, p. 119).

This is a narrative which presupposes that the continuity of banking and currency policy post-1922 was based on a dogmatic reluctance to change and a principled adherence to British civil service norms (Fanning 1986, p. 45). This ‘propensity for imitation’ is viewed negatively when considered in the context of the ideology of the earlier, more dynamic Irish revolution (Brownlow 2010, p. 286). In this context, the hegemony of the Department of Finance in independent Ireland represented Brennan’s attachment to ‘power and prestige’ over mere efficiency (Maguire 2008, p. 175).

The existing literature (Lee 1989; Fanning 1978, 1984 among others) has also represented the economic policies of Brennan, and those of early independence Ireland generally, as an almost primitive, conservative approach which resisted the interwar Keynesian avalanche. However, this article illustrates that such a perspective is compromised by two important points. First, previous assessments have largely misjudged the impact of the ‘Keynesian revolution’, which, during the interwar period, was neither wholly revolutionary, nor overwhelming in impact. Second, existing research has tended to underplay Ireland’s slowly receding economic and intellectual dependency on Britain – a reliance which shaped Ireland until well into the 1970s (O’Rourke 2017).

Particular consideration in this article is given to the impact of the British economist John Maynard Keynes (who famously visited University College Dublin in 1933) and the Swedish economist Per Jacobsson (a member of the Irish Banking Commission 1934–8).

O’Rourke (2017) has argued that it was not until 1973, when Ireland joined the European Economic Community, that the preconditions for Irish economic prosperity were established. The currency link with sterling was severed six years later as part of the ongoing European integration process. Brennan could clearly have done nothing to bring about these circumstances. But this article addresses the tendency of applying contemporary economic norms to policy actions undertaken in the vastly different economic landscape of the 1920s and 1930s. The need to view Brennan’s actions within the ambit of the then prevailing policy consensus, rather than simply characterising them as ‘conservative’, is a key objective of this article.

This article is structured in the following way. Section I provides a brief overview of the realities governing Anglo–Irish economic relations in the 1920s. Section II considers Brennan’s role in guiding the development of Irish banking and currency

¹ The Irish Free State was created by the Anglo–Irish Treaty of December 1921. As part of this agreement full fiscal and monetary autonomy were vested in the new Dublin administration. The Anglo–Irish Treaty also formalised the partition of the island of Ireland, Northern Ireland having been established under the Government of Ireland Act of 1920.

policy following the granting of monetary (and fiscal) independence to Southern Ireland in 1922. Section III analyses his actions during the gold standard crisis of 1931. Section IV addresses Brennan's position in light of the election of the nationalist Fianna Fáil (Soldiers of Destiny) party to power in 1932. Section V examines Brennan's role in the process which culminated in the establishment of the Central Bank of Ireland in 1943. Section VI provides conclusions.

I

Brennan was born in 1887 in Bandon, County Cork, into a prosperous Catholic trading family. Educated at Clongowes Wood College he attended University College Dublin (UCD) before gaining a first-class classics degree from Christ's College, Cambridge, in 1911 (O'Broin 1982, p. 4). Brennan entered the British civil service and served in a variety of senior positions in the Chief Secretary's Office in Dublin Castle from 1912 to 1922.² However, during the Anglo-Irish Treaty negotiations of late 1921, Brennan provided detailed financial advice – on a strict condition of anonymity – to the Irish delegation on various aspects of public finance. It was a contribution he kept secret for over 50 years (O'Broin 1977, pp. 28–30).

In February 1922 Brennan officially transferred to the emerging Irish administration. Together with his British civil service contemporary J. J. McElligott (three years his junior and his successor in both the Irish Department of Finance and the Central Bank of Ireland) Brennan became closely linked to the Pro-Treaty, Irish government party Cumann na nGaedhael's (Society of the Gael) economic platform of free trade and low taxation based on the development of agricultural exports.

The Irish Free State (Ireland) was established in the midst of the British recession of 1921–2, which resulted in the largest drop in British employment levels since the Napoleonic Wars (Skidelsky 1992, p. 130). British unemployment rose from 2 per cent to 18 per cent in the space of one year (Pollard 1992, p. 106). Despite running primary budget surpluses, a combination of falling prices and a large differential between real interest rates and real growth rates resulted in the British debt to GDP ratio rising to 176 per cent by 1923 (Crafts 2014, p. 2). Across Europe, excess economic capacity struggled to adjust to the reality of more limited demand post-1921 (Aldcroft 1992, p. 47).

In economic terms, the birth of an independent Ireland could not have occurred at a more difficult time. Although the 1914–18 war did result in unprecedented British demand for Irish agricultural outputs, this boom collapsed in 1920–1 with the number registered as seeking work increasing from 58,000 at the end of 1920 to 113,000 twelve months later (Fitzpatrick 2015, p. 650). The agricultural price index of 100 in 1911 rose to 288 by 1920 before falling rapidly to 160 in 1924 (Meenan 1970, p. 91). Agriculture – employing over 50 per cent of the workforce – was vitally important

² *Irish Times*, 8 Mar. 1976.

to a Southern Irish economy whose industrial sector had failed to prosper significantly in the war-driven growth up to 1920 (Fitzpatrick 2015, pp. 646–7). Overall, independent Ireland was born in a time of declining demand for its agricultural exports, rising unemployment and high political uncertainty resulting in military conflict.

The deflation and rising unemployment resulting from the return to the gold standard in 1925 at the prewar rate of \$4.86 evidenced a commitment to the classical laissez faire era of the late nineteenth and early twentieth centuries, a commitment acknowledged by the Bank of England as being ‘a painful one to some classes of the community’, but completely ‘unavoidable’ (Howson 1975, pp. 18–19). One result of Ireland’s decision to link with sterling was that it imported the deflation entailed by the British decision to restore its prewar parity.³

In an economic theory context, the mid 1920s was still dominated by the Victorian principle of the primacy of the free market. No policies to promote growth or reduce unemployment existed. There was ‘no monetary policy, the supply of domestic currency being regulated by the “automatic” mechanism of the gold standard’ (Skidelsky 1992, p. 219). Economic theory at this point remained firmly based on the work of the neoclassical economist Professor Alfred Marshall of the Department of Political Economy in the University of Cambridge. Keynes was a student of Marshall’s and up to the mid 1920s remained largely faithful, although with increasing hesitancy, to Marshall’s policy perspective (Keynes 1924).

Although rebelling against the ‘dreary negatives’ of the Bank of England and the Treasury in the 1920s, it would take the onset of economic depression in the early 1930s to cause Keynes to fundamentally challenge existing norms. The policies he advocated – government-led economic planning and counter-cyclical monetary expansion – did, however, provide a coherent alternative to existing thinking (Skidelsky 1992, pp. 252 and 271).

The publication of Keynes’s *General Theory of Employment, Interest and Money* in 1936 did not, however, usher in an immediate new dawn in macroeconomic thinking (Laidler 1999, p. 323). Rather, while Keynes played an important role in synthesising many of the concepts which came to represent macroeconomic theory, the ‘Keynesian revolution’ was ‘neither revolutionary in the usual sense of the word nor by any means uniquely Keynesian in origin’ (Laidler 1999, p. 3). Many of the activist economic policies which became associated with Keynes were adopted before 1936.

In the United States a degree of pluralism also existed in economics during the interwar period which has often been overlooked. Although difficult to categorise, it has been described as combining a scientific approach to economics, even-handed objectivity and moral commitment to high standards (Morgan and Rutherford 1988,

³ The major decline in prices had occurred before the first consumer price index was published for Ireland in 1922. The index of British prices reached 189.8 in 1925 (1914=100) compared to 190.0 in Ireland. Data from Bank of England, *Inflation Calculator* and Central Statistics Office of Ireland, *Consumer Price Index*.

p. 8). In this context, the work of Professor Henry Parker Willis is notable given his role in establishing the Irish Currency Commission in the 1920s (as discussed in Section II). Willis's belief in the 'real bills doctrine' reflected his view that accommodating the needs of business was the fundamental role of any central banking institution (Willis 1927, p. 211). This doctrine held that a banking system built on private-sector business transactions could adjust to the changing need of the economy without centralised credit-control policies (Mehrling 2002, pp. 209–10).

The 1920s also witnessed a high degree of economic instability in many of the newly independent nation states established in the aftermath of the defeat of the German, Habsburg and Russian Empires. In Germany, Austria, Hungary and Poland monetary stability gave way to hyperinflation by the early 1920s (Feinstein *et al.* 1995, pp. 18–19). The League of Nations Financial Committee and the Bank of England played a key role in raising the finance required to stabilise the Austrian and Hungarian economies in 1922–4 (Singleton 2011, p. 59). The Bank of England's policy of encouraging the creation of independent central banks on the gold exchange standard resulted in such institutions being established in both Austria and Hungary (Sayers 1976, pp. 168–73). Banking failures were a relatively common feature of the European monetary landscape in the 1920s with Italy, Spain, Portugal and Norway all experiencing banking crises pre-1929 (Feinstein *et al.* 1995, pp. 22–3).

Irish banking and currency policy post-1922 were therefore subject to the prevailing economic orthodoxy. Ireland's economic options were further circumscribed by the reality of overwhelming trade dependence on the United Kingdom. In 1924 over 98 per cent of Irish exports were destined for the British (83.6 per cent) or Northern Irish (14.5 per cent) markets.⁴ The financial constraints of economic independence were reflected in a 9.2 per cent budget deficit in 1924 (Fitzgerald and Kenny 2020, p. 4). The costs of the Irish Civil War (1922–3) resulted in Irish army expenditure accounting for over 62 per cent of estimated state expenditure in 1923 (Fanning 1978, p. 113). In addition, British financial claims on Ireland totalled between 80 and 100 per cent of Irish Gross National Product (GNP). These claims were eventually set aside as part of the wider settlement agreed in 1926, which also resulted in the border of Northern Ireland remaining unchanged. Following this agreement, the Irish debt to GNP ratio stood at 8 per cent (Fitzgerald and Kenny 2020, p. 13).

The economic policies followed by Cumann na nGaedhael and championed by Brennan in the 1920s have been characterised as symptomatic of the British mind-set of Irish economists and civil servants who 'closed their minds to most ideas outside the British liberal and laissez faire tradition' (Kennedy *et al.* 1988, p. 35). This has been portrayed as a reflection of the longer-term 'cultural dependency' of Irish policymakers on British economic thought (Pratschke 1985, p. 150). This analysis implies that the policies advocated by Brennan in the 1920s and

⁴ Department of Industry and Commerce *Statistical Abstract* 1931, p. 63.

adopted by government had a negative impact on economic growth and that ‘finance officials made their mark upon the Irish Free State less by what they did than by what they prevented others doing’ (Fanning 1983, p. 64).

The narratives outlined above, however, are based on the application of contemporary economic thinking (which are in any case more relevant to large than to small economies). As noted, they fail to take into account the fact that the Keynesian approach to macroeconomics had not yet been coherently established in the 1920s (O’Halpin 2004, p. 113). Similarly, the view that an alternative to *laissez faire* (i.e. blanket tariffs) existed as a realistic policy option at this time fails to acknowledge that ‘free trade was the accepted philosophy of the day’ within Britain and its emerging dominions (Whitaker 1976, p. 91).

Given Ireland’s position in the British Imperial economy pre-1922, the formative training received in the British administrative system by key Irish policymakers and the wider dominance of British neoclassical economic doctrines, it is not surprising that Ireland’s economic policies post-1922 were welded firmly to British principles. In reality, the Irish had ‘good reasons to imitate’ (Brownlow 2010, p. 286). In a sense, the economic structures of the Irish Free State represented the ‘resilience and stability of the Irish political tradition’ established well before the Anglo-Irish Treaty of 1921 (Farrell 1968, p. 246).

II

The role of the Department of Finance in the establishment of national credit, restraining military expenditures and developing a system of strict financial control in the early 1920s has been acknowledged (Fanning 1978). However, no attempt has been made in the existing literature to distinguish between the conservative nature of Brennan’s views on fiscal policy and his less rigidly held (and less dogmatic) views on currency and banking policy.

The overwhelming focus on Brennan’s fiscal conservatism is unsurprising given the nature of his retirement from the Department of Finance in September 1927. His relationship with Ernest Blythe (Minister of Finance 1923–32), although never warm, had deteriorated beyond the point of no return by early 1927.

However, while in the Department of Finance, Brennan’s views on establishing a central banking institution were not based on any ideological bias, but rather on the reality of the ‘exceptionally confused condition’ of currency arrangements then existing in the Irish Free State (Meenan 1970, p. 216).⁵ In August 1924, Brennan provided the cabinet with a balanced assessment of the key challenges facing banking and currency policy in an independent Ireland. In addressing the issue of maintaining currency parity with sterling, Brennan took the view that such a policy was ‘extremely

⁵ The currency in circulation in the Irish Free State in 1922 comprised British coin, British Treasury notes, Bank of England notes and Irish Bank notes.

convenient' based on existing trade and business linkages. However, he also noted that:

The maintenance of our pound in equilibrium with the British pound involves a risk that in the near future we may be obliged to submit to a course of deflation dictated by those interests in Great Britain which are anxious for an early return to a free gold standard on a pre-war basis. Are we prepared in Saorstát Éireann (Irish Free State) to face the commercial depression, unemployment and lowering of prices which such a policy involves?⁶

Brennan's identification of the costs associated with following British monetary policy was matched by a broader analysis of the relative advantages and disadvantages of the gold standard. In quoting Keynes's assertion that 'the gold standard is already a barbarous relic' Brennan was again acknowledging the significant economic costs associated with deflation. Brennan's proposed policy – a sterling exchange standard while 'reserving the opportunity of considering later to what extent we should be drawn into British deflation' – was far from the policy of an unyielding dogmatist, but rather reflected the reality of Anglo-Irish economic relations in the mid 1920s.⁷

Brennan also displayed a remarkably flexible attitude – given his characterisation as a monetary conservative – towards commercial and central banking. While identifying the strong position of the Irish banks, he acknowledged that the 'establishment of a Central Bank which would form the pivot of our banking system [would] help to protect us against the defect of the existing arrangement wherein each bank ... is a law unto itself'.⁸

Brennan viewed the establishment of a central bank as helping to increase the proportion of commercial bank reserves held in Ireland, generating revenues through seignorage and providing a mechanism for the supervision of banking operations. These points were of significant importance to Brennan given his advocacy of reducing imports and balancing the budget.⁹

Maurice Moynihan's (Irish civil servant who served as governor of the Central Bank of Ireland 1960–9) discussions with Brennan in 1971–2, as part of his research into the history of central banking in Ireland, provides an additional context for assessing Brennan's banking and currency policy actions in the 1920s. In response to Moynihan's questions regarding the setting up of a central bank in the 1920s, Brennan was clear in viewing his August 1924 memorandum as 'a first shot in providing our own money', which resulted in the maintenance of a distinct Irish currency of equal value to sterling through the Coinage Act 1926 (which introduced distinctive

⁶ Joseph Brennan memorandum entitled 'Notes on the currency situation', 15 Aug. 1924, Joseph Brennan Papers (henceforth JBP), file 26, 198, National Library of Ireland (henceforth NLI).

⁷ *Ibid.*

⁸ *Ibid.*

⁹ Joseph Brennan memorandum entitled 'Financial policy for the future', 5 Oct. 1923, Department of Finance (henceforth FIN), file 1/3455, National Archives of Ireland (henceforth NAI).

Irish Free State token coinage) and the Currency Act 1927 which allowed for Irish Free State bank notes and the Irish Currency Commission.¹⁰

Brennan noted that his August 1924 memorandum on establishing a central bank was a 'long view' subject to wider economic considerations.¹¹ However, he was specific in viewing the Currency Act (and the Banking Commission of 1926 which recommended its establishment) as incremental steps to further institutional development.¹² Yet the traditional view is that the 1926 Banking Commission was an easy win for the commercial banks who 'packed' its membership: four of the seven members of the Commission were banking representatives under the chairmanship of Professor Henry Parker Willis of Columbia University (O'Gráda 1994, p. 369).

However, such a view is misplaced. The final design of the Currency Commission was based directly on the experience of Willis working within the Federal Reserve System (Honohan 1997, pp. 45–6). It was designed around the principles of independence, accountability and banking self-management and was not based on any British precedent. Such a structure sought to safeguard its operations from the political interference then prevalent in the Federal Reserve system in the United States (Drea 2015, p. 875).

In this context, the coming into operation of the Irish Currency Commission in 1927 (tasked with maintaining the new Irish currency at par with sterling) marked the first step for Ireland in developing an institutional basis for managing its currency. Although viewed in the existing literature as a victory for the commercial banks in preventing the establishment of a central bank, the Currency Commission marked the introduction of a non-political state monetary institution in the Irish Free State (Pratschke 1969, p. 73).

Brennan's flexible attitude towards central banking was further reflected in the structure of the Currency Commission, which, as noted, was more a reflection of United States than of United Kingdom monetary priorities. Brennan enjoyed a close working relationship with Willis and they engaged at length over the provisions of the 1927 Currency Act, which Willis initially drafted (Drea 2015, pp. 867–8).

Brennan was acutely aware of wider monetary developments in the 1920s. He deliberately sought 'able foreign financiers who had taken part in the monetary conferences under the auspices of the League of Nations in Brussels and at Genoa' to take part in the Banking Commission of 1926.¹³ Brennan's close relationship with Montagu Norman and other senior officials in the Bank of England resulted in the Irish being well informed on monetary developments in Europe (Drea 2014). Brennan, and the Irish administration generally, was also keen to publicly highlight

¹⁰ Correspondence between Joseph Brennan and Maurice Moynihan, 16 May 1972, file 4105/15, Central Bank of Ireland Archives (henceforth CBIA).

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Minutes of the Irish Banks Standing Committee, 30 Apr. 1925, file 08.006, Allied Irish Bank Archives (henceforth AIBA).

Ireland's stability and relative economic success when compared to other smaller states in Europe.¹⁴ Even prior to the Anglo-Irish Treaty of December 1921, the main Irish newspapers were reporting on the 'currency turmoil in Austria and Poland'.¹⁵ In this context, it is important to highlight how wider events such as the experience of hyperinflation in Germany in the early 1920s informed Irish policymaking (Meenan 1970, p. 217). There is an internationalist dimension to Irish policy which directly challenges the traditional portrayal of Brennan's views in the 1920s as merely 'orthodox and conservative' (O'Gráda 1994, p. 425).

III

Even before his resignation from the Department of Finance Brennan was seeking alternative employment. His accession to the chairmanship of the Currency Commission was smoothed by his standing among commercial bankers, his successor in Finance (McElligott) and Willis, although, for Brennan, it was not clear that his new job was an actual promotion from his previous position.¹⁶ Officially, Brennan's powers as chair of the Currency Commission (from October 1927) were limited to introducing Irish Free State notes and coins into circulation, repatriating British currency and accumulating sterling assets to back the Irish currency (McGowan 1988, p. 75). However, notwithstanding such restricted functions the Department of Finance took the view that:

The composition of the Commission and the experience it will acquire from its work gives its opinion considerable weight among the Irish banks and its views would not be lightly ignored by the banks in any matter affecting the credit policy of the latter.¹⁷

The importance of Brennan to the development of Irish policy was most clearly evident during the gold standard crisis of 1931. The stock market crash and associated banking crisis in the United States in 1929–31 resulted in the almost immediate cessation of United States capital lending to European markets (Feinstein *et al.* 1995, p. 107). The operation of the gold standard mechanism meant that money supplies were further restricted by the fall in export revenues (Eichengreen 1996, p. 49). The collapse of the Austrian bank Credit-Anstalt in May 1931 and the German bank Darmstadter-und-Nationalbank (Danat Bank) two months later highlighted the limitations of the system.

Faced with a significant budget deficit, a 6 per cent bank rate and a dramatic loss of gold reserves, Britain finally allowed sterling to float in value on 21 September 1931

¹⁴ For example, *Irish Times*, 2 Feb. 1931.

¹⁵ *Irish Independent*, 5 Oct. 1921.

¹⁶ Correspondence between Joseph Brennan and Maurice Moynihan, 3 June 1971, file 4105/15, CBIA.

¹⁷ Department of Finance memorandum entitled 'Currency in Saorstát Ireland', 25 Feb. 1929, file 24/298, Ernest Blythe Papers (henceforth EBP), University College Dublin Archives (henceforth UCDA).

(Feinstein *et al.* 1995, p. 114). Given the direct link to sterling established by the Irish Currency Act 1927, Ireland automatically followed suit (Irish Banking Commission 1938, p. 19). Britain did not formally apply exchange controls in the broader sterling area which emerged after 1931, but rather sought to increase trade interdependency (Drummond 1987, p. 43; de Bromhead 2019).

Brennan's response to the gold standard crisis of 1931 was to seek advice from the Bank of England. His memorandum of 19 September 1931 to Sir Ernest Harvey (deputy governor of the Bank of England), while identifying the overall objective of maintaining sterling parity, directly acknowledged the 'isolated and uncoordinated' standing of the Irish commercial banks in light of the absence of an Irish central bank.¹⁸ This was a worry shared by McElligott who judged it 'a matter of extreme difficulty' to decide upon a coherent financial policy in the midst of such changeable financial conditions (Fanning 1978, pp. 209–10).

Brennan proposed the establishment of a central bank (to be assisted by experts from the Bank for International Settlements (BIS)) and the conversion of some sterling assets into gold or gold-based currencies (Moynihan 1975, p. 170). In a meeting with Sir Otto Niemeyer (advisor to the governors, Bank of England) on 22 September Brennan stated his fear of inflation but took the view that the creation of a central bank would allow greater control over credit in the Irish economy.¹⁹ Brennan's further memoranda of October 1931 – circulated to both Niemeyer and the Currency Commission – illustrate his overarching objective to protect Irish assets – overwhelmingly held in sterling on the London markets – through the creation of a central-banking type institution (Moynihan 1975, pp. 174–6). On at least one occasion, Brennan sought to engage Sir Ernest Harvey (deputy governor of the Bank of England) in discussion as to the consequences of a sterling devaluation as proposed by Keynes.²⁰

For Brennan, a central bank would have the ability to lend locally (including to government) and influence local interest rates by requiring the Irish banks to hold their assets in Dublin (Honohan 2019, p. 31). He believed it would provide the Irish authorities with more powers to control inflation. Given the uncertain prospects facing sterling in 1931, Brennan's views reflected an understandable concern over the dependence of the Irish commercial banks (and the Currency Commission) on the London markets and the Bank of England.

Characterising the policy of the Department of Finance and the government as 'to do nothing and to say nothing' underplays the clear alternatives proposed by Brennan in his memoranda of September and October 1931 (Daly 2011, p. 28).

¹⁸ Memorandum from Joseph Brennan to Sir Ernest Harvey, 19 Sept. 1931, file OV 81/9, Bank of England Archives (henceforth BOE).

¹⁹ Sir Otto Niemeyer memorandum, 22 Sept. 1931, file OV81/9, BOE.

²⁰ Minute Book of the Irish Currency Commission, 14 Sept. 1931, no. 2, CBIA.

Compared to many of the successor states in Central and Eastern Europe (CEE) – such as Poland, Hungary and Czechoslovakia – there were a number of factors which mitigated against pursuing a more independent Irish currency policy, even in 1931. First, exchange-rate stability remains more important for highly trade-dependent economies and Ireland was significantly more open to trade than these other states. In 1926, trade accounted for 79% of Irish GDP compared to 35% in Czechoslovakia, 22% in Hungary and just 10% in Poland (Klasing and Milionis 2014). Second, Ireland's trade was almost exclusively with Britain, while the CEE states had multiple trading partners. Britain accounted for 97% of Irish exports in 1926 while Poland's largest trading partner, Germany, received less than a quarter (24%) of Polish exports during the same period (Barbieri and Keshk 2017). Third, the common Anglo-Irish labour market and travel area survived Southern Ireland's exit from the United Kingdom and reduced the value of an independent exchange rate.

The different monetary experiences of the CEE states compared to Ireland in the 1920s had a direct impact on their policy decisions in the 1930s. While Ireland had an obvious anchor available to it in the form of sterling, the CEE currencies were launched in the chaotic monetary conditions of the immediate postwar period. In these states inflation and depreciation were the consequences of the extreme measures used 'to cope with relief and reconstruction and to ease the pressure of political and social disorders' (Aldcroft 2006, p. 44).

Rather than following Britain in abandoning gold, countries such as Poland, Czechoslovakia and Hungary which had experienced high or hyperinflation in the 1920s instead resorted to exchange controls (Eichengreen and Irwin 2010). This forced them into essentially barter relationships, which drew them further into Germany's orbit (Aldcroft 2004). For Poland in particular the adoption of the gold exchange standard in the 1920s 'had strongly negative consequences for the Polish economy in the depression, and conceivably, for Poland's chances of resisting German aggression in 1939' (Don-Siemion 2020, p. 57).

However, for Ireland the scale of dependence upon Britain required a high level of economic convergence in order to maintain confidence in the Irish economy (Honohan 1997). Currency boards were also a popular means of regulating currency matters in British colonies and dominions in the 1920s (Honohan 2019, p. 31). The Irish system from 1928 also provided a flow of seigniorage to government and ensured that developments in Irish retail prices and interest rates paralleled those in Britain.

It has been suggested that Keynes may have had the Irish Free State in mind when discussing the merits of a currency-board system in 1930:

For countries which are small compared with their neighbours, or do not contain independent financial centres of international importance, an Exchange Standard may be ideal. But it does undoubtedly involve some measure of dependence on the country whose money is chosen as the basis of the Exchange Standard, which may be hurtful to the national pride. (Keynes 1930, pp. 18–19)

A high share of exports going to Britain meant that tracking sterling acted to safeguard one's competitive position, while a high share of imports sourced from the UK meant that sterling balances were particularly 'liquid' (Nurske 1944). In this context, it is hard to disagree that 'the logic of maintaining the link with sterling in the inter-war period was compelling' (O'Gráda 1995, p. 428).

Is there any likelihood, had an Irish Central Bank been in existence by 1931, that Ireland might have chosen to break with sterling at that time? There was no political constituency in favour of remaining part of the gold bloc, nor had Ireland experienced the inflation of the 1920s that would have made it a likely candidate for this course of action.

The early devaluation of sterling and allied currencies has been determined to have allowed these countries to recover relatively rapidly (Eichengreen and Sachs 1985). Some would undoubtedly have advocated an even weaker currency policy, entailing devaluing against sterling, as Australia, New Zealand and Denmark did (Nurske 1944, pp. 50–2). Such an option would not have been costless, however. Ireland would have lost the transactions-cost benefits of the one-to-one link – conversion costs were set at zero by mutual agreement – and may have suffered adverse interest-rate consequences if further adjustments were deemed more likely in the future. The Banking Commission Report of 1938 (p. 114) explicitly noted that following the example of states that devalued in 1931 would have increased the cost of imported goods and increased the cost of living. Brennan, it seems certain, would have continued to support the sterling link under these circumstances.

IV

For Keynes, the events of 1931 led to a profound shift in his economic thinking. He now openly espoused the more radical economic position he had adopted during his work as a member of the MacMillan Committee on Banking and Industry during 1930. Challenging directly the orthodoxy of the Bank of England, the Treasury and established experts on banking such as T. E. Gregory (Professor of Banking at the London School of Economics and later appointed an outside expert on the Irish Banking Commission in 1934), Keynes advocated a range of policy options including reducing interest rates, currency devaluation, tariffs and a publicly funded public works programme (Clarke 2009, pp. 114–17). For Keynes, it was increased capital investment, not additional saving, that would enable the economy to break the vicious deflationary cycle (Skidelsky 1992, p. 383).

The deteriorating economic climate of the early 1930s also had profound consequences on the Irish political landscape. Based on their protectionist, anti-British pre-election rhetoric, the coming to power of Fianna Fáil in the election of February 1932 should have represented a direct threat to Brennan's hegemony in banking and currency affairs. Seán MacEntee (Minister for Finance 1932–9) may have retrospectively viewed his 1932 budget as the 'first Keynesian budget on this island', but in reality he

remained a monetary conservative wedded to traditional Department of Finance principles (Feeney 2009, p. 66).

MacEntee was no Keynesian and Fianna Fáil's policy of funding increased public works and social services expenditure through taxation, not borrowing, hardly equated to Keynes's formula for a consumption-driven recovery. All but £400,000 of the projected budget deficit of £5.5 million for 1932–3 was funded through increased taxation and tariffs (Daly 2011, p. 34). Irish deficits averaged only 3 per cent in the 1932–9 period (O'Gráda 1994, p. 421). While the Fianna Fáil economic approach may have challenged the traditional prerogatives of Merrion Street (location of the Department of Finance), it was far removed from a full-scale Keynesian revolution (Neary and O'Gráda 1991, pp. 251–2).

Brennan and the Currency Commission's focus on maintaining established banking and currency policies provided a backdrop of stability that facilitated Fianna Fáil's use of fiscal tools (i.e. taxation, tariffs) to achieve its policy goals. The Fianna Fáil governments, for all their rhetoric, possessed no coherent alternatives to existing banking and currency arrangements. The establishment of the Industrial Credit Corporation (ICC) in 1933 and the extension of the Guaranteed Trade Loans scheme to stimulate industrial activity were an implicit acknowledgement that a fundamental reform of the commercial banking sector was neither achievable nor desirable. Both of these actions followed the example of Cumann na nGaedhael's establishment of the Agricultural Credit Corporation (ACC) in 1927 which sought to increase lending to the farming community.

The visit by Keynes to Dublin in April 1933 to deliver the first Finlay lecture in University College Dublin (UCD) has been portrayed as providing support to the newly elected Fianna Fáil government's policy of self-sufficiency (Meenan 1970, pp. 170–1). However, Keynes's support for increased protectionism – 'let goods be homespun whenever it is reasonably and conveniently possible, and above all, let finance be primarily national' – was balanced by a clear warning as to the limits of self-sufficiency:

I should ask if Ireland – above all if the Free State – is a large enough unit geographically, with sufficiently diversified natural resources, for more than a very modest measure of national self-sufficiency to be feasible without a disastrous reduction in a standard of life which is already none too high. (Keynes 1933, p. 181)

Keynes also noted the importance of Britain for Irish exports and argued that it would be 'an act of high wisdom' for Ireland to maintain its traditional markets (Keynes 1933, p. 189). Any shift towards self-sufficiency should be gradual (Keynes 1933, pp. 190–2). His truest feelings on Fianna Fáil's policy proposals were probably best reflected in a letter to his mother from Dublin in which he noted that 'I was very glad to find that his [de Valera's] mind was moving from his insane wheat schemes to peat proposals which are at any rate harmless and might quite conceivably turn out well' (cited in Skidelsky 1992, pp. 479–80).

Although personally impressed by the Irish political leaders, Keynes was clearly disapproving of the depth and breadth of Fianna Fáil's self-sufficiency programme (Skidelsky 1992, p. 480). Such misgivings were clearly understood in Dublin with the Fianna Fáil-supporting *Irish Press* taking the view that Keynes's speech showed 'how unwise wise men can be when they speak on countries with economies they do not understand'.²¹ Viewed in the context of the commencement of the Anglo-Irish trade war, it was clear that Keynes's favoured view of Irish economic policy was not that being pursued by de Valera and Fianna Fáil (Whitaker 1974, p. 98).²²

Brennan – notwithstanding any personal views he may have felt towards Fianna Fáil – was consistent in his advice to the new government over the course of 1932. Any trade war with Britain possessed the potential to impact upon the Irish banks' sterling assets; lending to farmers was based on the opportunities available; sterling remained the most suitable basis for the Irish currency and the sale of any sterling assets should be avoided (Moynihan 1975, pp. 182–91). Although de Valera possessed his own independent economic advisor in Professor T. A. Smiddy, it was Brennan who retained primacy in banking and currency affairs (Sagarra 2018, pp. 115–30).

Brennan's later recollections highlight that he developed a high regard for de Valera's general handling of banking and currency policy after coming to power in 1932.²³ This respect, although challenged by Fianna Fáil's more aggressive political stance towards Britain, played a key role in ensuring banking stability in the 1930s. This was a relationship aided by de Valera's direct interest in banking matters and his habit of bypassing his Finance Minister and dealing directly with Brennan on issues such as the sterling link and the establishment of a central bank. De Valera was also explicit in assuring Brennan that 'it was not intended that there should be any political interference with the Commission's powers'.²⁴

V

As with the 1926 Banking Commission, the operation of the Commission of Inquiry into Banking, Currency and Credit between 1934 and 1938 is viewed as a success for the 'arch conservative Brennan' who sought to 'spike its guns' through his chairmanship (O'Gráda 1994, p. 430). Its failure to support the transfer of government business to a proposed central bank or to equip the proposed new institution with the power to

²¹ *Irish Press*, 20 Apr. 1933.

²² Whitaker failed to fully identify the extent of Keynes's opposition to the wider self-sufficiency schemes being promoted. Eamon de Valera served as Prime Minister (*Taoiseach*) of Ireland from 1932 to 1948, 1951 to 1954 and 1957 to 1959. The Anglo-Irish Trade War was triggered by the Irish government's refusal to transfer to Britain certain financial payments due under the Anglo-Irish Treaty of 1921.

²³ Correspondence between Joseph Brennan and Maurice Moynihan, 1971–2, file 4105/15, CBIA.

²⁴ Minute Book of the Irish Currency Commission, 25 April 1933, no. 3, CBIA.

conduct open market operations has been viewed as illustrating the Banking Commission's lack of enthusiasm for the central banking concept (O'Gráda 1994, p. 431). As a result, the central bank established in 1943 was characterised as lacking the 'full authority and prestige' of a proper state monetary institution (Moynihan 1975, p. 215). In this context, Brennan's influence on the relevant provisions of the Majority Report (and the final Central Bank Act 1942) have been viewed as the restrictive actions of a doctrinaire monetary conservative.

However, such a narrative underestimates the importance of Brennan's relationship with Per Jacobsson (BIS, outside expert to the Banking Commission 1934–8) in developing the monetary and banking provisions of the Commission's final report. This is a further internationalist dimension not fully examined in the existing literature. Jacobsson viewed Brennan and McElligott as 'very conscientious officials' with the former having 'run the Currency Commission very well during the six years he has now been chairman of it'.²⁵ Jacobsson and Brennan remained friends after the Banking Commission and maintained a personal correspondence until at least the mid 1950s.²⁶

Jacobsson provided a perfect mix of monetary orthodoxy and European experience. For Brennan, the international aspect of Jacobsson's experience was important.²⁷ Notwithstanding his friendship with Brennan, Jacobsson was clear in what he needed to 'teach the Irish' (cited in Fanning 1984, p. 150). He also clearly didn't allow his personal relationships to distract him from keeping the Bank of England directly informed of events from within the Banking Commission (Honohan 2019, p. 33).

Jacobsson also facilitated a more practical approach to banking matters than the other outside expert attached to the Commission, Professor T. E. Gregory. Gregory was an established monetary conservative and had proved a 'surprisingly ineffective critic' of Keynes during the MacMillan Committee hearings (Skidelsky 1992, p. 345). Unfortunately for Brennan, Jacobsson and Gregory clashed – in terms of both content and personality – during the Banking Commission's meetings, Brennan later describing how Jacobsson sought to bully Gregory into reaching similar conclusions to his own.²⁸

However, even before the official start of the Banking Commission's deliberations in 1934 Brennan and Jacobsson agreed that the establishment of a central bank was 'just what the country needs to ensure a greater security in the financial position' (Jacobsson 1979, p. 71). Prepared by Jacobsson, the provisions of the Majority Report relating to central banking (chapter 7) supported the limited expansion of

²⁵ Letter from Per Jacobsson to Leon Fraser (President, Bank for International Settlements), 11 Sept. 1934, Per Jacobsson Papers (henceforth PJP), case 5, University of Basel Archives (henceforth UB).

²⁶ See multiple correspondence in JBA, file 26, 340, NLI and PJP, case 324b, UB.

²⁷ Letter from Joseph Brennan to Sean MacEntee, 1 Aug. 1934, Sean MacEntee Papers (henceforth SMP), file 67/107(29), UCDA.

²⁸ Correspondence between Joseph Brennan and Maurice Moynihan, 8 July 1971, file 4105/15, CBIA.

the powers of the Currency Commission to include short-term re-discounting of agricultural bills, the provision of advice to government and the establishment of a research department (Moynihan 1975, pp. 208–17).

Gregory and Brennan prepared the Majority Reports section (chapter 6) on commercial banking.²⁹ This chapter provided a comprehensive defence of the banks' interest rate, profit, investment and dividend structures.³⁰ These arguments were based directly upon a memorandum prepared by Mr Cooke of the National Bank which was circulated to Banking Commission members in January 1935.³¹ This memorandum provided a traditional view of Irish banking practices and reflected Brennan's opinions on the correctness of existing banking arrangements.

However, the influence of Jacobsson is clearly evident in the acknowledgement of the need for low interest rates 'to stimulate economic activity'.³² However, for Ireland, given the Currency Board arrangement, this simply meant hoping for low interest rates in London. Jacobsson was an advocate of 'cheap money' and possessed a sufficient reputation for Keynes to invite him to his home in August 1932 for prolonged discussions on interest rate policy (Jacobsson 1979, p. 107). Although respecting the intelligence of Keynes, Jacobsson 'never succumbed to the famous Keynesian charm' (Jacobsson 1979, p. 108). Jacobsson's wider economic principles were of the more traditional, neoclassical kind and were firmly located within the ambit of the Bank of England.

However, the view that the Banking Commission was captured by a combination of Brennan's dogmatism and entrenched banking interests fails to take account of several key factors. First, and as noted, Brennan was not ultra-conservative on central banking matters and considered the establishment of a central bank as early as 1924. Second, Jacobsson was a friend and confidante of both Montagu Norman and Niemeyer in the Bank of England and shared their vision for the development of central banking institutions in the emerging dominions of the British Commonwealth (Drea 2014, p. 71). Jacobsson correctly viewed Ireland as remaining part of the wider sterling area in the future and held that the actual credit control powers afforded to an Irish central bank were relatively unimportant as:

The liquidity problem of the money and capital markets in the Saorstát (Irish Free State) presents no particular difficulties as the Irish banks have large sterling assets to draw on. There is an enormous amount of potential liquidity available and the holding of a cash balance with the central bank would therefore really serve little or no purpose.³³

²⁹ Memorandum prepared by Joseph Brennan, 9 May 1938, JBA, file 26, 353, NLI.

³⁰ *Commission of Inquiry into Banking, Currency and Credit* (hereafter *Commission of Inquiry*) 1938, pp. 188–217.

³¹ Memorandum prepared by M. J. Cooke, 14 Jan. 1935, PJP, case G40, UB.

³² *Commission of Inquiry*, pp. 137–8.

³³ Memorandum prepared by Per Jacobsson, 16 June 1936, JBA, file 26, 337, NLI.

Brennan's contribution to the central bank debate within the Banking Commission is not consistent with his characterisation as a monetary conservative. He took the view that a central bank would remedy the gap in the 'financial structure' of the Irish Free State and help co-ordinate government policy with the 'monetary and credit position of the country'.³⁴ For Brennan, a central bank was necessary to avoid a repetition of the lack of policy options available in 1931. He advised that its establishment was required immediately and that if it was 'deferred to so late a stage ... the position may already have become irretrievable'.³⁵ Significantly, Brennan noted that the lack of a central bank:

Might tend to force the Free State ... Into continuing to adhere to the tie with sterling beyond the point of time when the severance or alteration of the tie might on general grounds be advantageous.³⁶

Brennan, in supporting a central bank, was seeking to put in place the institutional framework capable of absorbing increased monetary and currency independence in the future. The immediate objective of the Irish Central Bank established in 1943 – as a central bank adhering to a fixed exchange rate – was to 'avoid any speculative or international payments pressure' that could have brought the parity sterling link into doubt (Honohan 2019, p. 34). This was achieved until the sterling link ended when Ireland joined the European Monetary System, without Britain, in 1979.³⁷

VI

The existing literature interprets Brennan solely within the context of his support for the 'classic orthodoxies of British financial control' (Fanning 1978, p. 628). By the time of his resignation as governor of the Central Bank of Ireland in 1953, he was perceived as having been 'brought up in the good old world of Edward VII and the early George V ... in an atmosphere which is unfortunately long departed'.³⁸

Such a view overlooks the real achievements of the Irish banking and currency policy he had overseen. He was a fiscal conservative who believed that sound national finances contributed directly to banking and currency stability. However, he was far

³⁴ Memorandum prepared by Joseph Brennan, 16 June 1936, JBA, file 26, 337, NLI.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Irish interest rates at the time would have been largely determined by British rates. In terms of the Mundell–Fleming model, this is equivalent to near-perfect capital mobility, in which case a putative Irish Central Bank would be able to influence the domestic money supply only in the very short term; foreign exchange reserves would adjust rapidly through the balance of payments. In 1955–6 the Irish Balance of Payments deteriorated rapidly when the Irish authorities briefly failed to follow Britain in raising interest rates.

³⁸ This article was published anonymously in *The Leader* but was later identified as the work of Patrick Lynch (Department of Finance 1941–8, Department of the Taoiseach 1948–52 and member of the economics department in University College Dublin 1952–80).

from dogmatic on banking and currency issues. Rather, he was an incrementalist who was conversant with and open to international expert opinion as evidenced by his interactions and friendship with Henry Parker Willis in the 1920s and Per Jacobsson from the 1930s onwards. The institutional design of the Irish Currency Commission was underpinned by the experience of the Federal Reserve System in the United States rather than any existing British model.

Brennan's incrementalism should not be characterised as a type of pre-Keynesian conservatism. Such a view underestimates the breadth and depth of Brennan's economic knowledge and overestimates the impact of Keynesianism in the interwar period. Rather, it more reflected Ireland's very slowly receding economic and intellectual reliance on a (generally) slow-growing Britain – a reliance which was to long outlast both Brennan and his successor McElligott (O'Rourke 2017).

The institutional decoupling of the Irish economy from its larger British neighbour was not significantly completed until the parity link with sterling was severed in 1979. Ireland's joining the Exchange Rate Mechanism (ERM) without Britain at that time was based on a 'strategic vision that Ireland's economic and political future lay with Europe rather than with the former colonial power' (Honohan and Murphy 2010, abstract).

Ireland's economic prosperity, albeit subject to wider globalist trends, has now become closely entwined with membership of the European Union (O'Rourke 2017, p. 45). The ongoing Brexit process, however, highlights that even after almost a century of independence the legacy of Britain's economic importance to Ireland still lingers in areas such as agriculture, banking, tourism and labour mobility. EU membership is important to maintaining economic growth in hyper-globalised modern Ireland, but Britain still remains an important, although much diminished, economic and political partner.

That Irish monetary policy up to the 1970s could be described as 'not very exciting' (O'Gráda 1997, p. 55) need not be regarded as a criticism. Rather, it was a combination of recurrent balance-of-payments crises, delayed liberalisation and excessive dependence on a poorly performing British economy which fundamentally eroded Ireland's economic performance in the two decades up to the early 1970s (O'Rourke 2017, pp. 31–2).

The policies Brennan advocated aimed to leverage the underlying strengths of the Irish banking system: a high level of bank deposits and considerable external assets. By eliminating the potential for a variable exchange rate with sterling the Currency Commission ensured a stable environment for Irish exports, enabling the Irish Free State to avoid the significant accumulation of external debt and monetary instability experienced by other recently established states such as Czechoslovakia, Hungary and Poland.

The Majority Report of the Banking Commission (and Irish banking and currency policy generally in the 1930s) has been viewed as a conservative throwback to the economic policies of the pre-1931 era (Lee 1989, p. 199). Such an interpretation overlooks a number of factors which underpinned Brennan's approach. First, and as

noted, the emergence of Keynesian thinking notwithstanding, there was still a much broader Anglo-American belief in the primacy of the free market. It would take the outbreak of war in 1939 to 'legitimise stimulus measures' (Clarke 2009, p. 172). Even when the logic of such measures came to be embraced internationally, it was understood that they were more appropriate in large rather than in small economies.

Second, notwithstanding Fianna Fáil's protectionist policies post-1932 and the impact of the Anglo-Irish trade dispute, the economic fundamentals governing Brennan's currency and banking policies remained unchanged. In particular, Britain remained by a considerable margin Ireland's largest and most important trading partner. Thus the logic of maintaining a fixed exchange rate with sterling would continue to prevail for decades into the future.

Third, banking and currency continuity provided a stable backdrop to Fianna Fáil's fiscal and trade policy experimentation in the 1930s. Ireland's considerable sterling balances were largely maintained despite the considerable reduction in British-Irish trade in the 1932–8 period (Whitaker 1948, p. 193).³⁹

Brennan's policy advocacy up to 1943 was economically consistent and politically appropriate despite criticism from more radical voices. This is clearly evidenced by the policy inertia of the openly nationalist Fianna Fáil party on banking and currency matters after they assumed power in 1932.

For Brennan, it was better to achieve goals within reach rather than to seek unattainable objectives. His policy advice ensured a level of banking and currency stability during the turbulent interwar period and beyond. His advocacy of the sterling link was pragmatic rather than dogmatic. Only when the European project was well underway was the policy changed. His contribution and achievements deserve wider acknowledgement than is accorded in the existing literature.

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Central Bank of Ireland Archives, Dublin: Governors' Files, Currency Commission Files, Joseph Brennan Files

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Irish Press

³⁹ According to Whitaker, total Irish external assets declined by just £5.5m between 1933 and 1939. Gross sterling assets were estimated at up to £300m in 1938–9.

*Irish Times**Leader*

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