NUI MAYNOOTH
Ollscoil na hÉireann Má Nuad

Microfinance institutions in nineteenth century Ireland

Volume 1 of 2

By

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October, 2009

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Abstract

This thesis is a comprehensive study which examines the economic, social and political ideology underpinnings of microfinance institutions in Ireland. It also analyses the sources, uses, and consequences of microfinance for the borrower individually and the Irish economy as a whole. The thesis studies the developments of a number of microfinance institutions that operated in nineteenth century Ireland: loan funds, savings banks (TSB and POSB), joint stock banks, Monts-de-Piété, Raiffeisen banks, state-funded land purchase, and emigrant remittances. It utilises financial and microfinancial history as a prism to analyse Irish economic and social history.

The thesis concludes by outlining four reoccurring themes that are present throughout: legislative constraints, institutional imitation, economic versus social goals and state intervention. It argues that all the institutions studied experienced legislative constraints, but that only the joint stock banks were able to overcome such constraints. Furthermore, it argues that the legislation encouraged moral hazard which resulted in fraud as it absolved the management of loan funds and savings banks from any liability for the running of those institutions. The thesis argues that the joint stock banks were the only successful institutional imitation as the propagators of these institutions took the existing market into consideration, something not done by others such as the Mont-de-Piété and Raiffeisen Banks. It argues that many of the institutions were promoted on the basis of social rather than economic motivation, and as a result the promoters did not assess economic conditions in the market. Finally, the thesis argues that government intervention in the economy distorted financial markets, through involvement in savings markets and as a long term lender. It argues that the long term lending activities of the state encouraged inefficient investment and hindered long term Irish economic development.

Acknowledgements

Whilst researching and writing this thesis I have accumulated immense debts of gratitude which I would like to acknowledge.

I would primarily like to thank the bodies which enabled me to finance this study on microfinance. Firstly, in the first year of research I received generous assistance from the Department of History in NUI Maynooth. I also received support from First Rate Enterprises where I worked for the first two years of this research. I would also like to thank the Irish Research Council for the Humanities and Social Sciences for their support over the final two years of research and writing.

My research was facilitated by staff in various institutions where I did studied. I would like to thank the staff of the John Paul II library in Maynooth and the Berkeley Library of Trinity College Dublin. I am also grateful to the National Library of Ireland and the National Archives of Ireland. I would like to thank Yvonne Murphy for her assistance in helping me access the ICOS archive and to thank the staff at the ICOS headquarters in Merrion Square for giving me access to early ICOS reports. I would like to thank Patricia Timoney for helping me access information from the Saint Vincent de Paul annual reports held at the Head Office of the St Vincent de Paul in Sean MacDermott St.

I would like to thank the participants from the Economic History Society residential training course in the University of Manchester, December 2009, for their comments and suggestions. I would also like to acknowledge the comments I received from presentations at the Economic History Society annual conference in April 2009. I would like to acknowledge the support which the Economic History Society gave me to attend both events.

I would like to thank the participants from the Globaleuronet summer school in Lisbon 2009. I wish to acknowledge the support and comments received at the summer school.

I wish to thank participants at the 2009 European Historical Economics Society conference in Geneva for their comments and suggestions.

On a personal level I would like to thank a number of friends and colleagues for their support over the years. I would particularly like to thank Matthias Blum, Gareth Campbell, Chris Colvin, Pat Cosgrove, Smita Kheria, Sean Lucey, Cormac MacLochlainn, Maire NiChearbhaill, María José Miró Rodriguez, Martin Ryan, William Smyth and Edward Whelan. I would also like to thank colleagues in NUI Maynooth.

I would like to thank Proinnsias Breathnach for his help in untangling the mysteries of Irish co-operative history and for his advice on the possibility of mapping. I wish to sincerely thank Peter Foley for his immense assistance in mapping the spatial distribution of the various financial institutions studied in this thesis. If it was not for Peter's perseverance the scale of mapping could not have been completed.

I would like to acknowledge help from colleagues in the department of economics, finance and accounting in NUI Maynooth. I would like to express my gratitude to Donal O'Neill, Deren Unalmis and Tom Flavin for allowing me to attend their econometric classes.

I would like to thank Cormac Ó Gráda for advice, comments and for sharing his research on savings banks. I also wish my gratitude to Larry Neal for comments on the Monts-de-Piété section of the thesis. I would like to thank Liam Kennedy for sharing his cost of living research.

I would especially like to thank Rowena Pecchenino primarily for her timely decision to come to NUI Maynooth and her openness and generosity in helping to guide this history project. Rowena's help was invaluable and her assistance was instrumental in turning a moribund idea into what lies before me today. Rowena's patience and help encouraged me to re-direct the focus of my thesis. Rowena encouragement was also instrumental in my participation at various seminars and conferences. Rowena tirelessly read two drafts of this thesis, to which I am immensely grateful (and I would like to apologise for its' length).

I also owe a huge debt of gratitude to my research supervisor Vincent Comerford for both his support of me and of this research project, and for his gamble that I would be able to deliver some output. If not for the encouragement of Vincent I would have abandoned this thesis a long time ago. I would also like to thank Vincent for giving me the ultimate incentive to finish: the announcement of his retirement. I would therefore like to sincerely wish Vincent all the best in retirement and in his future Hiberno-Dutch research venture.

Finally I would like to thank my immediate family, my father Arthur, my mother Jean, my brothers Cormac, Caoimhín, Ronan, Darragh, and Figo the annoying little dog. I couldn't have done this without their support, banter, camaraderie, general insanity and for the all important lifts to the train station or further afield.

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Abbreviations

A&C	Agricultural and Commercial Bank of Ireland
AOS	Agricultural Organisation Society
CDB	Congested Districts Board
CMS	Charitable musical society
CRND	Commissioners for the Reduction of the National Debt
DATI	Department of Agriculture and Technical Instruction
IAOS	Irish Agricultural Organisation Society
LFB	Loan Fund Board
LRC	London Relief Committee
FS	Friendly Society
MO	Money Order
NAI	National Archive of Ireland
NLI	National Library of Ireland
PB	Penny Bank
POSB	Post Office Savings Bank
RLF	Reproductive Loan Fund
TCD	Trinity College Dublin
TSB	Trustee Savings Bank

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> *...Pensé que nada hay menos material que el dinero, ya que cualquier moneda (una moneda de veinte centavos, digamos) es, en rigor, un repertorio de futuros posibles. El dinero es abstracto, repetí, el dinero es tiempo futuro*… [I reflected that there is nothing less material than money, since any coin (a twenty-centavo piece, for instance) is, in all truth, a panoply of possible futures. Money is abstract, I said, over and over, money is future time.]
>
> (Jorge Luis Borges, 'El Aleph')

1. Introduction

Microfinance institutions were prevalent in nineteenth century Ireland, yet to date they have been understudied by historians of Ireland. This thesis is a study of microfinance institutions, and it aims to use microfinance institutions as a lens with which to analyse Irish economic and social history in the nineteenth century.

The term microfinance was introduced into Irish historiography via the work of Aidan Hollis and Arthur Sweetman who studied the history of Loan Fund Board (LFB) loan fund societies[1] in nineteenth century Ireland.[2] This thesis is a broader and more encompassing study of the origins and development of microfinance institutions in nineteenth century Ireland. The study aims to enhance the scholarship of Hollis and Sweetman, whilst contributing new discourse to the nascent literature.

Firstly, in relation to this thesis, it is important to clarify what is intended by the term microfinance, as it was noted by *The Economist* that there has been considerable confusion and disagreement regarding what actually constituted microfinance.[3] For the purposes of this thesis we shall use the definition of microfinance used by Joanna Ledgerwood, who defined it as:

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[1] There were three variants of loan funds; one strand was registered with the LFB, a second strand was known as Reproductive loan funds (RLF), and a third strand is referred to here as Friendly Society loan funds. The prefix LFB is used to distinguish between LFB loan funds and the other two.

[2] Aidan Hollis and Arthur Sweetman, 'Microcredit: Can we learn from the past?' in *World Development*, xxvi, no. 10 (1998), pp 1875-1891; Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History,* xxxv (1998), pp 347-380; Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), pp 291-311; Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no.9 (2004), pp 1509-1523.

[3] 'The hidden wealth of the poor: A survey of microfinance' in *The Economist* (5 November, 2005), p. 5.

> The provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit; however, some microfinance organisations provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking, it is a development tool.[4]

The most common activities associated with microfinance are: small loans, informal appraisal of borrowers and investments, collateral substitutes, access to repeat and larger loans based on repayment performance, streamlined loan disbursement and monitoring, and secure saving products.[5]

Microfinance providers target low income groups of varying degrees of poverty. The common misperception regarding microfinance is that it only targets the poorest of the poor. This is not necessarily the case, either through accident or design. The extent to which a microfinance institution reaches groups with very high poverty levels is defined as the depth of their outreach capacity. But it is not always possible to have maximum outreach depth with microfinance services. Modern experience is that there has been a failure of many microfinance providers to include the hardcore poor in their portfolios. Asif Dowla and Dipal Barua observed that:

> Microfinance providers in Bangladesh, including Grameen Bank have been criticised for their failure to include the hardcore poor… The low representation of the very poor in the client base of MFIs [microfinance institutions] has been called "mission drift". After all, the original mission of microfinance institutions was to help the poor irrespective of the intensity of their poverty…The poorest do not have supporting inputs such as land, capital, additional working family members, human capital in the form of education, and knowledge of running a business. As a result, these individuals will receive a low return from using credit in non-farm activities, which, in turn, discourages them from participating in a risky, low-return credit program.[6]

Microfinance institutions in nineteenth century Ireland were targeted towards the 'industrious poor', which, by definition, excluded those whom contemporaries did not deem to be industrious. This targeting policy brought microfinance within the reach of different socio-economic groupings but may also have excluded the poorest groupings.

The providers of these microfinance services can be multifaceted. They can focus on one particular aspect of microfinance, either credit or savings. They can also engage in financial intermediation which combines elements of credit provision and

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[4] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington DC, 1998), p.1.
[5] Ibid, p.1.
[6] Asif Dowla and Dipal Barua, *The poor always pay back: the Grameen II story* (Connecticut, 2006), pp 202-203.

savings accumulation. The specialisation and prioritisation of the microfinance supplier is determined by its structure and *raison d'être*. There are three main sectors - formal, semiformal and informal - which traditionally engage in financial activity, and each of which can supply microfinance services. Ledgerwood gave an outline of each sector:

> Formal financial institutions [that] are chartered by the government and are subject to banking regulations and supervision… Semiformal institutions [that] are not regulated by banking authorities but are usually licensed and supervised by other government agencies…Informal financial intermediaries [that] operate outside the structure of government regulation and supervision. They include local money lenders, pawnbrokers, self help groups, and NGOs, as well as the savings of family members who contribute to the microenterprise.[7]

In contemporary microfinance it is the semiformal and to a lesser extent the informal sector that engage in microfinance for non-profit based motives.

All three sectors were found in nineteenth century Ireland. The formal sector consisted of the joint stock banks, the Trustee Savings Banks (TSBs) and the Post Office Savings Bank (POSB). The Bank of Ireland, chartered in 1782 and opened in 1783, was the first joint stock bank formed in Ireland, and following market liberalisation in the 1820s other joint stock banks were established. The system of TSBs had been in existence since the early 1810s and the POSB began operating in Ireland in 1862. These institutions were subject to banking regulations and supervision.

The joint stock banks were not directly pursuing microfinance as a business model. In the early nineteenth century the joint stock banks found microfinance provision to be a very cumbersome and expensive process. They did not go to any great lengths to encourage the spread of microfinance. Their participation in microfinance was a by-product of general banking development, in particular branch expansion and the competition for deposits. The branch-banking model enabled the joint stock banks to lend small amounts of money at interest, provided that a borrower had a reputable surety known to the bank. This form of microfinance was innovative, but it was expensive from the borrowers' perspective as they were required to provide expenses for their sureties, commonly known as treating, and at times provide labour services. There was an opportunity cost for borrowers in terms of lost time due to the process, and this cost was higher the further a borrower lived from a joint stock bank

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[7] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington DC, 1998), pp 12-13.

branch. But in an environment of imperfect information the surety system was necessary as the joint stock banks required additional security to overcome any potential moral hazards due to their isolation from the potential borrowers.

The savings banks, both TSBs and the POSB, ostensibly targeted the lower income groups of society but they offered a different microfinance service. Their apparent aim was to encourage thrift amongst them and they offered security for the savings of the lower income groups whilst paying a fixed interest on deposits; but it was not always the lowest income groups that utilised these services.[8] Unlike similar contemporary institutions in continental Europe and the USA, these savings banks did not offer private intermediary services; instead they lent money to the central government.

The semiformal sector was dominated by the loan fund societies for the majority of the nineteenth century. The loan fund system had been in existence since the early 1700s but the system proliferated in the early nineteenth century when numerous societies were founded. The rapid increase in the number of loan fund societies led to the establishment of a Board, the LFB, designed to regulate the loan fund system as constituted in the 1830s. LFB loan funds were the main examples of semiformal microfinance institutions until the emergence of credit cooperatives in the late 1890s.

The loan funds were financial intermediaries that targeted the lower income groups in Irish society. Initially they had been devised as an urban institution to cater to the needs of urban wage earning labourers but in the nineteenth century they were increasingly rural based and geared towards members of the agricultural community. This shift of focus from urban to rural communities did not correspond with a change in institutional structure. The loan funds offered small loans, with a legally constrained maximum loan of £10 available. These loans were for limited periods and were renewable if they were repaid on time and with the stipulated interest payments. The loan funds also had the capacity to receive deposits from the public and pay interest on these deposits. The loan funds used collateral substitutes in the form of local sureties to act as guarantors for loans given. The loan funds were a sizeable source of microcredit up until the mid nineteenth century, but then subsequently declined in relative importance in the latter nineteenth century. There was no single

[8] Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD Centre for Economic Research working paper series*, WP08/04 (February 2008).

specific reason for their decline. The causes of the decline were numerous, such as poor management, fraud, institutional ossification and inflexibility. There was also a decline in their target base caused by emigration. Further, they experienced increasing competition from the formal sector in the latter nineteenth century.

Cooperative banks emerged in the late 1890s and were based on the German model of Raiffeisen cooperative banking. They were similar to the loan funds in some respects. Notably they also had maximum loans, £50 in their case, but they had longer term limits for loans, a lower interest rate on loans, and they received deposits on which they paid interest. Unlike the loan funds, they were mutual societies in that membership was required to borrow from the society. They used collateral substitutes in the form of group collateral and also made use of sureties. The credit co-operatives suffered from a problem similar to that suffered by the loan funds, that of poor management. The credit co-operatives also suffered from the fact that they did not effectively mobilise savings. There was a demand for the credit services that they provided, but there was no uptake in their saving services as these services were not promoted by many of the societies.

The informal microfinance sector was comprised of moneylenders, pawnbrokers and shopkeepers. These were informal intermediaries. They were not intermediaries in the classical banking sense of mobilising deposits for lending. Rather they intermediated between the joint stock banks and people requiring credit.[9] They overcame the banks' aversion to lending to certain groups of people and thus offered microcredit services. There was less likely to have been loan limits and interest payments were alleged to have been quite high. Their loan ceilings were higher than the formal and semiformal sectors' and their rates of interest were also much higher. These groups did not offer savings products. Familial financial relations were also prevalent in the informal sector. These sources of microfinance would have included loans and remittance transfers from friends and family. Such familial finance relations existed throughout the nineteenth century but increases in emigration saw corresponding increases in emigrant remittances.

The nineteenth century witnessed an increasing state involvement in the Irish economy. The savings banks, TSBs and POSB, were an example of state activity in savings markets. The state also became an active agent in credit markets in Ireland.

[9] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no. 3 (1977), p. 219.

Long-term loans were available from the Board of Public Works from the 1840s onwards,[10] and in the late nineteenth century government bodies such as the Land Commission, the Estates Commission and the Congested Districts Board began offering loans for land purchase. There were also government schemes offering short-term loans; these were available from the Congested Districts Board and also from the Department of Agriculture and Technical Instruction.

Information economics provides the underlying theoretical framework of this thesis. Credit transactions involve principal-agent problems such as adverse selection and moral hazard due to a lender's lack of information regarding a potential borrower.[11] These information asymmetries can lead to credit rationing, redlining,[12] and lower economic welfare. A way in which a lender can overcome such information asymmetries is by collecting more relevant information regarding borrowers. But such information collection, or screening, has a cost, and if the cost of screening exceeds the benefits, as measured by interest payment for loans, then the lender will not lend to the borrower.

Adverse selection in the credit transaction arises when borrowers are not homogenous in that they are not of the same risk type. For example, one borrower may be deemed safe in that the probability of repaying the loan is quite high, and another borrower may be deemed risky in that there is a low probability that the borrower can repay the loan. This is a stylised example for it is possible that there may be borrowers with varying degrees of riskiness. With a problem of adverse selection a lender cannot decipher which borrower is of a type deemed safe and which is of a type deemed risky. Therefore, there is a likelihood that the lender could lend money to a risky borrower and lose both principal and interest as a result. A lender may wish to raise interest rates to overcome the problem, but raising interest rates actually exacerbates the problem. Higher rates of interest will reduce the return of a project, leading to negative returns, for safe borrowers. As a result they will feel that the rate of interest is too high and will withdraw from the market. This only leaves the risky borrowers who are willing to accept the higher rates of interest, because if their

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[10] A. R. G. Griffiths, *The Irish Board of Works, 1831-1878* (London, 1987).

[11] Joseph E. Stiglitz, and Andrew Weiss, 'Credit rationing in markets with imperfect information' in *The American Economic Review*, lxxi, no. 3 (June, 1981), pp 393-410 and Joseph E. Stiglitz, 'Peer monitoring and credit markets' in *The World Bank Economic Review* , iv, no. 3 (September, 1990), pp. 351-366.

[12] Redlining is the practice of refusing, or increasing the cost of, financial services to groups based on their geographic location or social status.

risk are not realised then the return of their projects will be positive. The problem is that the banks are not willing to take these risks but by increasing interest rates it is these risks that are in fact encouraged.

Lenders can face both *ex ante* and *ex post* moral hazard problems. *Ex ante* moral hazard occurs when a borrower is not truthful about what the funds will actually be financing. A borrower may say that the funds are for investment purposes but use the funds for some other purpose, then subsequently default on repayment of both principal and interest. *Ex post* moral hazard can occur if the borrower is not truthful about the outcome of the investment. The investment may have been successful, but the borrower may claim otherwise and resist repaying the amount lent.[13]

These problems of adverse selection and moral hazard caused by asymmetric information if unresolved can hamper the efficiency of financial markets. A way to overcome both is through the collection of information regarding the activities of borrowers. A difficulty with this is that there is often a lack of good information. Hayek observed that:

> The peculiar character of the problem of a rational economic order is determined by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.[14]

Hayek advocated decentralisation as a solution to information problems and for a greater utilisation of local knowledge in economic organisation. It is this use of local knowledge which theoretically made microfinance institutions operable. Many of the microcredit providers discussed in this thesis were decentralised institutions that were able to utilise local information and as such overcome information constraints. Informal lenders were also able to utilise local information. Hence in some cases, as argued by Kennedy,[15] they were the only lenders willing to give loans to certain borrowers.

There were also information asymmetries involved in savings transactions, but in the case of savings the roles were reversed with savers experiencing information asymmetries as to actions of the institution, something which can also result in moral

[13] Beatriz Armendáriz and Jonathan Morduch, *The economics of microfinance* (Massachusetts, 2005), pp 85-114.
[14] F. A. Hayek, 'The use of knowledge in society' in *The American Economic Review*, xxxv, no. 4 (September, 1945), p. 519.
[15] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no. 3 (1977), p. 220.

hazard.[16] For example, savers might not have information regarding what a financial intermediary would do with their savings. This information asymmetry can influence the development of financial intermediation as savers might not trust financial institutions. In the case of financial institutions that experience some level of government intervention (in nineteenth century Ireland these were the savings banks and loan funds),[17] this may lead to cases of moral hazard or exacerbate existing moral hazard problems. Managers of such financial institutions may be lax in their monitoring and screening of staff and loans because of the belief that the state will make good any losses.

This thesis is also underpinned by the literature of institutional economics, in the most part the work of Douglass C. North.[18] Economic historians, such as North, have argued that institutions matter, and in this thesis we will explore how the institutions were structured and how they interacted with formal (legal) and informal (cultural) constraints. One of the main arguments that North *et al* make is that institutions are important as they influence economic development through the principle of path dependence. North stated that:

> Path dependence means that history matters. We cannot understand today's choices (and define them in the modelling of economic performance) without tracing the incremental evolution of institutions. But we are just beginning the serious task of exploring the implications of path dependence.[19]

In this thesis we will explore how path dependence influenced the development of microfinance institutions in Ireland.

The influence of Samuel Smiles is an important theme of this thesis. Samuel Smiles published a number of works in the mid to late nineteenth century and they were highly influential. The importance of Smilesian thought in the context of Irish microfinance is that it influenced social elites. Smiles valued microsavings as a greater moral service than microcredit. Reference will be made throughout the thesis to areas where the influence of Smilesian thought is particularly evident.

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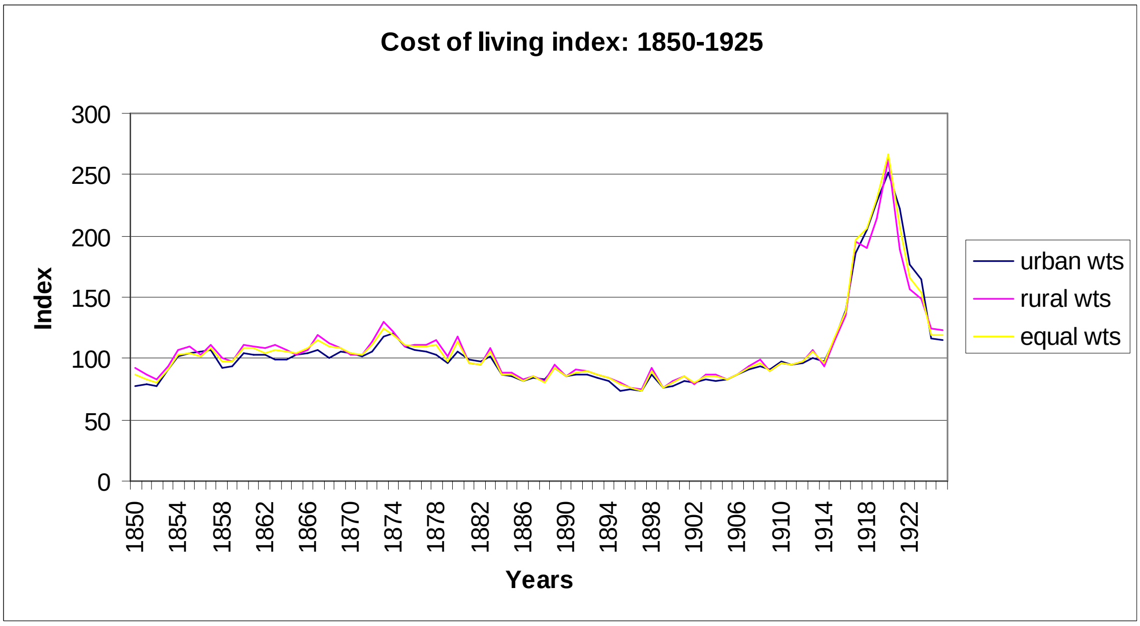
[16] Beatriz Armendáriz and Jonathan Morduch, *The economics of microfinance* (Massachusetts, 2005), pp 147-172.
[17] In the twentieth century many government introduced deposit insurance schemes, but these were not in existence in nineteenth century Ireland.
[18] For example see Douglass C. North, *Institutions, institutional change and economic performance* (Cambridge, 1990).
[19] Ibid, p. 100.

Where long-run financial data is analysed, these have been weighted using a cost of living index compiled by Liam Kennedy.[20] The weighting was done to give an indication of the real value of the financial data taking account of deflation in the period of what was formerly known as the 'Great Depression' and the inflationary effects of the Great War. Liam Kennedy compiled three indices, a rural, an urban, and a weighted average of the two, and the base year is given as an average of 1850-1900.

Figure 1



Source: Liam Kennedy, 'The cost of living in Ireland, 1698-1998' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 249-276.

2. The social backdrop to microfinance: the Irish poor law

An important social backdrop to this thesis is the introduction of a public poor relief system in Ireland in the early nineteenth century that was financed through local taxation. This system was intended to be an Irish parallel to the existing poor law in England and Wales. This is important because many of the microfinance institutions described in this thesis were designed, and promoted, in an attempt to avoid the compulsory tax imposed to provide for poor relief. Many commentators have noted that the poor relief system was designed to deter people from consuming poor relief, for example the treatment of the poor in the workhouses and their routine diet. There

[20] Liam Kennedy, 'The cost of living in Ireland, 1698-1998' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 249-276.

were also complementary policies aimed at evading the poor rate; the promotion of microfinance institutions was one of these policies.

The English poor law system dated from 1601, when it was first introduced by Elizabeth I. Prior to the Reformation in England, poor relief had been provided privately in monasteries and parish churches. The charitable market was dislocated by political and religiously motivated actions, and it was necessary to replace the private religiously run charity market with a state-organised alternative. Johnson observed that:

> The protestant reformation signalled a drastic reform in the charity market. Since the protestants never developed a central organisation comparable to the Catholic Church, the reformation resulted in the transfer of charitable activity from the religious realm into the state realm.[21]

The dissolution of monastic orders required an alternative to be formed, and this came in the form of the Poor Law. The Poor Law replaced private charity relief and made charity payments a compulsory obligation, through the levying of taxes to pay for poor relief. Johnson stated that 'a system whereby charitable funds had been raised by hell-or-heaven alternative was changed to one offered by national states'.[22] Johnson's argument is that the poor rate grew out of legislatively imposed institutional constraint on church bodies. An alternative perspective could argue that other factors were important in determining the necessity for state-sponsored charitable relief. For example, in eighteenth century France population growth and shifts in cultural attitudes towards poverty have been cited as motivations for the introduction of publicly funded poor relief.[23] But the intricacies of such arguments are beyond the scope of this thesis.

The reformation also dislocated the charity institutions in Ireland, but the Irish charity market was not reformed along English lines. By 1800 there were different charitable systems for poor relief within the United Kingdom, one private and one public. The Irish charity market would possibly have remained neglected had the issue not became politically significant. Population increases in Ireland, which were not matched with similar increases in industrial capacity, led to an increase in relative poverty between the two islands. The short distance between the two islands

[21] D. B. Johnson, 'The fundamental economics of the charity market' (PhD thesis, University of Virginia Department of Economics and Finance, 1968), p. 20.
[22] Ibid, p. 20.
[23] Cheryl L. Danieri, *Credit where credit is due: the Monts-de-Piété of Paris, 1777-1851* (New York, 1991), p. 14, and pp 18-23.

facilitated Irish migration. Migration took place as the decreasing incomes in Ireland forced many to migrate to Great Britain. Irish immigration was contentious for two reasons. Firstly, there were some poor Irish immigrants who, when they were destitute, claimed poor relief in England, at the expense of the English ratepayer. Secondly, there was a fear that Irish migrants were putting downward pressure on wages in England and decreasing the standard of living. This in turn would place a burden on the English poor rates in the future. The issue is not that Ireland did not have a poor law, but that pressure was put on the English poor rate. The provision of poor relief and the payment of the poor rate had always been a contentious issue in England and Wales, with eligibility and entitlement to poor relief being divisive issues.[24] There is evidence to suggest that Friendly Societies, Co-operatives, and Savings Banks had been encouraged to relieve pressure on the poor rates and make the poor more self-reliant.[25] Political lobbyists in England encouraged the introduction of an Irish Poor Law in an attempt to improve the economic situation in Ireland and reduce pressure on the English poor rate. Irish interests opposed this, claiming that the financial burden would be too great, and they had support from notable contemporary economists such as Torrens[26] and Malthus.[27]

Johnson argued that: 'When a majority of individuals approve the provision of a public good in a political market with a majority voting rule, that good is provided even if the minority disapproves'.[28] The evidence suggests that the minority, Ireland, did not approve of the provision of the poor laws. Therefore, it appears that a prominent reason for the introduction of an Irish poor law in 1838 was actually to relieve pressure on the English poor rate payers, by placing the incidence of Irish poverty on Irish rate payers. Or alternatively, by imposing constraints on the Irish free riders who took advantage of English rate payers.

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[24] Steve Hindle, *On the parish? The micro-politics of poor relief in rural England c. 1550-1750* (Oxford, 2004).

[25] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p. 34 and p. 208.

[26] Robert Torrens, *A letter to the right honourable Lord John Russell, on the ministerial measure for establishing poor laws in Ireland and on the auxiliary means which it will be necessary to employ in carrying that measure into effect* (2nd ed. London, 1838).

[27] T. R. Malthus, *An Essay on the principle of population; or, a view of its past and present effects on human happiness with an inquiry into our prospects respecting the future removal or mitigation of the evils which it occasions* , vol. ii , book iv, chapter vii (3rd ed, London, 1806), pp 408-409.

[28] D. B. Johnson, 'Some fundamental economics of the charity market' in Thomas R. Ireland and David B. Johnson, *The Economics of charity* (Virginia, 1970), p. 130.

Prior to the poor law of 1838, charitable relief was primarily provided by private individuals, but there were some regional variations. Although there were examples of government grants to some institutions providing relief, notably the Dublin workhouse, these grants were not widespread. Evidence of the role of private charity before the poor law was provided by various parliamentary committees in the early nineteenth century, such as the 1823 report on the condition of the labouring poor and the 1830 report of the select committee on the state of the poorer classes in Ireland.[29] The second and third reports of the commissioners for inquiring into the condition of the poorer classes in Ireland showed a wide array of private networks that were dealing with poor relief and other charitable activities. The third report stated that:

> …The institutions existing in Ireland for the relief of the poor are Houses of Industry, Infirmaries, Fever Hospitals, Lunatic Asylums, and Dispensaries; that the establishment of these, except as to Lunatic Asylums, is not compulsory, but dependent upon private subscriptions, or the will of Grand Juries; that there are but nine Houses of Industry in the whole country; that while the provision made for the sick poor in some places is extensive, it is in other places utterly inadequate; and that there is no general provision made for the aged, the impotent, or the destitute. Much is certainly given in Ireland in private charity, but it is not given upon any organised system of relief, and the abundant alms which are bestowed, in particular by the poorer classes, unfortunately tend, as we have already observed, to encourage mendacity with its attendant evils.[30]

The poor law act was introduced in 1838 and established a system of publicly funded poor relief.[31] The public funds were raised from a tax on the owners and holders of landed property; it was effectively a tax to pay for charity. The following quote is taken from the preface of *A history of the Irish poor law in connexion with the condition of the people*. Nicholls, one of the architects of the Irish poor law system, stated in 1856 that:

> I hardly need say that this object is distinct from charity, in the ordinary sense of the term, although it is undoubtedly charity in its largest acceptation, embracing the whole community – It is in truth the charity of the statesman and the philanthropist, seeking to secure the largest amount of good for his fellow man, with the smallest amount of accompanying evil.[32]

The poor laws were intended to provide a safety net for people who were unable to take care of themselves. They were designed to provide the minimum comfort to

[29]George Nicholls, *A history of the Irish poor law in connexion with the condition of the people* (London, 1856), p. 91 and p. 95.
[30] *Third report of the commissioners for inquiring into the condition of the poorer classes in Ireland*, section xvi, p. 25. [43], H.C. 1836, xxx, 1.
[31] Poor Relief (Ireland) Act, 1838 (1 & 2 Vict.), c. 56.
[32] George Nicholls, *A history of the Irish poor law in connexion with the condition of the people* (London, 1856), pp v-vi.

those using the services, so as to discourage the overuse of them.[33] The poor laws saw Ireland divided into a number of poor law unions, with each poor law union having its own workhouse where local poor could go to receive poor relief. The poor law system was designed so that the poor would not get the comfort of outdoor relief, but instead would have to go to the poor house if they needed relief. As such the poor law system was not popular with those who used it, and it was also opposed by those who had to fund it.[34] Funding was intended to come from a tax on local land owners and occupiers, rather than be provided by central government,[35] but there were some loans given by central government to pay for initial outlays of the programme.

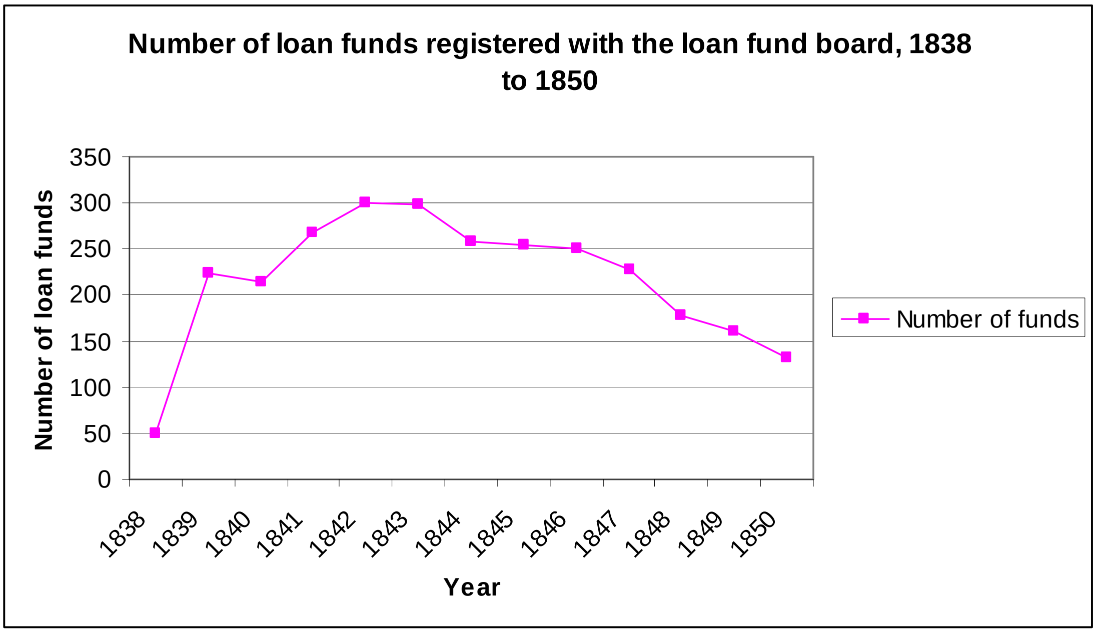
The importance of the introduction of the poor law was that it introduced a new tax that was payable by 'every occupier of rateable hereditaments'.[36] The new tax was legally enforceable and had to be paid within two months of the stated date; otherwise legal action would be taken to recover the tax arrears.[37] An important piece of the legislation was the fact that there was an exemption for tenants of properties valued less than £5,[38] but their tax burden was transferred to the lessor of the property.[39] Another relevant piece of the legislation was the fact that a portion of the rates could be deducted from rents due.[40] Given that the majority of the Irish population was rural, the 1838 poor relief act was essentially a tax on landlords. A return in 1846 of the number of occupiers liable to pay the poor rate showed that there were 712,005 occupiers, holding an estimated 15,856,009 acres of land, liable to pay the poor rate and that there were 519,248 herediments, holding an estimated 2,079,685 acres of land, exempt from paying the poor rate, with their obligation transferred to the incumbent landlord.[41] The mean percentage ratio of rate payees to rate exemptees was 190 per cent, i.e. more payees than exemptees by about 2 to 1, but importantly there was very high variation across the island with a standard deviation of 138 per cent. So

[33] John O'Connor, *The workhouses of Ireland: the fate of Ireland's poor* (Dublin, 1995), p. 63.
[34] Ibid, p. 63.
[35] Poor Relief (Ireland) Act, 1838 (1 & 2 Vict.), c. 56, section lxi.
[36] Ibid, section lxi.
[37] Ibid, section lxxviii
[38] This essentially meant small farms. The mean land occupation of those under £5 was 3.95 acres with a standard deviation of 5.03 acres; *Abstract return from the Poor Law Commissioners, showing the name of each union in Ireland, the name of the county in which situated, and of each electoral division; the extent of statute acres, bog or waste, &c. &c.*, H.C. 1846 (262), xxxvi, 469.
[39] Poor Relief (Ireland) Act, 1838 (1 & 2 Vict.), c. 56, section lxxii.
[40] Ibid, section lxxiv.
[41] *Abstract return from the Poor Law Commissioners, showing the name of each union in Ireland, the name of the county in which situated, and of each electoral division; the extent of statute acres, bog or waste, &c. &c*., H.C. 1846 (262), xxxvi, 469.

in some areas the percentage ratio of rate payees to rate exemptees was quite high, while in others (mainly in the west) the ratio was very low. For example, the mean percentage ratio of rate payees to rate exemptees in the principal Poor Laws Unions in Mayo was 31 per cent.[42] Given that the incidence of taxation was concentrated on landlords and larger farmers, it would not be surprising if this tax influenced their behaviour and if there was some coordinated attempt to try and reduce this incidence by implementing tax avoidance schemes.

In terms of this thesis it is possible to link a number of the institutions studied to the introduction of the poor law, the most notable example of this being the loan funds.

Figure 2



Source: LFB annual reports, various years.

Figure 2 shows the number of registered LFB loan funds between 1838 and 1850. It is interesting that a large number of loan funds registered with the LFB between 1838 and 1843, a period when the poor law system was being introduced. Is this a spurious correlation, or was there a genuine relationship between the Poor Law and loan fund activity? The evidence to support the claim that the loan funds were influenced by the poor law comes from two sources, firstly from official support and encouragement and secondly from propagators of loan funds.

[42] Ibid. Poor Law Unions used in this calculation were Ballina, Ballinrobe, Swinford and Westport. Mean occupation of those under £5 was 9.58 acres.

The increase in loan funds may be explained by legislative encouragement, or perceived encouragement. The 1830 select committee on the poorer classes in Ireland published three reports, the third of which was published in 1836. This report was contentious as it did not advocate the introduction of compulsory poor rates in Ireland, as was the case in England, but recommended a mixture of voluntary contributions and poor rates. In the third report of the commissioners for inquiring into the condition of the poorer classes in Ireland, there was support for loan funds. In section twenty-five, it was stated that:

> It appears from the evidence before us, that the poor who have occasion to borrow small sums of money have in general to raise them at exorbitant interest, and that when they are obliged to purchase any necessaries they stand in need of on credit, they are compelled to pay double, or nearly double, the market price; we therefore recommend that there shall be a loan fund established in each district, and that it be administered according to such regulations as the Commissioners shall approve.[43]

There was also loan fund legislation in 1836 and 1838 that encouraged the formation of loan fund societies.[44] The 1836 loan fund act was the first act that legalised the issuance of 6 per cent debentures, whereas formerly the loan funds had not been financed by debentures or deposits.[45] The 1836 act also stated that loan funds had to use their profits for charitable purposes.[46] Both of these factors may have given people an incentive to establish a loan fund, but admittedly there does not appear to be a direct link between the loan funds and the poor law.

However, there were also a number of loan fund proponents who advocated the introduction of loan funds in Ireland. A common argument for loan fund formation was that one of its benefits would be to decrease poor law expenditure, and therefore decrease the pressure on rate payers. The following are extracts from various pamphlets which all seem to have been in circulation at the same time; the date of publication of the pamphlets are between 1836 and 1838.

P. B. Ryan wrote a pamphlet with the provocative title *Provision for the poor of Ireland, without any additional taxation.* P. B. Ryan dedicated his pamphlet to Ashton

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[43] *Third report of the commissioners for inquiring into the condition of the poorer classes in Ireland*, section xxv, p. 27. [43], H.C. 1836, xxx, 1.

[44] Loan societies (Ireland) Act, 1836 (6&7 Will. 4), c. 55; Loan Societies (Ireland) Act, 1838 (1 & 2 Vict.), c. 78.

[45] Loan societies (Ireland) Act, 1836 (6&7 Will. 4), c. 55, section 1.

[46] Ibid, section 24.

Yates, who was a liberal Member of Parliament representing County Carlow,[47] and in the dedication stated that:

> With a view to assisting in the accomplishment of your benevolent intentions, I beg leave to dedicate to you this SECOND EDITION of my little work, entitled "PROVISION FOR THE POOR IN IRELAND, WITHOUT ADDITIONAL TAXATION," hoping that your advocacy of my plan may induce other influential members to co-operate with you in effecting its general adoption in Ireland, and thus obviate the necessity of a compulsory payment to carry into effect the projected Poor Laws. (capitals sic)[48]

Ryan was not in favour of the Poor laws. He opposed them on the grounds that they were to be funded by taxes on landed property, that this would mean taxing industrious farmers, and that 'taxing them is only imposing burdens on the more meritorious classes, in order to support the less worthy'.[49] P. B. Ryan proposed a plan where the private system of loan funds was given public support instead of the planned system of public poor relief, and he believed that it would have greater economic benefit.[50] Ryan's plan proposed that if the funds raised were used in a loan fund fashion, where the money would be lent to industrious poor on interest, and if additional funds were raised through the issuance of debentures, the resulting profits from the loan fund system could be used to finance a workhouse system for those unable to care for themselves, the poor and the old. He also believed that this loan fund system would encourage the reform of idle poor as there would be discriminating practices in poor relief. Ryan's proposed system may have had some adherents, as the growth in the number of loan funds indicates, and to poor rate payers it would have shown good promise. Firstly, such a loan fund system could address poverty by both the provision of loans and the funding of workhouses. Perhaps more importantly, it would not have been as expensive as paying the poor rate. Ryan wanted 'rates' to be paid as interest paying debentures, effectively a social and financial investment. So instead of paying a tax, people would be making an investment. This may account for the initial support for loan funds, since the loan fund system could have been used as a way of decreasing the burden of the poor rates through decreasing the level of poverty.

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[47] Michael Stenton, *Who's who of British members of Parliament, volume I 1832*-1885 (Sussex, 1976), p. 422.

[48] P. B. Ryan, *Provision for the poor of Ireland, without any additional taxation, on the principles of the musical charitable loan society, the 17th & 18th Geo 3rd , cap 12* (Irish statutes 1778) (2nd ed., Dublin, 1838), preface i.

[49] Ibid, p. 5.

[50] Ibid.

Ryan concluded his argument by weighing a loan fund system against a poor law system:

> In conclusion, the writer hopes that owners and occupiers of land will seriously consider the merits of his plan, as compared with the poor laws about to be introduced. The one relieves millions without expense. The other only thousands by enormous taxation. All must acknowledge that there are as many paupers in Ireland as in England in proportion to their population. If then 14 millions population pay six and a half millions sterling what will eight millions pay? Answer £3,700,000 a year, or about five shillings per acre for all the arable land in the country.[51]

Another writer who advocated a loan fund system was J. Caldwell, an agent for the 'Labourer's Friend Society'. Caldwell also argued that the introduction of a loan fund system could reduce pressure on the poor rates in Ireland, and also in England.[52] Caldwell stated that a universal loan fund system 'might eventually supersede the necessity for the levy of the compulsory poor rate'.[53] Caldwell wrote about a tour that he did of Ireland and he stated that the argument for a reduction in poor rates was very persuasive. Caldwell stated that:

> The manifest tendency of our measures to obviate or abate "the necessity of Poor's rates," I found to be a very persuasive argument with not only the landed proprietors, but all clear-sighted men of business, whose comprehensions soar above petty jealousies between the various interests in the state.[54]

Caldwell also saw a benefit in a system where profits could be used for charitable expenditure:

> £240,000 being thrown into circulation by the society, and £240,000 being invested in trust, as security to the public; viz: - £200 circulating in each branch, and £200 in trust for each, in consideration of the privilege of being allowed half profits for factoring the money of the people (*the deposits and subscriptions in aid of the system*) and for giving ubiquity and uniformity to the practice of small loan funds: the institution would then be placed on a permanent foundation, and a growing and unalienable revenue would be secured under the surveillance of the Government Loan Fund Board, for public charities, or for other local exigencies. (italics sic)[55]

Caldwell writing in his report for the Labourer's Friend Society argued that if deposits from savings banks could be used in loan funds they would yield 'a

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51 Ibid, pp 15-16.

52 'A general summary of the grievances of Ireland, with an abstract of the project for her improvement. The benevolent people of England subscribed almost half a million of money to relieve the distresses of Ireland in 1822. The residue of that fund, now sixty thousand is called the reproductive loan fund' in J. Caldwell, *A short treatise on political economy: the poor man's bank* (Dublin, 1837), p. 2.

53 'Charitable banks, giving half the profits for local exigencies' in J. Caldwell, *A short treatise on political economy: the poor man's bank* (Dublin, 1837), p. 1.

54 'Annual report of the extension and progress in Ireland of the labourer's friend society, with incidental miscellaneous observations by John Caldwell' in J. Caldwell, *A short treatise on political economy: the poor man's bank* (Dublin, 1837), p. 3.

55 'Giving half the profits for local exigencies' in J. Caldwell, *A short treatise on political economy: the poor man's bank* (Dublin, 1837), p. 2.

considerable sum for each district in aid of the existing compulsory Poor Rates. On these principles might be constituted real CHARITABLE BANKS TO FEED LOAN FUNDS (capitals sic)' .[56]

Another writer who used the threat of poor laws to make loan funds was Matthew Barrington, the founder of Limerick Mont-de-Piété. In reference to what could be done with the profits of the Monts de Piété, Barrington stated:

> But if to this surplus be added the amount of all fines, penalties, forfeited recognizances, &c. which are now almost unproductive in this country, (and which on the Continent are applied to the support of the poor) the amount, if properly collected, may fairly be estimated at £32,089, making the whole £500,000. After supporting, as is seen, all the Medical charities, this sum would go far in preventing the necessity of Poor Laws, by supporting the aged and infirm, and affording employment to a large portion of the labouring population of the country.[57]

Another exponent of the loan funds was James Connery. He too believed that loan funds were an alternative to the poor law system. He argued that poor laws actually increased poverty,[58] but that the benefit of his proposed system would reduce the poor rate. Connery reasserted the claims about the effect of loan fund principles on poor rates. He stated that:

> The most experienced persons contend that the principle of this plan is applicable to every part of the empire; that its operation would gradually diminish the poors' rate, and might ultimately supersede the poor law system, even in England.[59]

Coincidentally, this exact phrase appeared in the work of Caldwell printed in his supplement on the Reproductive Loan Funds,[60] so perhaps these advocates were not acting in isolation. Connery was consistent with the other writers in his dislike of the poor law system. He stated that the debate about the poor law system was like 'the unskilful physician in administering medicine, will prescribe something, kill or cure; and as parliament have not yet come to a decision on this paramount question, it is

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56 'Annual report of the extension and progress in Ireland of the labourer's friend society, with incidental miscellaneous observations by John Caldwell' in J. Caldwell, *A short treatise on political economy: the poor man's bank (*Dublin, 1837), p. 7.

57 Matthew Barrington, *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city* (Dublin, 1836), p. 24.

58 James Connery, *An essay on charitable economy* (Dublin, 1837), p. 38.

59 Ibid, p. 53.

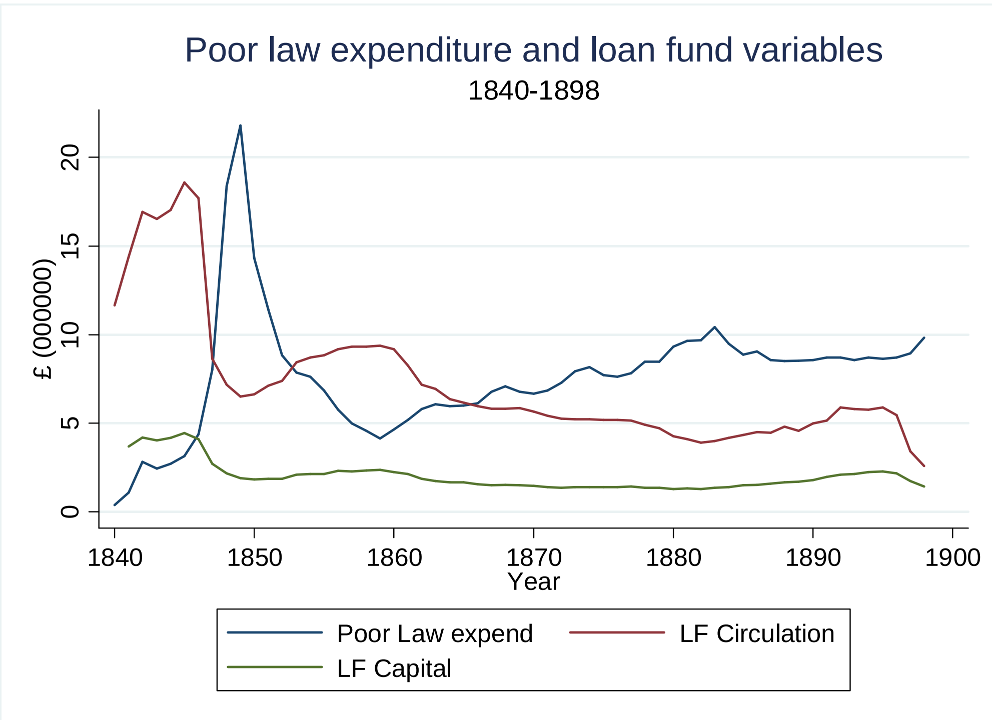
60 'A general summary of the grievances of Ireland, with an abstract of the project for her improvement. The benevolent people of England subscribed almost half a million of money to relieve the distresses of Ireland in 1822. The residue of that fund, now sixty thousand, is called the reproductive loan fund' in J. Caldwell, *A short treatise on political economy: the poor man's bank* (Dublin, 1837), p. 2.

still as much in season as ever, and will be the means of reconciling many whose minds are divided on that all important subject.'[61]

The majority of the publications that encouraged the establishment of loan funds came before the introduction of the poor law in 1838. The loan funds increased in number as can be seen in figure 2, but declined after 1843 following a restrictive loan fund act[62] and, more significantly, famine.

The poor rate was a compulsory tax with severe costs associated with non-payment. In fact, the 1850 franchise act made the right to vote conditional on the prompt payment of the poor rate.[63] The loan fund system did not have similar costs for non-payment attached, or enforcement mechanisms to prevent free riding. The exogenous shock of the potato blight in the 1840s put a strain on the resources of many in Ireland. Johnson observed that charity is income sensitive. During the famine there was increased use of the poor law system and the poor rate payers were exposed to this. Therefore I believe that poor rate payers would have found it difficult to finance and supervise a private charity venture when the demands on their income were so high.

Figure 3



Sources: Annual reports of the loan fund board and *Thom's Directory*, various years.

[61] James Connery, *An essay on charitable economy* (Dublin, 1837), pp 74-75.
[62] Charitable Loan Societies (Ireland) Act, 1843 (6 & 7 Vict.), c. 91.
[63] Representation of the People (Ireland) Act, 1850 (13 & 14 Vict.), c. 69, section 5.

Figure 3 shows the total poor relief expenditure and loan fund circulation and capital from 1840 to 1898, and as can be seen, loan fund circulation was greater than poor relief expenditure before 1846, effectively before the famine. But the economic climate induced by the potato crop failure forced many loan funds to decrease their lending activities. This also had an effect on the number of people seeking poor relief. The amount spent on poor relief peaked in 1847, the height of the famine, and at that point the loan fund circulation amounted to almost half the poor law expenditure.

In regards to loan fund charitable expenditure, the figures are beyond comparison. There was a complete failure of the part of the loan funds as charitable institutions. The loan funds were designed to fund charitable activity from their profits, but their profits were pro-cyclical, i.e. they were profitable in an economic boom. In recessionary periods it would have been difficult to maintain such profit levels, and as a result almost impossible to maintain charitable expenditure. Charitable expenditure would have been most required during economic downturns, and as such the loan funds as institutionally structured were not an alternative to the poor law.

Throughout the period covered by this thesis there was a continued decrease in the amount of loan fund expenditure on charitable relief, although there was a slight increase during the famine period. Overall the performance of the loan funds as agents for funding poor relief is very poor. This indicates a failure on the part of the loan funds, or rather a failure on the part of the aspirations of loan fund propagators, to realise their benefits in regard to eradicating the poor law. It would be a pointless exercise to show loan fund charitable expenditure and poor law expenditure, as the poor relief operation dwarfed the loan fund charitable expenditure.

Savings banks established in the UK were given legislative support in an attempt to encourage ‘thrift’, the underlying motive of which was to encourage poor people to save when times were good so that they would have savings to support themselves when times were bad. Emigration was also seen as a way of reducing the poor rate, especially the assisted emigration of those most likely to be a burden on the poor relief. In an article on emigration and emigrant remittances, W. N. Hancock compared the amount remitted with the amount expended on poor relief to see if there was an increase in remittances at times when the poor rate was increasing.[64] Hancock did this to see if remittances reduced expenditure on poor relief.

After the famine there was acquiescence towards legislatively imposed poor relief, coupled with the failure of proposed alternatives, and as a result attempts were made to reduce the incidence of the poor rate. These included attempts to promote thrift, educate the population[65] and improve the general well-being of the poorer elements of the population. Thus, the poor rate is an important consideration when analysing the economic and social history of nineteenth century Ireland.

3. Thesis structure and sources

The thesis is composed of eight chapters, with each chapter devoted to a separate topic relating to microfinance institutions in nineteenth century Ireland.

The first two chapters are written in relation to the LFB loan funds. The first chapter introduces the loan funds in terms of their origins and their development in the early nineteenth century. It analyses the legal structure and constraints under which the loan funds operated. There was a flurry of loan fund legislation between 1820 and 1843. The 1843 was the act which regulated the loan fund system until the last loan funds were wound up in the 1970s.

The second chapter covers the LFB loan funds from the period 1860 to 1914. The chapter begins in the 1860s as it is has been assumed that there was a structural break following a parliamentary inquiry in the late 1850s and also because of the introduction of the Post Office Savings Bank in 1862. The chapter analyses long-run indicators for the period 1860-1914 and argues that there was a ‘bubble’ in the 1880s and early 1890s. The chapter then argues that this ‘bubble’ led to a situation whereby the loan funds generated and instituted debt peonage and that this was caused by the regulatory capture of the LFB.

The third chapter is an account of the history of the joint stock banks in Ireland. It outlines the origins of the joint stock banking system and argues that the Irish banks were successful imitators of the principle of ‘Scotch banking’. The chapter discusses

[64] W. N. Hancock, ‘On the remittances from North America by Irish emigrants, considered as an indication of character of the Irish race, and with reference to some branches of the Irish labourers question’ in *Journal of Statistical and Social Inquiry of Ireland* , part xliv, (December 1873), p. 285.
[65] For example see: Anon. *Poor rates reduced by reading, writing, and agricultural schools* (London, 1844).

the history of the Agricultural and Commercial Bank of Ireland which was an example of a profit-motivated microfinance institution. The chapter argues that the branch banking policy of the joint stock banks created information about borrowers and enabled the joint stock banks to be effective lending agents in nineteenth century Ireland. The chapter illustrates how the joint stock branch banking policy increased competition in the microfinance sector.

Chapter four outlines the history of savings banks in Ireland. The early nineteenth century saw the introduction of savings bank institutions based on similar institutions in England and Scotland. These institutions were contemporaneous to the loan fund institutions that are discussed in chapter one, and as such the two institutions are compared. Following the uncovering of a number of unrelated frauds in a Dublin savings bank and two savings banks in Kerry the savings bank system was in a state of turmoil. Contemporaneous frauds and difficulties in the English savings bank system led to the introduction of the Post Office Savings Bank. The chapter outlines the impact of the POSB in Ireland, which was the largest branch banking institution on the island.

The fifth chapter introduces some new information regarding urban experiences of microfinance. These include Monts-de-Piété, Penny Savings Banks, and Friendly Society loan funds. The Monts-de-Piété were charitable pawnbrokers and were an imitation of French systems of pawnbroking; the chapter outlines their brief history and explains the reasons for their failure. The Penny Savings banks discussed in chapter five were administered by the Society of Saint Vincent de Paul. They are used as an example to illustrate the prevalence of Smilesian thought in nineteenth century Ireland and to illustrate the effect of financial failures on social memory. Friendly Society loan funds have previously not been referred to in the literature on microfinance in Ireland. They were mutual savings and loans societies that operated in urban environments. The chapter concludes with a comparative study illustrating the differences between Monts-de-Piété and loan fund societies.

Chapter six is a discussion on the introduction of Raiffeisen co-operative societies in Ireland by the Irish Agricultural Organisation Society in 1894. These were co-operative banking institutions modelled on German Raiffeisen societies. The chapter illustrates the diffusion strategy implemented by the IAOS, and argues that the strategy was flawed. The chapter concludes by comparing the experience of the Raiffeisen societies with that of credit unions in the mid-twentieth century.

In chapter seven the thesis addresses the issue of state loans to the agriculture sector in the form of state-funded land purchase. From 1870 until 1909 there were a number of land acts passed into law that enabled the government to provide loans to tenant farmers to purchase their land. The chapter outlines how accessible these lending schemes were, by comparing them to the other microfinance institutions discussed in the thesis. The chapter also discusses whether or not such lending schemes were economically justifiable, or whether they were politically motivated.

Chapter eight is a discussion on emigration and microfinance and attempts to demonstrate the link between emigration and microfinance. Firstly, it discusses the existing evidence on emigration and remittances, and then discusses the importance of the post office as a conduit for remittances. The chapter shows that one of the most accessible methods of sending remittances was also linked to one of the largest branch banking institutions in Ireland: the POSB.

The majority of the primary source material used in this thesis came from the institutions that were being studied rather than from users of the services provided by the institution. This essentially means that the thesis is written from a supply, as opposed to a demand, angle.

There are a variety of primary sources used in this thesis but, as there was a strong element of *dirigisme* in the Irish economy, the majority of the sources came in the form of parliamentary papers and parliamentary legislation. The LFB loan funds discussed in chapters one and two were legally required to submit annual returns to the LFB and these in turn were submitted to parliament for publication. These were an invaluable source. There were also three separate parliamentary inquiries in the nineteenth and early twentieth century that dealt with the issue of loan fund societies.[66] Manuscript sources found in the National Library of Ireland and the National Archives of Ireland were also used. The records of the LFB itself are cited in the Hayes Catalogue as being found in the Stationery office. I searched for these in the National Archives of Ireland but they have not been catalogued. They are listed in the Chief Secretary Office papers, but this is a very time-consuming search process and I was unsuccessful in locating any individual records. I searched the years 1871

[66] *Select committee on loan fund societies (Ireland). Report, Proceedings, minutes of evidence,* paragraph 409, p. 22 (259) H.C. 1854-55, vii, 321; *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 &7, vic. Cap 91.* , [C.8381], H.C. 1897, xxiii, 383; *Departmental committee on Agricultural Credit in Ireland: minutes of evidence, appendices and index,* [Cd. 7375] & [Cd. 7376], H.C. 1914, xiii,1 & 431.

and 1881 in an attempt to find references to loan funds, but the reference numbers cited were inaccurate so I relied on other sources. The inaccessibility of these sources is not an insurmountable burden to research as the annual reports of the LFB were published. In fact, there is a manuscript copy of the eleventh report of the LFB in the National Archives and this is identical to the published eleventh report.[67] There were also a number of pamphlets and articles in contemporary journals written in relation to the loan funds. It has been difficult to locate individual accounts of loan funds. There are two held in the National Library of Ireland, but of these only one is in good condition. Cormac Ó Gráda has stated that there is a similar deficiency regarding savings bank accounts.[68]

The sources used for chapter three were also parliamentary publications and banking information contained in *Thom's Directory.* Banking was heavily regulated and as a result of this regulation it produced a plethora of statistical source material. There were also periodic public inquiries into banking in the UK. Lists of joint stock bank branches were also published in *Thom's* and these were used for mapping purposes.

The state was involved in the savings bank sector. Legislation required savings banks to submit annual returns to the Commissioners for the Reduction of the National Debt, and this in turn led to the publication of information relating to savings banks. From 1861 onwards the state administered its own savings bank and there were annual returns published in the annual reports of the Postmaster General. These returns gave aggregate information at a UK level, but Irish statistics were published in parliamentary returns and in *Thom's Directory*. An Irish postal directory was published annually in *Thom's* and so too was information on the location of TSBs.

The sources used for the discussion of Monts-de-Piété in chapter five came from parliamentary sources. Matthew Barrington lobbied parliament for an inquiry into pawnbroking in 1838 and a number of key figures relating to the Monts-de-Piété gave evidence at that inquiry.[69] The Monts-de-Piété were also affiliated with the LFB, so the annual reports of the LFB were an invaluable source. The annual reports of the Society of Saint Vincent de Paul gave information on the development of Penny

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[67] 'Eleventh report of the loan fund board', 1848 (*N.A.I.*, MS OP 1848/149); *Eleventh Annual Report of the Commissioners of the Loan Fund Board of Ireland*. [1095], H.C. 1849, xxiii, 27.

[68] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review*, x (2003), pp 31-55.

[69] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*. H.C. 1837-38, (677), xvii, 173.

Banks run by the society; the annual reports used are found in the Head Office of the Saint Vincent de Paul in Ireland in Seán MacDermott Street, Dublin. There were records of Friendly Society loan funds in the reports of the Irish registrar of friendly societies and a parliamentary inquiry into friendly societies in 1872.[70] But following this inquiry the office of the Irish Registrar of Friendly Societies was amalgamated with the English and Welsh office, and from thereon in the reports from the Irish Registrar of Friendly Societies were not as detailed.

The co-operative banks established in 1894 were promoted by the Irish Agricultural Organisation Society (IAOS), and information about their activities was published in the IAOS annual reports. These reports can be found in the head office of the Irish Co-operative Organisation Society (ICOS) in Merrion Square, Dublin, and also in the National Library of Ireland. The IAOS kept an archive of correspondence between itself and affiliated societies. This is a private archive kept in the National Archives of Ireland. There are records relating to these societies in the archive of the Registrar of the Friendly Societies, also found in the National Archives of Ireland. The co-operatives received public assistance and as such there are records relating to the credit co-operatives in government publications, most notably the 1914 report on agricultural credit.

The Land Commission, the Estate Commission, and the Congested Districts Board were the main bodies that administered government land policy in Ireland. These bodies published annual reports which were used in the chapter on land purchase. There were also a number of parliamentary inquiries into land purchase, reports on land purchase and land purchase finance. Information on agricultural structure was found in the annual parliamentary publications on agricultural statistics, first published in 1847.

The discussion in chapter eight was based on evidence from the annual reports of the emigration commissioners and also on reports of the Board of Trade. Information on the money order system was published annually in the Postmaster General reports, and information of the location of money order offices was found in *Thom's Directory.*

[70] *Second report of the commissioners appointed to inquire into friendly and benefit building societies. Part I. Report of the Commissioners on Benefit Building Societies. With reports of assistant commissioners*. [C.514][c.514 - I][C.514-II], H.C. 1872, xxvi,1,101,745.

The fact that the majority of the sources used in this thesis were government publications indicates the extent of state influence on the Irish economy. But other source material was also used in this study, most notably contemporary publications.

4. Contribution to literature and limitation of the study

In another context D. B. Johnson observed that 'the very non-existence of such analysis suggests that the marginal benefit of the first explorations may be higher than if one's efforts and energies were allocated to subjects that are overcrowded but more amenable to analysis'.[71] I believe the same holds for this thesis.

This thesis will contribute to Irish historiography by engaging with the existing secondary literature on the number of topics addressed in the thesis. In the first two chapters the main secondary literature is that of Hollis and Sweetman. Prior to the work of Hollis and Sweetman the topic of loan funds had been understudied and overlooked by Irish historians. One of the few secondary references to the loan fund societies is the following passage taken from an article written by the H. D. Gribbon in *A new history of Ireland*. Gribbon made the following brief reference to the loan funds:

> Finally, there was the loan fund board, whose constituent societies made available sums of up to £10 to very small borrowers among the 'industrious agricultural poor.' From 198,000 loans issued and £900,000 in circulation in 1860 the boards activities fell to 89,000 loans issued and £428,000 in circulation in 1880, and the fall continued. This was less an indication that farmers' credit needs were diminishing than that in the 1880s money was required for more urgent purposes than capital investment. But banks, traders, and the loan fund board were equally averse to meeting, for example, rent arrears.[72]

The thesis will go further than Gribbon's comments and analyse the loan funds from the 1820s until 1914. This thesis will engage with Hollis and Sweetman by questioning and contextualising some of their findings. Hollis and Sweetman argued that the famine was a turning point in loan fund activity because loan funds over-lent and suffered high debt defaults. The argument that will be pursued in this thesis agrees that the famine was a significant event, but that this significance is attributed to a number of frauds that were uncovered during the period. Warren Buffet famously said 'it's only when the tide goes out that you find out who's has been swimming

[71] D. B. Johnson, 'Some fundamentals of the charity market' in Thomas R. Ireland and David B. Johnson, *The Economics of charity* (Virginia, 1970), p. 133.

[72] H. D. Gribbon, 'Economic and social history, 1850-1921' in W. E. Vaughan (ed.) *A new history of Ireland, vi: Ireland under the Union, ii, 1870-1921* (Oxford, 1996), p. 325.

naked'.[73] The same holds true for the loan funds. During and immediately after the famine crisis there were allegations of frauds perpetrated by the officers of these societies, something which suggests that greater attention was given to the screening and monitoring of borrowers than to monitoring staff. The analysis of the later history of the loan funds in this thesis will place greater emphasis on the 'bubble' of the 1880s and 1890s and the repercussions from the legal decision in the mid-1890s. This thesis will give a broader interpretation of nineteenth century microfinance and will show the dynamism of the sector. The work on loan funds will also be approached from a spatial perspective, something under-represented in the work of Hollis and Sweetman.

There are a number of works written in relation to banks in Irish history,[74] but none of these is written from an information economics perspective. The chapter on joint stock banking in Ireland contributes to the existing literature by writing from the perspective of microfinance and also from analysing the development of the Irish financial system. By approaching banking history from a microfinance perspective we can see how and why banks operated in nineteenth century Ireland. The argument of the chapter is that the banks created information both through branch banking and through savings mobilisation. The chapter emphasises the importance of branch banking and contributes to the existing literature by mapping the spatial distribution of branch banks in Ireland.

The existing literature on savings banks in Ireland is essentially confined to the recent work of Cormac Ó Gráda who has analysed savings banks in the early nineteenth century.[75] This thesis expands Ó Gráda's work by analysing savings banks over the course of the nineteenth century and by emphasising the importance of the frauds in the 1840s which Ó Gráda outlined. The chapter will also contribute to the existing literature by analysing the history of the POSB, the largest branch banking

[73] 'History lessons' in *The Economist* (24 December, 2007).

[74] The following are the major published books on banking history: F. G. Hall, *The Bank of Ireland 1783-1946* (Dublin, 1948); Kenneth Milne, *A history of the Royal Bank of Ireland Limited* (Dublin, 1964); G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973); Noel Simpson, *The Belfast bank, 1827-1970* (Belfast, 1975); F. S. L. Lyons (ed.), *Bicentenary essays, Bank of Ireland 1783-1983* (Dublin, 1983); Philip Ollerenshaw, *Banking in nineteenth century Ireland: the Belfast banks, 1825-1914* (Manchester, 1987).

[75] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review* , x (2003), pp 31-55; Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD Centre for Economic Research working paper series*, WP08/04 (February 2008); Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s', forthcoming in the *Irish Economic and Social History*.

institution on the island. The POSB was significant in terms of Irish savings markets as it was the largest branch bank offering interest rates above the market clearing rate and also offered government security for deposits. Surprisingly little has been written about the POSB by Irish economic historians. The coincidental increase in POSB deposits during the 'land war' ought to have attracted attention amongst mainstream historians. The loss-making activities of both savings institutions show the extent to which the Irish economy was subsidised by the British state.

Chapter five contributes to the existing literature on the basis that not much had been written about pawnbroking, and little to nothing about Penny Savings Banks in Ireland or Friendly Society loan funds. The contents in chapter five can therefore be seen as a primer of urban experiences of microfinance and can be of use to urban historians.

The study of the Irish experience of Raiffeisen co-operatives has been neglected by many economic historians and overlooked by mainstream historians. Tim Guinnane is one of the few scholars who has studied Raiffeisen banks in Ireland and further afield.[76] The arguments that are presented in chapter six engage with Tim Guinnane's views of Raiffeisenism in Ireland and offer some alternative explanations for the failure of Raiffeisenism to be adopted in Ireland. The Irish experience will be addressed from an innovation diffusion perspective, and the distribution of the Raiffeisen societies is mapped to give us a better understanding of the spatial distribution of these societies. The Raiffeisen experience is important in terms of the history of co-operation in Ireland as the societies received support from both the IAOS and government bodies. They comprised the second largest body of co-operatives registered with the IAOS in the period 1900 to 1914, and second only to the co-operative creameries. Therefore as co-operation is discussed in most general histories of nineteenth and early twentieth century Ireland,[77] the failure of the Raiffeisen societies ought likewise to be elaborated.

Chapter seven engages with a broader range of historical writing than chapters one to six. It deals with the issue of state-funded land purchase and as such trespasses into the realms of mainstream Irish history. The 'land question' and the land acts are

[76] Timothy W. Guinnane, 'A failed institutional transplant: Raiffeisen's credit cooperatives in Ireland, 1894-1914' in *Explorations in Economic History*, xxxi (1994), pp 38-61; Timothy W. Guinnane and Ingrid Henriksen, 'Why were credit cooperatives unimportant in Denmark' in *Scandinavian economic history review*, xlvi, no. 2 (1998), pp 32-54.
[77] For example see: F. S. L. Lyons, *Ireland since the Famine* (2nd edition, 1973, reprint, London, 1985), pp 207-216.

considered integral to the understanding of nineteenth century Irish history. Therefore the chapter contributes to this literature by offering to place the land purchase schemes into the context of the existing financial structure. The chapter outlines how state-funded land purchase was made accessible, through the issue of government guaranteed bonds, and how the terms offered to borrowers were better than anything that the private market could provide. The chapter also assesses the economic necessity of the land purchase schemes by analysing the structure of the agricultural economy in terms of land distribution, land ownership, agricultural output and prices. The chapter argues that land purchase was not the panacea for Irish agricultural development and that in fact in the long run it was a negative influence on Irish economic development.

Chapter eight is another chapter that engages with a wider literature. The topics discussed in the chapter refer to emigration and remittances. The chapter discusses the existing evidence on emigrant remittances and argues the case that the Post Office was an important and accessible institution for the transmission of remittances (monetary and non-monetary). The chapter challenges the existing literature by illustrating how the money order service operated by the post office was also linked with the POSB. The chapter challenges the views of Arnold Schrier, one of the authorities on Irish emigration, who believed that remittances were not saved.[78]

As was outlined above, there are three sectors that are involved in microfinance: the formal, semiformal and the informal. The institutions analysed in this thesis consist in the most part of formal and semi-formal institutions. Therefore one of the limitations of this study is that there has been an insufficient treatment of informal suppliers of microfinance. The informal supply of microfinance has been addressed in chapter two by analysing shopkeeper credit based on evidence from the CDB baseline reports and also in chapter six from evidence to the money lending committee, but it did not treat the issue of shopkeeper credit as a distinct object of study. The reason for this was that the thesis focused on the development of financial institutions that acted as bona fide intermediaries between savers and borrowers. Informal agencies such as shopkeepers, moneylenders and pawnbrokers do not enter this description of a financial intermediary. In terms of pawnbrokers these have been somewhat addressed in chapter five via the analysis of the Mont-de-Piété charitable pawnbroking

[78] Arnold Schrier, *Ireland and the American emigration 1850-1900* (Minnesota, 1958, reprint 1997).

institution. The Mont-de-Piété was chosen as an object of study as it was unusual in the sense that it was a financial intermediary. This was because it raised capital through the issue of bonds, whereas a pawnbroker was a private establishment which utilised the capital of the owner. This also holds true for shopkeepers and moneylenders, as they were more reliant on their own private capital, rather than deposits, to make loans. Although this thesis does not fully address informal institutions it does attempt to address both issues, and to direct readers to other sources of information for their discussion.

Another limitation to the study is the treatment of building societies and of microinsurance which is admittedly a form of microfinance. Building societies have not been entirely neglected. They are briefly referred to in chapter five, but more remains to be done on this topic. This thesis adhered to modern studies of microfinance where the attention was on microcredit and microsaving. The institutions analysed in this thesis primarily offered savings and loans services, and did not offer insurance. The existing literature on microfinance in nineteenth century Ireland was focused on the loan funds as an example of microcredit. This thesis has broadened the scope of study to include microsavings, but it was not so inclusive as to include microinsurance. The topic of microinsurance has been understudied in Irish economic history,[79] and the scale of the work required to redress this balance is beyond the reach of this current study, but it is something which should be addressed in future scholarship.

[79] For discussion on microinsurance see: Anthony D. Buckley, '"On the club": Friendly Societies in Ireland' in *Irish Economic and Social History*, xiv (1987), pp 39-58.

1 The Irish loan fund system; origins and mid-century consolidation

1.1 Introduction

A system of independent loan fund societies, societies that lent small loans to borrowers on personal security, operated in Ireland in the eighteenth and nineteenth centuries. Jonathan Swift,[1] the Dean of St. Patrick's Cathedral Dublin,[2] has been credited with establishing the first such society in Dublin in the eighteenth century,[3] and his actions were replicated by the Charitable Musical Society who operated a small branch system in the country.[4] The system of lending small sums of money to the industrious poor gradually increased in popularity in the late eighteenth century and early nineteenth century with a number of loan fund societies being established throughout the island.

Loan funds were in vogue from the 1820s to the mid-1840s, and in that period there was an increase in the number of loan funds, a greater geographic distribution of loan fund societies, and a significant change in the *modus operandi* of the loan funds, whereby they provided savings as well as credit services. By the early 1840s there were three distinct types of loan fund societies operating in Ireland, societies registered with the Central Loan Fund Board (LFB) whose office was in Dublin castle, Reproductive Loan Funds (RLFs) associated with a London Board, and societies that were unregistered under specific loan fund legislation.[5] There were also several charitable pawnbrokers, Mont-de-Piété, that operated in various cities throughout the island; these were also registered with the LFB.[6]

This chapter will begin by tracing the historical origins of the loan fund system. The loan fund societies in the eighteenth and early nineteenth century differed from the later loan funds that developed after the 1820s. This chapter will analyse the laws which regulated the loan fund system in the nineteenth century and assess the internal monitoring and screening mechanisms which the loan funds utilised. The chapter will

[1] Jonathan Swift was an author of numerous works including *Drapier's letters* (1724) and *Gulliver's travels* (1726).
[2] Clive Probyn, 'Jonathan Swift' in H.C. G. Matthew and Brian Harrison (eds), *Oxford dictionary of national biography*, liii (Oxford, 2004), p. 465.
[3] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. i', c. 1857, (N.L.I., MS 4466, p. 36).
[4] Ibid, p. 41.
[5] These are discussed in chapter 5.
[6] Ibid.

also assess the performance of the LFB in its formative years, to see whether the LFB was an adequate central authority, and highlight limitations which were to hinder it in the latter years of the nineteenth century.

In order to gauge the activities of loan funds this chapter will look at the operations of the loan funds and compare their activities to available statistics on the wages of agricultural labourers. Agricultural wage statistics are used for a number of reasons. Firstly, they give us a variable for the lowest wage grouping on the island for which to help make reasonable comparison, secondly because the primary source literature on loan funds recommended their use for labourers, and finally the demarcation between labourer and small farmer was very faint.[7] These statistics on agricultural wages will be used as an indicator to see whether the loan funds were providing 'microcredit' and 'microsavings' services.

The chapter will also analyse the spatial distribution of the activities of the loan funds associated with the LFB to determine where these loan funds operated.[8] The geographic distribution of loan funds is analysed to determine whether or not loan funds were active in regions which were considered to have been the poorest on the island. This is done in order to see whether loan funds operated in areas which could maximise the benefits of outreach to Irish society and as such maximise the impact that such microfinance services could have had on the poorest socio-economic groups in Ireland.[9] Finally the chapter will look at a number of alleged abuses of and limitations to the loan funds. Many of these abuses and defects, it was believed, could have been checked by adequate legislative reform. Such reform was not forthcoming and the defects remained unchecked for the duration of the system.[10]

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[7] Joel Mokyr cited evidence that expressed the view that anyone renting a plot of land, regardless of size, earned the right to use the title farmer: Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850* (2nd ed., London, 1985), p. 17; also see David Fitzpatrick, 'The disappearance of the Irish agricultural labourer, 1841-1912', in *Irish Economic and Social History*, vii (1980), p. 67. But the 'disappearance' of the agricultural labourer has been questioned by Catriona Curtis; Catriona Lisa Curtis, 'The agricultural labourer and the state in independent Ireland, 1922-76' (PhD thesis, NUI Maynooth Department of history, 2007).

[8] Information on Reproductive Loan Funds is incomplete, but from what we know they were mainly located in Connaught and Munster.

[9] The loan funds were targeted towards the industrious poor, and it was the stated aim in much of the literature to assist labourers. Labourers would have been at the bottom of the socio-economic ladder.

[10] It is difficult to deduce why exactly there was an absence of reform. Hollis and Sweetman believed it was due to the lobbying of interest groups such as the joint stock banking institutions. Support for such a view can be seen in the lobbying activities of joint stock banking institutions against savings bank reform: See Philip Ollerenshaw, *Banking in nineteenth century Ireland: The Belfast banks, 1825-1914* (Manchester, 1987), p. 139.

1.2 Origins of the loan fund system

R. R. Madden, a civil servant and a literary figure in nineteenth century Ireland, [11] was a longstanding secretary of the LFB from 1850 until 1880.[12] Madden wrote a number of volumes on the loan fund system in Ireland and he traced the origins of the loan fund system to Italy and the Lombard system of lending money on pledges and personal security.[13] This system diffused throughout continental Europe and Madden believed that it was a similar version of the Lombard system operating in Amsterdam that influenced early loan fund practitioners in Ireland. Madden in his writings on the origins of the loan fund system in Ireland highlighted two pamphlets which he felt were important to the early philosophical development of loan fund principles in Ireland.[14] These were Henry Maxwell's *Reasons offer'd for erecting a bank in Ireland*[15] and David Bindon's *A scheme for supplying industrious men with money to carry on their trade and for better providing for the poor of Ireland*.[16] Maxwell's pamphlet argued for the creation of a national bank in Ireland. He argued that if a bank was established in Ireland, among its benefits would be an increase in employment through an expansion of credit.[17] Bindon's pamphlet argued for the creation of lending institutions along similar principles to the Amsterdam bank. Bindon, through comparing the rate of interest in Ireland to that in Holland, believed that the lower rate of interest in Holland gave Dutch traders an unfair advantage over those in Ireland as they had cheaper access to capital. Bindon's argument was that the export of specie from Ireland caused by absentee landlords and spending of money abroad decreased the money supply in Ireland.[18] Bindon believed that 'the scarcity of money in Ireland, deprives the common people of a great part of the necessary means of their subsistence: And this encreases (sic.) the number of beggars and idle people

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[11] J. M. Rigg and Rev. Lynn Milne, 'Richard Robert Madden', in H. C. G. Matthew and Brian Harrison (eds), *Oxford dictionary of National Biography*, xxxvi (Oxford, 2004), p. 72.

[12] Thomas More Madden (ed.), *The memoirs (chiefly autobiographical) from 1798 to 1886 of Richard Robert Madden* (London, 1891), p. 234 & p. 275.

[13] R. R. Madden, *Notes on the origin, advantages, abuses and defects of the Loan Fund system in Ireland* , Dublin, 1852, (N.L.I, MS 834, p. 16).

[14] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. i', c. 1857, (N.L.I., MS 4466, pp 12-13).

[15] Henry Maxwell, *Reasons offer'd for erecting a bank in Ireland; in a letter to Hercules Rowley, Esq*. (Dublin, 1721).

[16] D. Bindon,, *A scheme for supplying industrious men with money to carry on their trade and for better providing for the poor of Ireland* (2nd ed, Dublin, 1729).

[17] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. i', c. 1857, (N.L.I., MS 4466, p. 13).

[18] Ibid, p. 6.

among us, and makes others fly the country.'[19] He believed that if banks were established nationwide using a similar model to that used by the Amsterdam bank, which lent money on pledge, this would reduce interest rates in Ireland, and enable Ireland to compete with Dutch trade. He believed that the increased production caused by the greater circulation of credit would increase the amount of goods produced in the Irish economy, and ergo increase the national wealth in Ireland.

There is a slight flaw with Bindon's argument as he seems to have confused two distinct Dutch financial institutions. The more commonly known Bank of Amsterdam,[20] the Wisselbank, was primarily a payments and exchange bank.[21] According to Dehing and 'T Hart:

> Not included were tasks like the discounting of bills of exchange, portfolio management, the issue of bank notes and the provision of credit. Its business was predominantly a matter of transfer between accounts with the aim to undo the confusion of the currency.[22]

The Bank which bears closest resemblance to that described by Bindon is the Amsterdam Banken van Leening (Banks of Loans) which was established in 1614.[23] The Banken van Leening was derived from a number of pawnbroking institutions that were nationalised. Following their nationalisation municipal authorities outlawed other pawnbroking institutions and the Banken van Leening were given monopoly status. Bindon is correct in his view that these institutions lowered interest rates for borrowers,[24] but it must also be borne in mind that Amsterdam, at the time when Bindon wrote his pamphlet, was the largest financial centre in the world. The reason why interest rates were low was more likely due to the actions of the Bank of Amsterdam rather than the Banken van Leening, and also to the fact that large amounts of capital flowed into Amsterdam and pushed down rates.[25] The Dutch financial system also improved on a number of financial innovations, most notably the joint stock company. For example the Dutch East India Company (VOC from the

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[19] D. Bindon, *A scheme for supplying industrious men with money to carry on their trade and for better providing for the poor of Ireland* (2nd ed, Dublin, 1729), p. 9.

[20] This is the Bank of Amsterdam which is discussed by Adam Smith: See Adam Smith, *An inquiry into the Nature and Causes of the Wealth of Nations* (1776), Book four, chapter iii.

[21] Larry Neal, *The rise of financial capitalism: international capital markets in the age of reason* (Cambridge, 1990), p.7 and Pit Dehing and Marjolein 'T Hart, 'Linking the fortunes: currency and banking, 1550-1800' in Marjolein 'T Hart, Joost Jonker and Jan Luiten Van Zanden, *A financial history of the Netherlands* (Cambridge, 1997), p. 46.

[22] Pit Dehing and Marjolein 'T Hart, 'Linking the fortunes: currency and banking, 1550-1800' in Marjolein 'T Hart, Joost Jonkey and Jan Luiten Van Zanden, *A financial history of the Netherlands* (Cambridge, 1997), p. 46.

[23] Ibid, p. 44.

[24] For example see table 3.1, ibid. p. 45.

[25] Ibid, p. 48.

initials for Vereenigte Oost-Indiche Compagnie) was a joint stock company financed through the issue of shares, and these shares were also traded on secondary markets.[26] This again would suggest that there was more to Dutch commercial success than a pawnbroking institution.

That being said, Bindon's economics are not what are important to the current argument; rather it is the institution which he advocated. Bindon's proposed loan fund system was one that would lend sums of money on pledges.[27] Loan terms would be for one year and pledges could be recovered if the sum was repaid at the end of the year. If a loan was not repaid, then the pledge would be sold at auction. Discount would be charged on the principal borrowed,[28] and higher discount rates were to be charged on small sums being borrowed.[29] Bindon's system also advocated that profits accruing from lending be used to finance 'persons incapable of earning a living'.[30]

Bindon preferred lending to be secured with pledges rather than with personal security. This was because he believed pledges to be more practical and that a surety system would likely be abused. Bindon observed that:

> It may perhaps be objected against establishments of this kind, that our common people have nothing of value to pawn for the money they want, and that therefore it wou'd answer the end better, to lend them money on personal securities. But tho' it is allowed our people are, for the most part, in the miserable condition of having little of value about them, yet it is known that most of them, who now borrow money, do so on pledges of one kind or another, and if they are able any way to live under the usury they now pay, must it not follow, that in a little time, their circumstances will be much bettered, by the ease they will find in these houses. But to lend money on personal security, besides that it would render the repayment of the money less secure, will too much fetter the industry of the people. For as it is a true observation that the borrower is a slave to the lender, so he, especially among the common sort of people who is obliged to procure another to be bound for him stands in the same degree of servitude not only towards the lenders, but also to the person who is bound for him. Insomuch that whilst money can only be had by them on personal securities, such loans will ever be attended with great inconveniences, but when the common people find they can on any emergency, obtain money on pledges, it is not natural to believe, and the experience of Holland proves this, that they will grow thrifty in their expences, and careful to furnish themselves, and their houses, with good and decent apparel, ornaments and utensils, which in time of need, may become sureties, (if I may express it) for them…(sic.)[31]

[26] See Larry Neal, *The rise of financial capitalism: international capital markets in the age of reason* (Cambridge, 1990), pp 8-9, and Oscar Gelderblom, and Joost Jonker, 'Completing a financial revolution: the finance of the Dutch East India trade and the rise of the Amsterdam capital market, 1595-1612,' in *The Journal of Economic History* , lxiv, no. 3 (September 2004), p. 654.
[27] Physical collateral.
[28] Discount being that the borrower receives p-d, but repays p. Discount rates deduct payment for the loan from the original principal.
[29] D. Bindon, *A scheme for supplying industrious men with money to carry on their trade and for better providing for the poor of Ireland* (2nd ed, Dublin, 1729), pp 13-14.
[30] Ibid, p. 15.
[31] Ibid, pp 19-20.

Bindon's proposed plan was not introduced in the eighteenth century, and the loan funds that were established differed in key areas. Primarily they did not charge interest, had shorter loan terms and lent on personal security rather than on pledges.

As noted above, the first loan fund that operated in Ireland is believed to have been established by Dean Swift. There is some contemporary evidence of Swift's loan fund in the work of Samuel Madden.[32] This contemporary evidence seems credible, as Samuel Madden was reported to have been a personal friend of Dean Swift.[33] But it is uncertain where Swift encountered the idea of lending money to the industrious poor. R. R. Madden postulated that perhaps Dean Swift was introduced to it by his friend William Temple.[34] It is also possible that he had read Bindon's pamphlet or arrived at the idea independently. When Samuel Madden was discussing Swift's loan fund, he linked it with his discussion of Bindon's proposal. Samuel Madden advocated micro-level solutions for the Irish economic malaise and Bindon's proposal for Lombard houses in Ireland appealed to him, although he stated that:

> …till we can find many such publick spirited persons as the Dean of St. *Patrick*'s to lend considerable sums, in this charitable way, at the common interest to the poor, it would be very desirable, that we were allowed to try the effects it wou'd have on our people and trade for a few years at least. (sic.)[35]

Swift operated a loan fund in the area of Dublin where he resided. He lent money to 'industrious poor' weavers in his diocese. The mode of operation of Swift's scheme was as follows. Before applicants came to the manager they needed a recommendation from a reputable person.[36] The borrower would then be given a small sum of money, interest free, and was required to repay this within a given period of time. Larger sums could be obtained if there were reports made of the borrower being thrifty and industrious. The repaid loans were then re-circulated as loans among other industrious persons. As a deterrent, the idle and improvident were excluded from further loans.[37] The success of Dean Swift's loan fund can be attributed to the screening and monitoring arrangement that he practised. Allegedly he

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[32] Samuel Madden, *Reflections and resolutions proper for the gentlemen of Ireland* (Dublin, 1738), pp 230-231.
[33] Rosemary Richey, 'Samuel Molyneux Madden', in H. C. G. Matthew and Brian Harrison (eds) *Oxford dictionary of National Biography*, xxxvi (Oxford, 2004), p. 73.
[34] D. Bindon, *A scheme for supplying industrious men with money to carry on their trade and for better providing for the poor of Ireland* (2nd ed, Dublin, 1729), p. 12.
[35] Samuel Madden, *Reflections and resolutions proper for the gentlemen of Ireland* (Dublin, 1738), pp 230-231.
[36] Thomas Sheridan, *The life of the Rev. Dr. Jonathan Swift, Dean of St. Patrick's*, Dublin 2nd ed. (London, 1787), p. 234.
[37] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. i', c. 1857, (N.L.I, MS 4466, p. 36).

personally monitored all borrowers by continuously checking up on them to see how they were progressing.[38]

Perhaps the success of the Dean Swift's loan fund can be found in the practice of discriminating between those who were deemed 'industrious poor' and those deemed to be 'undeserving' poor.[39] An outline of the dichotomy of deserving and undeserving poor,[40] which was to be constant throughout the nineteenth century, can be seen in *A proposal for giving badges to the beggars in all the parishes of Dublin by the Dean of St. Patrick's*.[41] There was a distinction between the deserving poor, who were not responsible for their state of poverty, and the undeserving, whose actions were believed to have brought about their state of poverty. For example Dean Swift wrote that:

> There is generally a vagabond spirit in beggars, which ought to be discouraged and severely punished. It is owing to the same causes that drove them into poverty, I mean, idleness, drunkenness, and rash marriages without the least prospect of supporting a family by honest endeavours, which never came into their thoughts. It is observed that hardly one beggar in twenty looks upon himself to be relieved by receiving bread or other food; and they have in this town been frequently seen to pour out of their pitcher good broth that had given to them, into the kennel; neither do they much regard clothes, unless to sell them; for their rags are part of their tools with which they work; they want only ale, brandy, and other strong liquors, which cannot be had without money; and money, as they conceive, always abounds in the metropolis.[42]

So perhaps Swift's screening and monitoring processes, of choosing those whom he deemed industrious and making sure they used the money accordingly, ensured a successful loan fund operation. Or rather, that borrowing was not an entitlement but instead borrowers had to prove that they were eligible for a loan.[43] It appears as though the loan fund administered by Dean Swift ceased working with his death.[44]

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[38] Ibid, p. 39.

[39] Jonathan Swift, *A proposal for giving badges to the beggars in all the parishes of Dublin by the Dean of St. Patrick's* (London, April 22 1737), p. 9.

[40] For some discussion of the deserving poor see Steve Hindle, *On the parish? The micro-politics of poor relief in rural England c. 1550-1750* (Oxford, 2004), pp 361-448.

[41] Jonathan Swift, *A proposal for giving badges to the beggars in all the parishes of Dublin by the Dean of St. Patrick's* (London, April 22 1737), p. 9.

[42] Ibid, p. 16.

[43] Steve Hindle discusses the issue of eligibility vs entitlement in the context of poor relief: Steve Hindle, *On the parish? The micro-politics of poor relief in rural England c. 1550-1750* (Oxford, 2004), pp 398-400.

[44] In Thomas Sheridan's biography he stated that 'the fund remained undiminished until the last'; see Thomas Sheridan, *The life of the Rev. Dr. Jonathan Swift, Dean of St. Patrick's,* Dublin 2nd ed. (London, 1787), p. 234.

Another loan fund society that adhered to similar principles as Dean Swift's loan fund principles was the Charitable Musical Society (CMS) of Dublin, which began operating in the mid-eighteenth century. The CMS raised funds from an annual concert it held in Dublin and also from bequests and donations from 'people of distinction'.[45] The fund operated in a similar fashion to Dean Swift's, in that loans were small and confined to the industrious poor in a given locality. The operation of the CMS grew steadily from its establishment in 1756 until its incorporation in the parliamentary session of 1777-78[46] for lending money to 'indigent tradesmen.'[47] The first annual report of the LFB, in 1839, stated that:

> …The existing mangers of that society were, with several public officers, incorporated in 1778 (by the 17 & 18 Geo. 3, c. 12,) as a Charitable Loan Society, giving them extensive powers to hold property, and to open branches throughout the country. Legacies have been left to the Society, but its funds are now greatly diminished, many of the branches are extinct, and such as remain have no connexion whatever to the parent Musical Society in Dublin.[48]

The legislation facilitated the recovery of debts from defaulting borrowers and the Irish legislature also wished to encourage the spread of similar loan fund institutions.

A pamphlet written by the registrar of the CMS, Charles Laurent, in 1792 outlined the potential benefits if similar loan fund societies were established throughout the island. Charles Laurent stated that:

> Experience for some years past, has proved that in Dublin, loans interest free to indigent, industrious manufactures, and tradesmen have been of very great service. But as it is universally allowed, large cities are not proper places for manufacturers, it is proposed to introduce cash loans, loans for looms, wheels, hosier's frames, &c. at the discretion of each society into the different baronies, parishes, and towns throughout the kingdom, where provisions are much cheaper, temptations to corruption, frauds &c. do not so often present themselves, and where opportunities to drunkenness are less frequent. From these and many other considerations, it is much to be wished that charitable loans were established throughout the several parts of this kingdom[49]

Laurent calculated that if a society had a cash fund of £350, it could within 6 months 'relieve' 287 people, although he did not specify what exactly it would

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[45] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. I', c. 1857, (N.L.I, MS 4466, p. 42).
[46] *The Irish statutes, revised edition, 3 Edward II to the Union AD 1310-1800* (Dublin 1995), p. xli.
[47] An act for incorporating charitable musical society, for lending out money, interest free, to indigent and industrious tradesmen, 1777-1778 (17 & 18 Geo. 3), c. 12.
[48] *First annual report of the Commissioners of Loan Fund Board of Ireland*, Appendix p.1, H.C. 1839, (578), xxix, 619.
[49] Charles Laurent, *A scheme for establishing general charitable loans throughout Ireland, humbly submitted to the consideration of the right honourable and honourable Lords and gentlemen governors of the incorporated charitable musical society in Dublin, by their register, Charles Laurent* (Dublin, 1792), pp 5-6.

'relieve' them from. This would be done if 3 guineas[50] were lent to each person and repaid on a monthly basis of ½ a guinea. Laurent then assumed that each family had 5 members; thus, 1285 people could be relieved with a £350 initial loan fund.[51] It is unclear whether Laurent meant that the fund would be continually relent as loan repayments were made, since his initial calculations do not seem to add up.[52] Laurent also believed that the expansion of loan funds could influence the behaviour of the lower classes. Laurent suggested that:

> Instead of the ruinous corporations which now retard the progress of industry, and threaten ruin to the trade of this kingdom, an honest emulation would be introduced among manufactures; they would by experience know the infinite value of honest, industry, and sobriety; by their good moral conduct and strict observation of the laws, they would establish such character as would recommend them to the notice of their superiors, and entitle them to the benefits of the loan.[53]

Laurent's view seems to be that if a loan is not extended to a borrower, because of bad character, the borrower would be forced to reform himself if he valued the loan. Although the CMS opened a number of branches, the legislation in 1778 seems to be its apogee. Madden summarised the working of the CMS as such:

> Subscriptions, and charitable bequests, preserved that institution several years, and many branches throughout Ireland were long in useful operation, but as no interest was chargeable to borrowers, the system languished – and might be said to have died out in the limited and unavailing efforts of a few benevolent individuals to carry on its objects, in the vestry of St Anne's Church Dublin…The several charitable loan funds throughout the country connected with the musical society and those in the capital continued for many years under the sole management of benevolent individuals.[54]

It was the efforts of benevolent managers that maintained the CMS, and when those managers passed away the branches fell into desuetude. However, there was evidence that the CMS was still operating in the 1840s; most notably it was registered with the LFB. In 1841 it was stated by the LFB that the capital of the CMS was invested in government bonds and that it was the interest from these investments that were issued as loans.[55] A notice in *Thom's Directory* for 1849 stated that:

> The governors of the Charitable Musical Society, incorporated by act of parliament in 1777 (sic.), for lending money, interest free, to indigent tradesmen, meet at St. Anne's vestry room, the first and second Tuesday in every month, at 12 o'clock, to lend not less

[50] 1 Guinea was equal to £1 1s.
[51] Ibid, p.6.
[52] e.g. if 3 guineas is £3 3s, the fund of £350 would amount to 111 loans.
[53] Ibid, p. 11.
[54] R. R. Madden, *Notes on the origin, advantages, abuses and defects of the Loan Fund system in Ireland* , Dublin, 1852, (N.L.I, MS 834, p. 32 & p. 45).
[55] *Fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, p. 10. [392], H.C. 1842, xxiv, 247.

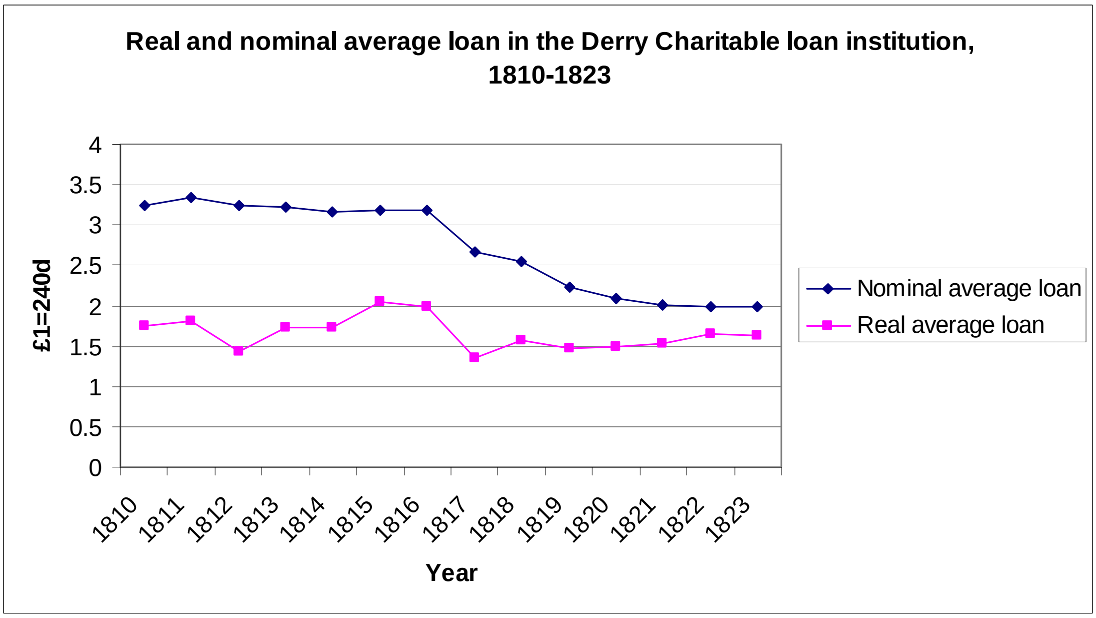
than two pounds, nor more than five, to any one person at any one time, which sums are to be repaid at sixpence in the pound weekly.[56]

A number of societies formed on a loan fund basis in the early nineteenth century, one of which was the Meath Loan Society. It was established in 1809. This society lent sums of money, to be repaid on a weekly basis.[57] A notice in the 1849 *Thom's Directory* stated that:

> The committee of managers meet every second Tuesday, and no. 37 Thomas court, for the purpose of lending on good security, sums not under five, and not exceeding twenty pounds (subject to the small charge of six pence in the pound in lieu of interest), to be re-paid by weekly instalments of 2s 6d for £5; 5s for £10; 10s for £20.
> Applications for loans are received every day through the letter box in the office window.[58]

Other societies formed on this basis were found in Derry, Kilkenny, Enniscorthy, Carrigaline Cork, Londonderry and Tyrone.[59] Some information is available from the Derry charitable loan institution regarding borrower profile and loan size. The average loan size can be seen in figure 1.1. The average loan size decreased in the period 1810 to 1823. Tentatively this decrease can be explained by the end of the Napoleonic wars and the recession that ensued.

Figure 1.1



Sources: Society for improving the condition of the Irish peasantry, *Charitable loan institutions* (Dublin?, 1823?) and Frank Geary and Tom Stark, 'Trends in real wages during the industrial

[56] *Thom's Directory*, 1849, p. 353.
[57] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol. i', c. 1857, (N.L.I, MS 4466, p. 46).
[58] *Thom's Directory*, 1849, p. 354.
[59] Society for improving the condition of the Irish peasantry, *Charitable loan institutions* (Dublin?, 1823?), pp 3-5.

revolution: a view from across the Irish Sea' in *Economic History Review*, lvii, 2 (2004), pp 362-395.

Information on the borrowers and the loan procedures can be seen from the following extract:

> The borrowers consisted of weavers, glaziers, carpenters – to purchase tools, &.c; basket women, butchers, bakers, colliers, poor housekeepers & c. &c., in short, of all industrious poor people who could procure security for the repayment of it, publicans were not admitted as claimants or as sureties. The loan was repaid at the rate of 6 d in the pound per week, and re-lent as received. The advantages of this system, were proved in many ways; in a moral point of view, they have been great, particularly since it was the obvious interest of the borrowers to preserve their characters of honesty, sobriety, and punctuality, or they could not procure sureties.[60]

The earlier loan fund societies shared some features that were to be characteristic of the loan fund societies that developed from the 1820s onwards. These were the repayment procedures: all three utilised a regular weekly repayment of an equal amount of money. The complete principal of the loan did not remain in the hands of the borrower for the entire loan term, and normally repayment commenced after one week. Each loan fund had a preference for personal security and the use of sureties to secure the loan. The main divergence of later loan fund societies was in the introduction of the payment of discount on loans, and in the acceptance of interest bearing deposits.

1.3 Loan fund legislation and regulation, 1823-1844

The loan fund system in Ireland underwent significant changes in the early 1820s and received the attention of the UK legislature.[61] Acts of parliament in 1823, 1836, 1838 and 1843 culminated in a regulated system of loan funds that were supervised by a legislatively imposed body. The 1843 act solidified the regulatory apparatus of the LFB system in Ireland and the system was essentially unchanged for the duration of its existence.[62]

It was alluded to in the introductory chapter of this thesis that the clamour to introduce legislatively imposed poor relief in the 1830s may have influenced the

[60] Society for improving the condition of the Irish peasantry, *Charitable loan institutions* (Dublin?, 1823?), p. 3.

[61] Following the Act of Union in 1800, the legislatures of Great Britain and Ireland were unified: An Act for the Union of Great Britain and Ireland, 1800 (39 & 40 Geo. 3), c. 67.

[62] The 1844 act was a slight amendment to allow societies to retrospectively enforce loan contracts. The LFB was not dissolved until 1914. But some loan funds remained in existence until 1975. See chapter 2.

development and expansion of loan fund societies in Ireland. Another highly significant backdrop to the expansion of loan funds was a number of banking crises and failures in the 1810s and early 1820s; these are discussed in chapter 3. Thus, for a brief period, due to a flux in the banking market, the loan funds introduced in the early nineteenth century occupied a significant role in the Irish financial structure.

Table 1.1: Acts of parliament relating to loan funds in Ireland 1778-1906

Act	Year
Incorporation of the charitable Musical society in Dublin', 17 & 18 Geo 3. c 12., [Ire.]	1777-78
An Act for the Amendment of the Laws respecting Charitable Loan Societies in Ireland (4 Geo 4) c. 32.	1823
An Act to amend an Act of the Fourth Year of His present Majesty, for the Amendment of the Laws respecting Charitable Loan Societies in Ireland (10 Geo. 4) c. 42.	1829
An Act to amend the Laws relating to Loan Societies in Ireland (6 & 7 Will. 4) c. 55.	1836
An Act for the Amendment of the Laws relating to Loan Societies in *Ireland* (1 & 2 Vict.) c. 78.	1838
An Act to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in *Ireland* (6 & 7 Vict.) c. 91.	1843
An Act to amend an Act of the last Session, to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in Ireland (7 & 8 Vict.) c. 38.	1844
Loan Societies (Ireland) Act, 1843, Amendment Act, 1872 (35 & 36 Vict.) c. 17.	1872
Charitable Loan Societies (Ireland) Act, 1900 (63 & 64 Vict.) c. 25.	1900
Charitable Loan Societies (Ireland) Act, 1906 (6 Edw. 7) c. 23.	1906

1.3.1 Organisation and management

In the preamble to the 1823 act it was stated that:

> Whereas certain Institutions for charitable loans have been and may be established in Ireland, as well as for providing implements of industry for the labouring classes of His Majesty's Subjects there; and it is expedient to amend the laws concerning the same, and to give protection to the funds of such institutions, and to afford encouragement to the formation of other institutions of a like kind…, that if any number of persons who have formed or shall form any society in any part of Ireland, for the purpose of establishing a society for a charitable Loan, or for providing implements of labour by way of Loan, for the industrious classes in Ireland, or for providing implements of labour, and receiving back payment for the same by instalments, with the legal Interest due thereon, reinvesting the capital of the said societies, and the interest thereof, for the like purposes, and only deducting therefrom so much as shall be required to be retained for the payment of the necessary expences attending the management of such institutions, according to

> such rules, orders and regulations as shall have been or shall be agreed to for such purpose, but deriving no benefit whatever from such capital, or the interest thereof…[63]

An extremely important point to note from the preamble to the 1823 act, and from subsequent acts, is that the Irish LFB loan funds were *not* financial mutuals in the sense that membership was a requirement for borrowing and savings rights. Membership in LFB loan fund societies was confined to debenture holders or the trustees of a fund for lending to the 'industrious classes', but the borrowers were not members. This is an important point in the context of financial institutions that we will discuss in other chapters of this thesis, and therefore it is important to clarify it here. The preamble to the 1836 act was very much the same as the 1823 act stating that:

> …it shall and may be lawful to and for any number of persons in Ireland to form themselves into and to establish a society in Ireland, for the purpose of raising from time to time, by loans from the members of such society or from other persons at a rate of interest not exceeding six per cent per annum, or by donations, a stock or fund for the purpose of granting loans to the industrious classes resident therein…[64]

The 1843 act had the same stipulation, except that the society was able to borrow from members and non-members for the purpose of lending to the industrious poor at a rate of 5 per cent per annum:

> That it shall and may be lawful to and for any number of persons in Ireland, subject to the restrictions and regulations herein-after provided, to form themselves into a society in Ireland in any district or place in which it shall be proved to the satisfaction of the said Loan Fund Board that such society is required, and such society shall and may raise from time to time by loans from the members of such society, or from other Persons, at a rate of interest not exceeding five pounds per centum per annum, or by donations, a stock or fund for the purpose of granting loans to the industrious classes resident therein…[65]

The most notable change in the citations from the acts of parliament is that by 1843 is was becoming more difficult to establish societies for the purpose of lending to the 'industrious classes'. We can see that by 1843 there were significant barriers erected for the establishment of new socieities. They had to first get the approval of the LFB, but also they were no longer permitted to pay 6 per cent on borrowed funds.

[63] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4), c.32, preamble.
[64] An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4), c. 55, section I, preamble.
[65] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6&7 Vict), c.91, section ix.

The loan fund legislation was to apply to any society that submitted its rules to the Clerk of the Peace.[66] These rules and regulations were to show how each individual loan society would operate, and to show that it was a charitable concern. Further legislation had the same requirements, although with the creation of the LFB the societies were required to register their rules for them to be certified.[67] The rules of loan fund had to be produced in any legal action involving the society.

The acts stated that no officers should receive any remuneration for the positions they held.[68] This meant that trustees, treasurers and secretary positions were voluntary. The only persons who could receive any salary from a loan fund were clerks,[69] as they were responsible for the day-to-day running of the society. This was reiterated in the various acts. The loan funds were effectively trustee credit banks.[70]

The legal recognition of the loan fund societies enabled lending contracts to be formally acknowledged and this facilitated the operations of the loan funds as it enabled debt enforcement. There were consistent features in all of the acts, specifically in relation to loan recovery and stamp duty. Loan fund activities were excluded from tax in the form of stamp duty.[71] The societies were also to be given some assistance in recovering debts by being able to sue for the amounts in the Petty Sessions rather than in quarter sessions or with the Justice of the Peace in the district of the society. Hollis and Sweetman observed that 'this made loan funds preferred over creditors (such as merchants, landlords, and moneylenders) who had not paid the stamp tax since "A loan fund decree can always be obtained sooner than a quarter

[66] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4), c.32, section ii.
[67] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict), c.91, schedule (a.) No 1., Form of certificate to be granted by the Loan Fund Board to a Loan Society or Mont de Piété, to entitle the same to the benefit of this act.
[68] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4), c. 32, section iii.
[69] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4), c.32, section iii.
[70] The loan funds were structured as a mirror image to the contemporary savings banks, the key difference being the financial service that was emphasised. This point has been observed by Ó Gráda: see Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review* , x (2003), p. 31.
[71] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4), c.32, section ix; An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4), c. 55, section ix; An Act for the Amendment of the Laws relating to Loan Societies in *Ireland*, 1838 (1 & 2 Vict.) c. 78, section xiv; and An Act to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in *Ireland*, 1843 (6 & 7 Vict.) c. 91, section xxvi.

sessions decree." Banks typically required borrowers to pay for the stamp to ensure their priority as a creditor.[72]

There were no special arrangements for loan recovery under the 1823 loan fund act, with loan funds required to sue under civil bills at before either Barristers at Quarter Sessions or before Justices at the Peace in the areas where the loan fund was established, provided that the amount being sued was not over £10.[73] From 1836 the loan fund societies registered under the acts had access to quicker legal proceedings in Petty Session courts when pursuing debt defaulters, in either the jurisdiction of the loan fund or where the borrower resided.[74] Under the arrangements from 1836 onwards, the Justice of the Peace could issue summonses to defaulting borrowers to appear before the Petty Sessions. This gave them a more streamlined, frequent and inexpensive method of debt recovery. This entitlement for loan funds held under the condition that the amount for which they were suing did not exceed £10, and therefore was not violating the acts. Other areas of the legislation differed from act to act, notably in terms of lending policies, savings and regulation.

1.3.2 Loans, savings and profits

The 1823 act set a limit on the amount which loan funds could lend to a single individual. This was set at £10 in a 12-month period. The limit of £10 was a consistent feature of all the loan fund legislation,[75] but with shorter twenty-week loan terms,[76] and both the limit and term were to remain in place until the discontinuation of loan fund societies in the mid-twentieth century.[77] Loan renewals were also illegal

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[72] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 361.
[73] An Act for the Amendment of the Laws respecting Charitable Loan Societies in *Ireland*, 1823 (4 Geo 4), c. 32, section v.
[74] An act to amend the laws relating to loan societies in Ireland (6 & 7 Will. 4), c. 55, section xvi; An Act for the Amendment of the Laws relating to Loan Societies in *Ireland*, 1838 (1 & 2 Vict.) c. 78, section xxiv; and An Act to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in *Ireland*, 1843 (6 & 7 Vict.) c. 91, section xxx.
[75] An act for the amendment of the laws respecting charitable loan societies in Ireland, 1823 (4 Geo. 4.), c. 32, section iv; An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4), c. 55, section xiii; An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, section xxiv.
[76] An Act to amend the Laws relating to Loan Societies in *Ireland*, 1836 (6 & 7 Will. 4) c. 55, section xv; An Act to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in *Ireland*, 1843 (6 & 7 Vict.) c. 91, section xxvii.
[77] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 309.

under the legislation, as ‘no second or other loan shall be made to the same Individual until the previous loan is repaid’.[78] The limit of £10 was quite high for the period, and will be discussed later in this chapter. The 1823 act did not place any limit on the rate of interest that could be charged on loans; this was decided by the loan funds themselves. But abuses in the use of profits derived from lending led to restrictions on the amount of interest charged in subsequent acts. The 1836 and 1838 acts placed a limit on the amount of interest that could be charged. The *rate of discount* on loans was 6 pence in the pound.[79] This was calculated by contemporaries as being an annualised rate of interest of 12 per cent per annum.[80] The loan term was set at 20 weeks, and loans were repaid in weekly instalments. The 1843 act reduced the *rate of discount* from 6 pence in the pound to 4 pence in the pound,[81] which corresponded to a decrease in interest from 12 per cent per annum to 8 per cent per annum.[82]

Whilst this reduction in the interest charged on loans would have been immediately beneficial to borrowers who were paying higher rates, it also decreased the revenue from loans to the loan fund societies and thereby decreased profitability and commercial sustainability. A useful comparison for the analysis of the Irish loan fund societies is the experience of the Parisian Mont-de-Piété, a charitable money lender in Paris. The Parisian Mont-de-Piété reduced its interest rates under the auspices that the decrease in interest would attract more interest sensitive borrowers from higher socio-economic groups, and that a greater number of larger borrowers would cross-subsidise the smaller borrowers. The findings of the Parisian Mont-de-Piété were that small loans were actually cost neutral or even loss making; thus it was imperative to lend to larger borrowers.[83] What does this tell us about the Irish loan funds? Firstly, small loans are costly and a reduction in interest rates will reduce the revenue per loan from a loan fund society’s perspective. Secondly, the £10 restriction meant that cross-subsidisation would not have been possible. Loan fund societies were not able to lend larger amounts to more profitable borrowers. Thus, societies

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[78] An Act to amend the Laws relating to Loan Societies in Ireland, 1843 (6 & 7 Will. 4) c. 55., section xiii.
[79] An act to amend the laws relating to loan societies in Ireland, 1843 (6 & 7 Will. 4), c. 55, section xv.
[80] Appendices to chapters 1 & 2 illustrate how interest on loans was calculated by contemporaries. The main point to emphasis is that loans were issued at a discount.
[81] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.) c. 91, section xxvii.
[82] *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 85. [Cd. 7375], H.C. 1914, xiii.1.
[83] For example see chapter 4 in Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), pp 105-132.

operating at a loss could not continue operating and would have to cease lending. But the acts gave the loan fund societies another source of revenue in the form of fines. Borrowers who were late in their repayments were required to pay fines. It seems that fines were frequently used by many loan funds in lieu of lost interest, as fines were included in the calculation of sources of revenue in many of the LFB annual reports.

The 1823 act did not make reference to savings functions of loan fund societies, but subsequent legislation did. The 1836 act gave loan fund societies the right to hold interest paying deposits. The preamble to the 1836 act stated:

> That it shall and may be lawful to and for any number of persons in *Ireland* to form themselves into and to establish a Society in *Ireland* , for the purpose of raising from time to time, by loans from the members of such society or from other persons at a rate of interest not exceeding six per cent. per annum , or by donations, a stock or fund for the purpose of granting loans to the industrious classes resident therein, and receiving back payment for the same by Instalments, with Interest thereon.[84]

The maximum rate of interest that loan funds could pay was 6 per cent per annum on debentures and deposits. The holding of deposits to make loans effectively transformed the loan fund societies from simple lending institutions into financial intermediaries. The loan fund societies were able to offer a higher interest rate than was offered by other contemporary savings institutions. The 1843 act reduced the maximum amount of interest that was payable by the loan fund societies from 6 per cent to 5 per cent.[85] This reduction in the maximum amount of interest that could be offered by loan fund societies corresponded to the decrease in the maximum amount of interest charged on loans. The decreases in interest rates reduced the potential interest spread from 6 per cent to 3 per cent.[86] This reduction in interest spread effectively made the business of loan fund societies, operating at the margins of efficiency, unsustainable. The reduction of interest rates was not to be changed by further legislation during the course of the nineteenth century. The importance of deposits to the loan funds, as to other financial intermediaries, is that they enable an intermediary to expand its operations by increasing the potential to lend larger sums. Legislatively imposed interest maximums prevented loan funds charging rates above the limit and thereby restrained the loan funds from adequately pursuing expansion via savings mobilisation.

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[84] An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4), c. 55, preamble.

[85] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6&7 Vict.) c. 91, section ix.

[86] Interest spread in terms of how contemporaries calculated interest on loans (see text) minus interest payable on deposits. Chapter 2 gives an illustration how the profitability of loan funds was determined.

The 1838 act stated that the officers of a loan fund were not personally responsible for the security of a debenture in a loan fund, and if a society was wound up the officers would not be responsible for the repayment of deposits or debentures unless they declared they would do so in writing.[87] This lack of security for debentures put debenture holders in a precarious position if a society collapsed; there would be no way of retrieving their investment. The LFB could also not be held responsible, as it was not the body that issued the debenture. This lack of security for debenture holders led many debenture holders to become more actively involved with the running of loan fund societies.

The issue on the application of profits accruing from the activities of loan fund societies was inadequately addressed by the 1823 act and led to the possibility of abuses taking place within loan funds. The acts of 1836 and 1838 stated that profits arising from the operation of the loan fund societies, rather than be used to create a reserve fund for the individual societies, were to be applied to any charitable venture in the locality of the loan funds.[88] This reiterated the charitable nature of the loan society system, in that any potential profit that was made from the intermediary nature of the loan fund was not to be used for the benefit of anyone associated with the society, but rather for the benefit of a local charitable consideration. The issue of what to do with the profits accrued by the operation of a loan society was dealt with in the 1843 act. A loan fund was required to create a reserve fund from no less than one-tenth of profits for the 'security of debenture holders', and to use the remainder for 'such other charitable or useful local purpose'.[89] The benefit of applying the profits to charitable causes was that it enabled the loan fund socieites to serve two charitable functions in the one institution. It enabled the loan fund societies to offer cheap sources of credit to those who were in need, and it enabled them to apply any profit derived from such activity to local charitable institutions who were in need of such money. The financing of charitable ventures hypothetically gave dual benefits to the loan fund societies. Firstly, they would give loans to the poor and address issues of poverty. Secondly, any profits derived from these activities would be used to finance

[87] An act for the amendment of the laws relating to loan societies in Ireland, 1838 (1&2 Vict.), c. 78, section xv.
[88] An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4) c. 55, section xxiv.
[89] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, section xliv.

a local charitable institution, such as a hospital or infirmary,[90] but only if the society received 'the approbation of the said Loan Fund Board'.[91]

1.3.3 Supervisory body – the Loan Fund Board

The early legislation in relation to the loan fund system was concerned with the demarcation of loan fund activities, but the legislation from 1836 to 1843 created a supervisory body delegated to regulate the loan fund system. The 1836 act established a Board, the LFB, for 'the general control and superintendence of all loan fund societies established in Ireland under the authority of this act'.[92] The LFB was given authority over the existing loan fund societies, and authority over any societies that wished to form following the acts.

The supervisory powers of the LFB were ostensibly quite vast, and the acts of 1838 and 1843 refined its role. The 1836 act gave the LFB powers 'to inspect the books, accounts, and papers of or belonging to such societies.'[93] These powers were renewed in subsequent acts.[94] The LFB had no powers to dissolve societies under the 1836 act. The only action it could take to reprimand an offending society was to publicise its misdeeds in a local newspaper and disqualify the offending society from the benefits of the act.[95] The 1838 act gave the LFB the authority to reduce salaries and expenses of a society if they were deemed to be excessive.[96] The LFB was given greater powers in relation to loan societies which did not adhere to their stated rules, or to charlatan societies. Under the 1838 legislation the LFB was given the power to wind up any such society whereas previously all that could be done was to have the offending loan society gazetted. Now, after investigation to see whether a society had not adhered to its rules or had misapplied profits, instead of simply advertising this

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[90] For example the Portadown loan fund stated that it contributed money to a fever hospital out of its surplus: See *Report of the directors of the Portadown Mont de Piété and loan fund to the central board in Dublin; shewing the formation, progress, and winding up of the Portadown loan fund society* (Portadown, 1855), pp 4-5.

[91] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, section xliv.

[92] Loan societies (Ireland) Act, 1836 (6 & 7 Will. 4), c. 55, section ii.

[93] Ibid, section iii.

[94] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c.91, section xxix.

[95] An act to amend the laws relating to loan societies in Ireland, 1836 (6 & 7 Will. 4,) c. 55, section xvii.

[96] An act for the amendment of the laws relating to loan societies in Ireland, 1838 (1 & 2 Vict.) c. 78, section v.

fact the LFB, after notifying the society and the Clerk of the Peace, could have the society wound up and place the society in receivership.[97] Although the LFB was no longer a toothless administrative body, its powers were limited by the fact that the said loan societies were given leave to appeal, and the process could, in relative terms, evolve into an expensive undertaking. This potentially expensive process was exacerbated by the board's shortage of money. The 1843 act did not make major alterations to the LFB's ability to deal with offending societies. The LFB's powers were marginally increased in relation to its ability to deal with loan societies that reneged on their stated rules or misapplied their profits. It was stated that after due investigation, it would withdraw the certificate from the offending society, the notice would be advertised in a local newspaper, and the society could be dissolved. Although the offending party had the right of appeal.[98] Loan fund societies were required to register and submit a copy of their rules to the LFB.[99] If a loan fund society failed to register, or violated the rules under which it had registered, then it was to be excluded from the benefits of the acts and disallowed from suing for any outstanding loans.

The LFB's role was limited to that of supervisory body; thus the loan fund societies operated on a decentralised basis. Under the 1838 act and the 1843 act, each loan fund society was required to produce an annual report for submission to the LFB and in turn the LFB was required to produce an annual report on the workings of the loan fund system for parliament. The annual reports were essentially dual reports, a report on the operations of loan funds in a given calendar year and on the operations of the LFB in the same year.

Although the LFB was established by the 1836 act, there was no specific reference to the financing of the body within the act. It was only stated that the LFB would be financed by 'public grant or private donations.'[100] Therefore, unsurprisingly, additional legislation was required to rectify this problem. The LFB was given a budget of £600 a year for salaries and offices in the 1838 act.[101] The 1838 act also

[97] Ibid, section xvii.
[98] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, section xlv.
[99] Ibid, schedule (a.) No 1., Form of certificate to be granted by the Loan Fund Board to a Loan Society or Mont de Piété., to entitle the same to the benefit of this act.
[100] An act to amend the laws relating to loan societies in Ireland, 1843 (6 & 7 Will. 4), c. 55, section vii.
[101] Ibid, section x.

enabled the LFB to make loans to individual loan fund societies.[102] This gave the LFB the potential importance to act as a lender to the funds under its supervision which required additional funds or were experiencing financial difficulties. In theory this would have made a great addition to the system, as it could have created a shadow non-profit banking sector, but the LFB was never to have the sustained finances to allow it to occupy this role.

While the budget of the LFB was established by the 1838 act, the source of funds to finance the budget was not specified. This was rectified by the 1843 act which stated that the LFB would derive income from the sale of notes to the individual loan fund societies. The notes sold by the LFB came in the form of promissory notes for loan applications and forms for debentures for savings.[103] The price for each promissory note for borrowers applying for a loan was 1 penny and the price of a form for someone wishing to lodge a debenture was 2 shillings. In 1855 an inquiry was held into the general loan fund system in Ireland, the LFB loan funds and RLF loan funds. Evidence from this committee showed that during the period 1843 to 1860 the LFB did not have major difficulties regarding finance through the sale of notes. This is evident in the schemes for the creation of an auditing system for the savings banks[104] and loan funds that R. R. Madden, the LFB secretary, proposed be funded by the LFB's streams of revenue.[105] The LFB held some government bonds, and the dividend payments on such bonds was also a source of income.

The 1843 and 1844 acts were the last significant pieces of legislation in relation to the loan fund system. However, the loan fund system was seriously affected by the famine in the 1840s. Since the provisions of the 1843 act were based on the workings of the loan fund system prior to the famine, they were inadequate for the system as it evolved after the famine. Despite calls from the LFB, and recommendations from the 1855 committee of inquiry,[106] no new legislation was passed in the immediate aftermath of the famine. The legislation and regulation which supported the loan fund

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[102] Ibid, section xi.
[103] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, Schedule A, no. 2, Form of Promissory Note or Security for the Repayment of Money lent by a Loan Society and schedule A, No. 3**,** Form of Debenture or Security for the Payment of Money lent to a Loan Society.
[104] Trustee savings banks.
[105] *Select committee on loan fund societies (Ireland). Report, Proceedings, minutes of evidence*, paragraph 409, p. 22 (259) H.C. 1854-55, vii, 321 (henceforth cited as *Select Committee on loan fund societies 1854-55).*
[106] Ibid, p. iii.

system in the pre-famine era was to be the same in the post-famine environment. This is significant, as the lack of reform was to have serious repercussions in the late nineteenth century.

1.4 Information asymmetry: Monitoring and screening

The loan fund system, before the creation of the LFB, was based on informal screening and monitoring in local areas. The LFB added an external monitoring mechanism to this structure. Theoretically, the loan funds used local information to overcome asymmetric information problems that were hindering banking development in Ireland. The loan funds were a well screened and monitored institutional group, and there should not have been failures due to a shortage of screening or monitoring. Therefore, in theory exogenous shocks may explain failures but endogenously created shocks ought not to, assuming that the monitoring structures functioned perfectly and that everyone did their duty.

The argument of this thesis is that more emphasis was placed on monitoring borrowers, lower tier agency problems, than on monitoring staff, higher tier agency problems, and this may explain loan fund failures during the famine period.

1.4.1 Lower tier agency problems: Screening and monitoring borrowers

The loan funds used a screening process to overcome problems of adverse selection, where bad borrowers are chosen instead of good borrowers. They overcame the problem of adverse selection by screening the potential borrowers when borrowers applied for a loan. The committee was supposed to have some local knowledge and the committee, combined with the clerks, would be able to informally screen borrowers. The procedure for a loan application worked as follows. Aspiring borrowers would fill out an application card, and provide two solvent sureties. The cost of the application card was 1 penny, and it was paid to the clerk.

Charles Piesse, the first secretary to the LFB, wrote instructions for the formation of a loan fund in 1841. In these instructions, Piesse recommended that:

> These papers are to be laid weekly before the Committee, who should have sufficient local knowledge to enable them to judge of the sufficiency of the sureties offered, and of the moral worth of the applicant.[107]

[107] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), p. 61.

Piesse advocated that the management of the loan fund make enquiries into the object of the loan. There was a division amongst practitioners as to the extent to which inquiries should go, and whether overly zealous inquisitions were a violation of privacy. Charles Piesse stated that:

> The most active supporters of the Loan Fund System are divided in opinion as to the principles on which it should be conducted – the one party maintaining that the Loan Fund should be a mere Bank of Discount, issuing loans solely on the solvency of sureties without reference to the character of the borrower, or the object for which he procures the loan; deprecating what they deem a petty inquisitorial tribunal unnecessarily prying into the affairs of the people; the other – which were are bound to say is by far the largest section – arguing, that the Loan Fund should be if not a decidedly *charitable*, at least a moral institution, and that every application for a loan should be scrutinised not only as regards the solvency of the security offered, but with reference to the moral characters of the parties offering as borrowers and sureties, and the object to which the money is to be applied.[108]

Rev. Irwin in his evidence to the committee on loan fund societies in 1855 described the situation in the Portadown loan fund where borrowers had to go to the loan fund and give notice that they wished to apply for a loan.[109] These transaction costs could also have acted as a screening method to ensure that only good borrowers applied, since if a borrower lived some distance from the loan fund he or she would have to forego a day’s work in order to apply. Rev. Irwin calculated the costs of screening to a borrower, which were 1 penny for the application card, 1 penny for the promissory note and approximately 2 shillings for the cost of hiring sureties for the day.[110] The sureties had to be present when a borrower was applying for a loan.

Monitoring arrangements undertaken by loan funds also enabled them to overcome problems of *ex ante* and *ex post* moral hazard. One of the monitoring tools utilised by the loan funds was the repayment schedule that they used. Charles Piesse believed that the loan fund system adapted specifically to the indolent Irish working classes in that the weekly repayment of loans was intended to ensure that the loan fund received its money back and that there was no default from borrowers. If there was a default problem it would be noticed within a week and swift action could be taken by the loan fund society. Piesse stated that the repayment schedule was:

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[108] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), pp 17-18.
[109] *Select Committee on loan fund societies 1854-55*, paragraph 788, p. 50.
[110] Ibid, paragraph 789, p. 50.

….adapted to the correction of some marked defects in the character of the working classes of Ireland. Their lack of energy is stimulated by the necessity of making the weekly repayments, and habits of punctuality are superinduced.[111]

The cost of monitoring was borne by the borrower. Rev. Irwin estimated the cost of this monitoring arrangement as being 1 shilling, or 1 penny for each trip to the loan fund to repay loans.[112] Rev. Irwin's calculations were based on the distance that a borrower lived from a loan fund, so that the cost actually varied depending on the borrower's distance from a loan fund.

The loan funds also used fines as means of ensuring effective repayment. If a borrower missed a repayment he was fined 1penny, and the fines would increase with each default. There was supposed to be a limit to the amount that could be fined, or rather a limit to the number of permitted defaults, until legal action would be taken. Loan funds took legal action if a borrower did default, so the knowledge of this would have shown borrowers that there were costs to defaulting.

Another monitoring tool was a condition for borrowing which required the borrower to provide two sureties. These sureties would act as guarantors for the loan in the case of default by the borrower. This meant that the monitoring of the borrower was delegated to the borrowers sureties. As they would be called on to repay the loan if the borrower defaulted, it was believed that they would monitor the borrowers behaviour, essentially transferring the risk of default from the loan fund to the surety. Piesse stated that:

The effect of this arrangement is more certainly beneficial than at first sight would appear. It stimulates the borrower to the utmost exertion to keep well with his friends, who, if called on to pay any part of the debt, would naturally refuse to incur future risk; and beyond this consideration is a feeling of shame and disgrace attaching to the man who could let his friends be subjected to such loss; and those know little of the peasantry of Ireland who deem lightly of this feeling. It acts extensively and powerfully. Many cases have occurred in which the borrowers have submitted to the greatest privations rather than subject their sureties to be called upon…Nor are the persons who have become security idle spectators in the matter; they naturally feel an interest in the persons for whom they stake their credit, and have of course a certain influence with them.[113]

These social pressures, or 'peer monitoring',[114] from the sureties were effective monitoring instruments. Evidence to the parliamentary enquiry does not seem to suggest that there were faults with the system of 'peer monitoring', or of collusion

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[111] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), pp 21-22.
[112] *Select Committee on loan fund societies 1854-55*, paragraph 790, p. 50.
[113] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), pp 23-23.
[114] Joseph E. Stiglitz, 'Peer monitoring and credit markets' in *The World Bank Economic Review* , iv, no. 3, A Symposium Issue on Imperfect information and rural credit markets (Sept, 1990), pp 351-366.

between borrowers and sureties, hence implying that these arrangements functioned adequately.

The costs of screening and monitoring were passed on to the borrowers, thereby increasing the cost of borrowing. If 6d in the pound was calculated to be an interest rate of around 12 per cent per annum, the Rev. Irwin calculated an interest rate, including all transaction and supplementary costs, at being 130 per cent per annum.[115] Admittedly Rev. Irwin's calculations include the maximum travel costs and surety costs; perhaps a borrower lived close to the loan fund and his kin acted as sureties. Rev. Irwin also said that 'a very eminent mathematician differs from me.'[116] Rev. Irwin's experience of loan funds was that the borrowers repaid personally every week and presented themselves at the loan fund, but there was conflicting evidence that in some societies borrowers pooled their repayments and sent one person to repay, rather than everyone repaying at once. But such a high cost may lead a reader to question if loan funds really did reduce the cost of credit.

1.4.2 Higher tier agency problems – Screening and monitoring of staff

The loan funds were not only credit disbursement institutions, they were also savings institutions. Agency problems can also affect savings institutions. Problems relating to adverse selection can arise if, for example, a manager is not competent to run the loan fund, and moral hazard can arise if the manager neglects to perform his duty, thereby endangering the depositors' assets. It was necessary to monitor the institutions to protect against fraud and defalcation, but given that the management, the trustees, were not liable for deposits held by the society, this essentially created an ideal situation for moral hazard.[117] The main flaw in the loan fund monitoring arrangements seems to have been in the monitoring of clerks. This would imply moral hazard in the role of management as they had no incentive to actively monitor the actions of clerks.

Given how loan funds were structured, a considerable amount of power was devolved to the clerks. In many cases they were responsible for the day-to-day running of many societies and they also did the bookkeeping as they were responsible

[115] *Select Committee on loan fund societies 1854-55,* paragraph 796, p. 51.
[116] Ibid, paragraph 796, p. 51.
[117] This was shown in section 1.3.2. This situation is somewhat analogous to the Savings and Loan scandal in the US in the 1980s, where managers of S&L institutions were covered by deposit insurance and followed high risk investment strategies.

for accepting loan repayments and deposits. The clerks were supposed to be monitored by the managers of the society, being the trustees, the secretary and the treasurer.

The trustees were local notables and took up the positions voluntarily and did not receive any monetary rewards for their actions.[118] Perhaps initially they became involved with the management out of some enthusiasm to improve the conditions of the industrious poor who resided in their locality. But after a period of time, and given that small credit and savings services do not have instantaneous effects, they might have become disillusioned with the operations as they had expected the loan funds to be a panacea for rural poverty. This could be classified as volunteering fatigue, and also, given that a humanitarian crisis unfolded in the form of the famine, there might have been a limit to the amount of time that the trustees could devote to the management of a loan fund. Whatever may have been the case it appears as though, in a number of the societies that failed, the managers did not perform their monitoring tasks. These tasks included periodically checking the accounts of the society and monitoring the activities of the clerk. As the trustees did not monitor the clerk and trusted him/her to run the loan fund, the clerk had both an incentive and an opportunity to commit fraud.

The question must be asked, if the internal monitoring arrangements were not preventing fraud taking place, then perhaps some external monitoring mechanisms were available that could have stopped the fraud. Such external monitoring mechanisms did exist in the shape of the LFB. The LFB's monitoring took two forms. One was the checking of the annual accounts which societies sent to it, and the other was the periodic audit of societies by an inspector hired by the LFB.

Nevertheless, fraud still occurred. This came about since there was a shortage of staff in the LFB to deal with the annual accounts. Under the 1843 loan fund act LFB loan fund societies were supposed to have uniform accounting practices 'in such manner and form as shall be directed or approved by the said Loan Fund Board'.[119] The evidence given by R. R. Madden portrayed the process of ordering annual accounts as being disorderly. Admittedly, this was not because of a fault of the LFB but was more due to a lack of standardisation in the accounting practices of the loan

[118] According to the law they were not supposed to receive payment.
[119] An act to consolidate and amend the laws for the regulation of charitable loan societies in Ireland, 1843 (6 & 7 Vict.), c. 91, section xxxix.

funds. Madden stated that the largest part of the LFB's work was actually in arranging the accounts.[120] The way in which the LFB dealt with the accounts was as follows: firstly the clerk in the LFB would examine the society's report, and then if he noticed any discrepancy he would notify the inspector and the inspector would investigate.[121] The checking of accounts in such a way is not really great protection against fraud because if the books had been manipulated before being sent up to the LFB it might be very difficult to find where 'creative' accounting took place.

The LFB hired one inspector on a salary of £300 and during the period 1838 to 1855 there were three separate inspectors hired by the LFB.[122] The on-site inspection of the loan funds was flawed and this was due to incompetence and the neglect of duty by the first two LFB inspectors, both of whom were subsequently replaced.[123] The inspectors of the LFB were appointed by the Lord Lieutenant[124] but there was no requirement that they have any formal experience of accounting. The two inspectors who were dismissed from their positions had been inspectors during the 1840s and early 1850s, the period when most failures took place. One inspector had inspected the books of the Lucan Loan Fund Society, and said that the society was 'in a satisfactory state.'[125] This inspection did not go in depth into the accounts of the society, and later when John Kingsmill, a member of the LFB from 1850 to 1854,[126] inspected the accounts he found that there was a long-running fraud taking place which had not been noticed by the inspector.[127]

The evidence of a number witnesses associated with the loan funds puts into question assumptions regarding the reason for failures of loan funds during the famine. Hollis and Sweetman used evidence from the Reproductive Loan Funds (RLFs)[128] when discussing the affects of the famine on the loan funds in Ireland. The RLFs did not share the same external monitoring structure; they incurred numerous bad debts during the famine and were wound up in 1848. Hollis and Sweetman stated that 'funds operating under the Loan Fund Board generally fared better than those under the RLFI [Ireland], but fund records show over £10,000 of losses to depositors

[120] *Select Committee on loan fund societies 1854-55*, paragraph 194 p. 11.
[121] *Select Committee on loan fund societies 1854-55*, paragraph 190, p. 11.
[122] Ibid, paragraphs 145-152, p. 9.
[123] Ibid, paragraph 149, p. 9.
[124] Ibid, paragraph 146, p. 9.
[125] Ibid, paragraph 499, p. 27.
[126] Ibid, paragraph 485, p. 25.
[127] Ibid, paragraphs 489 & 500, pp 26-27.
[128] These are discussed in section 1.4.

during the famine, which tarnished their reputation as depositary institutions.'[129] Hollis and Sweetman also stated, in a different article, that:

> Loan funds that strictly enforced loan requirements during the famine may have been more likely to survive, but those funds may also have been less beneficial, or harmful, to the starving poor during the crisis.[130]

They found that the survival of a loan fund during the famine was highly dependent on the manager of the loan fund. Before the famine many loan funds were administered by local clergy. Hollis and Sweetman undertook some econometric analysis of data from LFB reports and found that 'having a religious minister is strongly and consistently negatively related to fund survival.'[131] It appeared to Hollis and Sweetman that the clergy did not energetically pursue defaulters of debt through the court system and many funds under their administration were wound up.

In contrast, this thesis will posit an alternative interpretation of the econometric findings of Hollis and Sweetman. Rather than the problem being that religious ministers did not pursue defaulters, the evidence suggests that the clergy may have been lax monitors of their own staff. R. R. Madden, secretary of the LFB, believed that the problems were in the majority not caused by default, but by fraud and defalcation. The evidence of R. R. Madden to the committee on loan funds in 1855 is quite interesting. This is an extract from his evidence:

> In the year of the last famine, in 1847, did not a great number of the Loan Funds fail? – There was a great number failed.
> Was not that in consequence of the inability of the peasantry to meet the engagements that they had entered into? – Yes, but I think also an advantage was taken by fraudulent clerks, to an enormous extent, who embezzled and endeavoured to get out of the charge, by laying it to the account of the borrowers.
> Have you found many clerks who had embezzled? – Yes.
> Have you found fraud on the part of the treasurer in many instances? – It is almost always on the part of the clerks.
> Have you found negligence on the part of the trustees? – Very often.
> But not in general, fraud? – No, by no means.
> In several instances have not both borrower and sureties been stated to have emigrated? – Yes, when I have inquired about them, I found where clerks had been robbing largely, it was said that the borrowers were in three or four categories; one was among the dead; another among the absent in America; another in the poorhouse; very often the money was never in the hands of the borrowers at all, but in the pockets of the clerks.[132]

Perhaps fraud was not the only cause of loss to depositors, and perhaps the clergy were guided by empathetic concerns rather than commercial responsibilities.

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[129] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 306.
[130] Aidan Hollis, and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), p. 1510.
[131] Ibid, p. 1518.
[132] *Select Committee on loan fund societies 1854-55*, paragraph 297-303, pp 15-16.

But given that evidence exists to suggest that fraud took place, it ought not to be ignored and should be given greater weight in the debate.

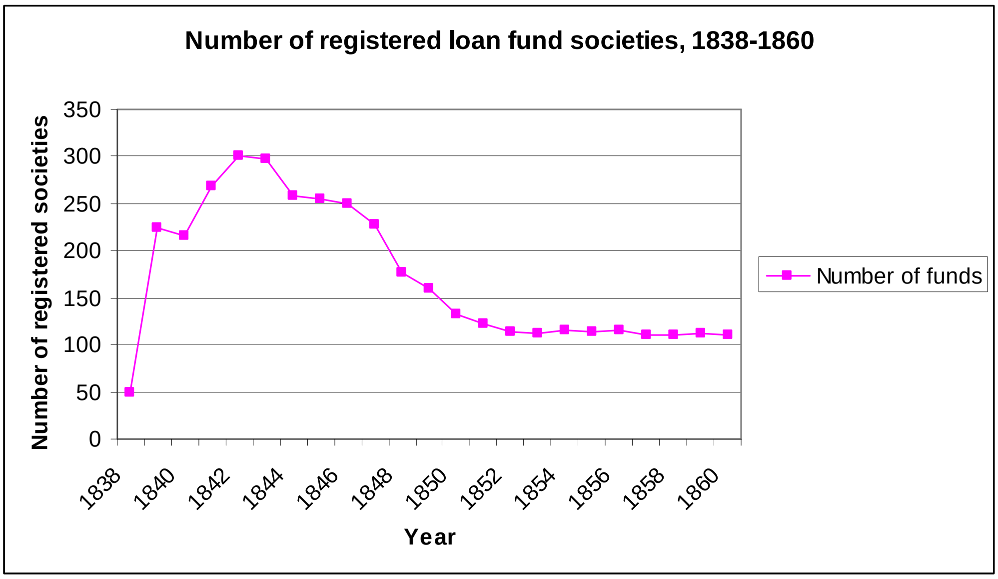
1.5 Loan funds before and after the famine, 1839 to 1860

The following discussion and graphs primarily relates to loan funds registered with the LFB. The loan fund system was regulated by the LFB under the aegis of the 1843 act and this system remained intact and unchanged until the LFB was dissolved in 1914.[133] The decrease in the charges on loans introduced by the 1843 act, although beneficial to borrowers from the funds, was potentially detrimental to the profitable maintenance of some societies. The number of societies which ceased operating due to this 1843 act is not possible to exactly determine as shortly after the passage of the act there was the outbreak of the Great Famine in Ireland. The famine had an enormous effect on many of the loan funds as it mainly afflicted the class of borrowers who had utilised their services. The 1914 report on agricultural credit in Ireland stated that:

> The Board mainly attributed the huge decline of £906,750 in the loans made in 1847 to the fearful famine of that year (the number of loans made was almost 240,000 less that in 1846). "Many depositors, having no longer confidence in any institution issuing loans to the humbler classes in Ireland, have withdrawn their deposits, or served notice on the Trustees of their intention to do so; whilst others of this class have withdrawn their little accumulated capital, so invested, for the purpose of emigrating. But whilst the Board notice the famine as the chief cause of the diminishing circulation of the Loan Funds, it appears to them that there are others in operation." [134]

[133] This is discussed in chapter two.
[134] *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 86. [Cd. 7375], H.C. 1914, xiii.1.

Figure 1.2

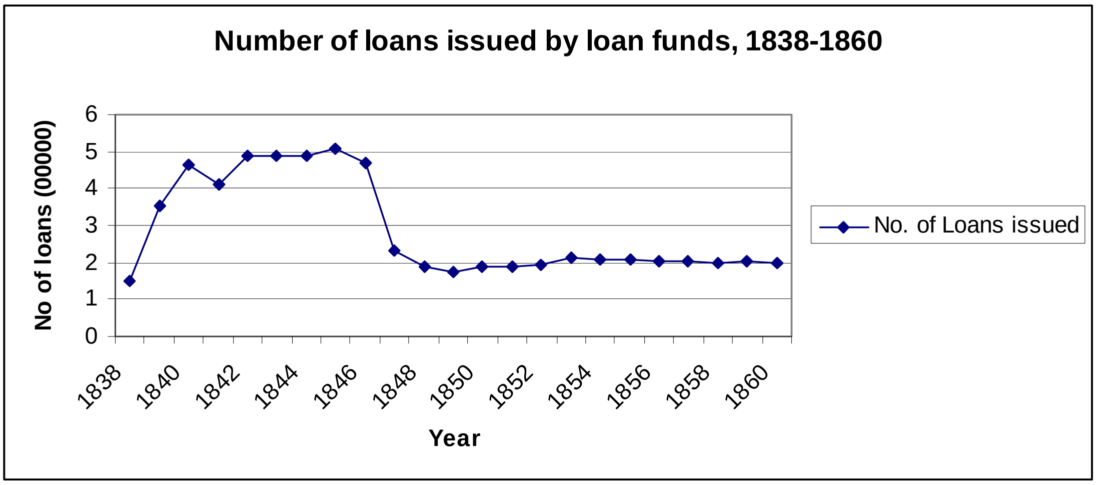


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

In figure 1.2 it can be seen that there was substantial growth in the number of loan funds registered with the LFB between 1838 and 1843. In order to put this rapid growth in context we can use parliamentary returns of the number of loan funds in Ireland for 1836 and 1838.[135] In 1836 there were 150 loan funds who had submitted returns to Clerks of the Peace, and in 1838 the number had risen to 247. These returns are interesting as they are one of the few references we have to the number of both RLFs and loan funds that were registered with the LFB. What this may suggest is that there was a large number of RLFs and also that the LFB was slow to register the existing loan funds in Ireland. So perhaps the low value for 1838 in figure 1.2 is not indicative of the level of LFB loan funds operating at that time. The year 1842 had the highest recorded number of loan funds attached to the LFB, with a total of 300 loan funds registered. After 1842 the number of loan funds declined steadily to 113 in 1855.

[135] *Return from Clerks of the Peace in Ireland of transcripts of Rules and Regulations of Loan Funds*. (230) H.C. 1836, xlvii, 539; and *A return of the number of loan societies which have been registered in the United Kingdom under the regulations of the Loan Societies Acts, specifying the name of each place where they are established*, H.C. 1837-38, (683), xlv, 235.

Figure 1.3



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.3 shows the number of loans issued by loan funds between 1838 and 1860. In pamphlets written by Connery and Ryan,[136] both made an assumption that there were 4 per family, and as such the half million loans granted before the famine had the potential to affect the lives of 2 million people. Put differently, Hollis and Sweetman found that the loan funds were lending to over 20 per cent of Irish families.[137] A slight problem with these exercises is that they did not take into consideration either the fact that loan terms were for 20 weeks or that loan renewals were reported to be commonplace. If one takes these facts into consideration it would reduce the amount of people directly effected by loan funds as the number of loans shown in figure 1.3 are loans per annum, and there are 52.14 weeks in a year. Given that it was reported that loans were renewed, this would mean that the number of loans in figure 1.3 does not necessarily equate to the number of borrowers.[138]

Because of the conditions brought on by famine the level of lending in the earlier years in figure 1.3 was not sustained. Can the decrease in the number of loans issued after the famine be explained by a reduced demand for loans? Possibly not. Two factors can explain the decrease in the number of loans issued by loan funds. One is a supply side factor. Loan funds had less of an incentive to issue loans during a

[136] James Connery, *An essay on charitable economy* (Dublin, 1837), P. B. Ryan, *Provision for the poor of Ireland, without any additional taxation, on the principles of the musical charitable loan society, the 17th & 18th Geo 3rd, cap 12, (Irish statutes 1778)* (2nd ed., Dublin, 1838).
[137] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 353.
[138] Further support for this point is shown in chapter 2 from the evidence of the account book of the Knockmourne loan fund where the number of borrowers was approximately about 20 per cent of the number of loans issued.

recession, such as the famine, because of fears concerning a borrower's ability to repay and may have applied more stringent screening and monitoring conditions to better assess this ability. Evidence of this can be seen in a letter circulated by the LFB on 3 February 1846 which warned societies about the delicate nature of the economy and not to offer over-generous lending accommodation. The letter, written by C. A. J. Piesse, secretary of the LFB, stated that:

> The Loan Fund Board wish to direct the especial attention of your Committee to the necessity which exists at the present time for great caution being exercised in the issue of loans. The Board apprehend that in certain districts a pressure may be felt during the ensuing season which may render it difficult for borrowers to meet engagements previously made with the managers of Loan Fund Societies. The board also consider it desirable to direct the attention of the Managers to the importance of retaining at all times a sufficient Reserve Fund, which will place beyond all risk the security of the funds entrusted to their care by the depositors, and which will enable them, whenever such a course may be considered desirable, to dissolve their society, without loss being sustained by any parties who may have been connected with it. [139]

This letter appears to be contrary to the nature of a charitable society to withdraw from charitable support when charity was needed most, but the loan funds had evolved into a hybrid institution. With the acceptance of deposits at interest the loan funds were no longer an institution which offered cheap loans; they were also an institution who were responsible for the savings of people in their area. These savings were of varied amounts from people of differing socio-economic backgrounds. The loan societies had responsibilities to their depositors and these responsibilities dominated the considerations of the LFB. This conflict between commercial interests and charity was also seen in the Parisian Mont-de-Piété,[140] an institution that was structured in a similar fashion to the LFB loan funds. A similar problem that the Parisian Mont-de-Piété saw was a withdrawal of capital during downturns, and this made it difficult to finance the operations of the institution as it did not have a permanent capital base.[141] It is a flaw in the design of the institution, as the demand for the charity element of the institution, i.e. funding charities, would be strongest in downturns, whilst the profitability of the institution was strongest in boom times.

Another example of supply side retraction can be seen from the report of the Cashel loan fund in 1848. The report stated that:

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[139] *Eight annual report of the Commissioners of the Loan Fund Board of Ireland* (218) H.C. 1846, xxii, 385.
[140] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), p. 115.
[141] Ibid.

> Towards the close of our last report we ventured to express a hope that by a strict scrutiny into all applications for loan during the ensuing year, we might on its close be enabled to report still more favourably on the progress of the society.[142]

Despite this strict scrutiny the Cashel loan fund still suffered some losses owing to the famine conditions.[143] There is also some evidence that there was practice of retracting credit in difficult economic conditions. As part of an appeal to the Lord Lieutenant against a decision of the LFB not to sanction its new rules, the Tyrell's Pass charitable society gave an outline of its history. It was stated in the appeal that:

> The distress prevailing generally through the agricultural districts of Ireland in the year 1841 and the subsequent years induced the managers gradually to contract the issues of the society and according in the year 1842 the issues were reduced below those of the preceeding (sic.) year by a sum of £10735 10s 0d and in the year 1843 the pressures still operating with unabated force the issues were still further contracted and the borrowed capital [deposits] of the society was reduced from £7826 to £1876.[144]

Perhaps there may have also been a difficulty for borrowers obtaining people willing to become guarantors. Evidence of this is seen in a newspaper article written by a member of the LFB, the Earl of Belmore, during the agricultural recession in the early 1860s. The difficulty with the loan fund's arrangement was that if there was a general economic malaise reliable and willing sureties would be in short supply. This was because they would be either reluctant to undertake debt or were not solvent themselves. An example of this was given by the Earl of Belmore in 1862 during the early 1860s recession.[145] The Earl of Belmore stated that:

> When a loan fund issues a loan to an applicant, it is required that the latter should be provided with two securities for repayment, and, in consequence of the losses incurred by the small farmers in 1861 a larger number than usual were unable to meet their engagements, which had the effect of causing many of their securities to be sued for the amounts of their liabilities, to the several funds. The consequence of which was that in 1862, the circumstances of the country being as bad or worse than in the previous year, there was a greater difficulty, or rather less facility in finding persons who were able or willing to incur such responsibility for their friends or neighbours.[146]

Hollis and Sweetman determined this to be a trade-off between outreach, lending to the poorest, and commercial sustainability.[147] But the question must be asked: was this trade-off what loan fund managers really faced during the famine?

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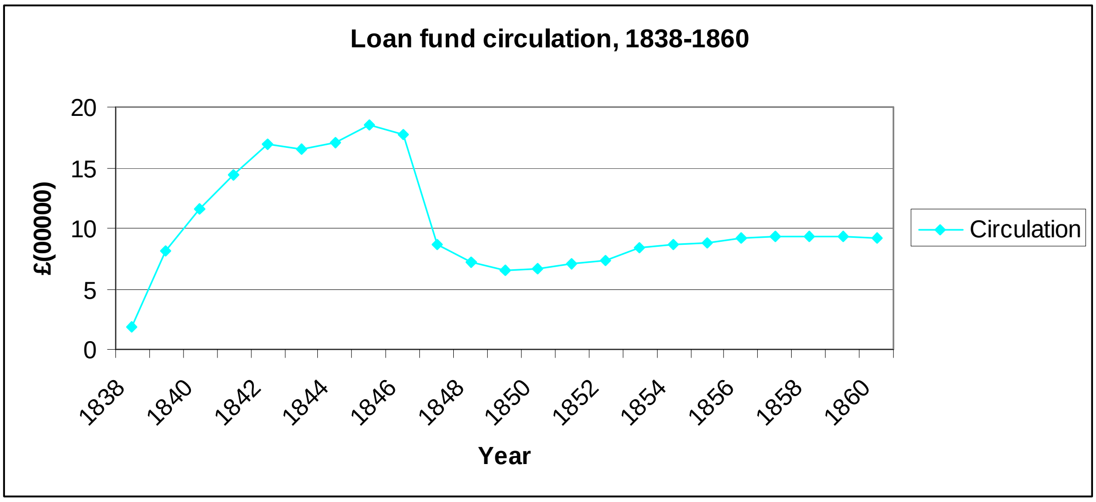
[142] 'Report and account of the Cashel loan fund 1848', 1848 (N.L.I, MS 41,872).
[143] 'Report and account of the Cashel loan fund 1848', 1848 (N.L.I, MS 41,872).
[144] 'Loan Fund Board copy appeal and other papers on behalf of Tyrell's Pass Charitable Loan Society', 1844 (N.A.I, MS OP 1844/18).
[145] *Twenty third annual report of the Commissioners of the Loan Fund Board of Ireland*, p. 6. [2834] H.C. 1861, xxvii, 601.
[146] Ibid.
[147] Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), p. 1510.

Did they have to decide whether to enforce their normal rules for borrowers or whether to grant loans knowing that there was little likelihood of receiving repayment? This is uncertain, as the loan fund business model was based on making as many loans as possible to maximise capital turnover. Therefore, in the loan fund model, outreach and sustainability are interlinked. A more likely trade-off was between a guaranteed loss and a minimised loss. If the loan funds retracted credit supply they had a better chance of minimising their losses than if they made loans where there was no chance of repayment.

Figure 1.4 shows the circulation of loan funds from 1838 to 1860.[148] The circulation of the loan funds reached its apogee in 1845 with a circulation of £1,857,457. Thereafter the amount of money circulated by the loan funds rapidly decreased, owing to the effects of the famine and the famine environment. The financial activity of the loan funds began to pick up slightly in the late 1850s, but another economic recession in the early 1860s hampered any recovery.

Figure 1.4

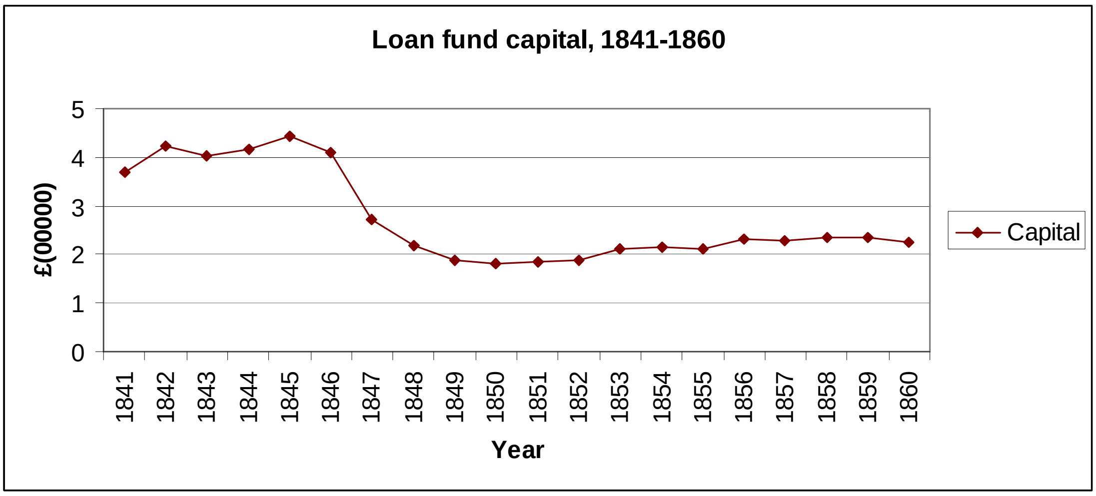


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.5 shows loan fund capital from 1841 to 1860. Loan fund capital reached its highest level of £444,427 in 1845, but subsequently decreased due to famine pressures, and possibly factors related to contagion which shall be discussed elsewhere.[149]

[148] Circulation was the contemporary term used to refer to the amount lent by loan funds.
[149] This refers to the presence of an alternative form of loan funds which are discussed in section 1.4, and also to contagion from contemporary frauds in TSBs discussed in chapter 4.

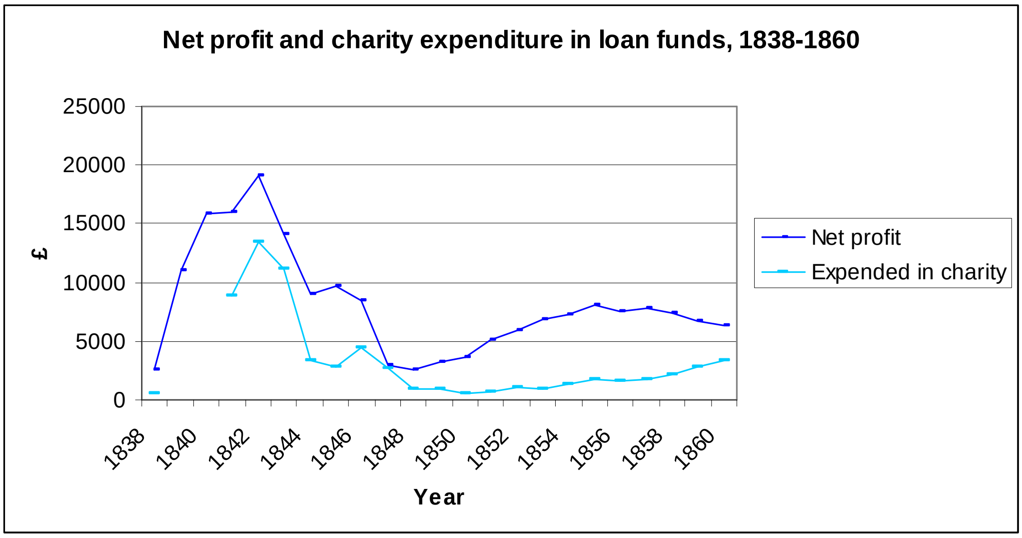
Figure 1.5



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.6 shows the net profit and charity expenditure of loan funds from 1838 to 1860. Figure 1.6 shows that during the period the loan funds managed to maintain a profitable level, although profits gradually decreased. It is interesting to note that there was a consistent divergence between the level of charitable expenditure and net profits. Only in one year did the two variables converge to a similar level, which was in 1847, the height of the famine.

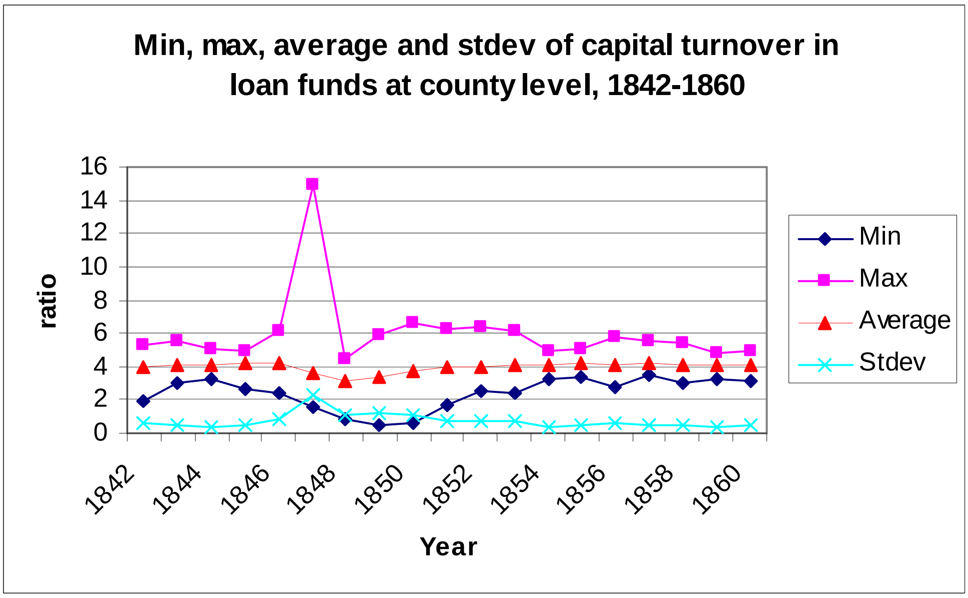
Figure 1.6



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

That the loan funds were profitable should not be a surprise. They had a very high capital turnover ratio.[150] Figure 1.7 shows the capital turn over ratio of loan funds across counties from the period 1841 to 1860. Minimum and maximum values and standard deviation have been included to give an indication of the variance between counties.

Figure 1.7



Note: the max value in 1847 is for county Mayo. This is because the LFB report only gave capital statistics for 2 out of the 3 county loan funds, but circulation figures for all 3 societies.

Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

An explanation for the high capital turnover of the loan fund system may be the way the system operated. Loans were made for 20-week periods and had to be repaid in weekly instalments. This meant that in a given week, money would be repaid and then re-circulated in another loan, rather than sitting idle. There was a dip in the average capital turnover during the famine period, but it soon returned to pre-famine levels after the famine.[151]

As has been shown in figure 1.2, not all the loan funds ceased to function after the famine. The 1843 and 1844 loan fund acts, and the famine, affected each loan fund differently. The loan fund system survived the famine and this can be accounted for by the fact that it was not a centralised system- mainly due to the fact that the loan

[150] Capital turnover refers to the amount of loans divided by the capital in each loan fund. The importance of capital turnover in the loan fund model is elaborated in chapter 2.
[151] In chapter 2 it will be shown that the majority of loan funds diverted from this policy in the post-famine period and began issuing loans repayable monthly. This led to a decrease in capital turnover.

funds were not interdependent and each fund operated in isolation from each other. Hollis and Sweetman stated that 'the fact that the entire system did not collapse during the famine was almost certainly due to the fact that each fund was financially independent.'[152] Such independence was important because it enabled funds to continue operating even if another loan fund was wound up. This enabled the system to continue operating through and after the famine. The famine and the 1843 act had the effect of pruning the loan fund system so that by 1860 there were 110 loan funds in operation throughout the country. Although the number of loan funds was to continue to decline, the level of loan funds remained consistent for the remainder of the nineteenth century. The number and amount of loans also decreased and the percentage decline from 1841 to 1851 was in proportion to the percentage decrease in the number of loan funds.[153]

1.6 Reproductive Loan Funds

In the 1820s there was an outbreak of famine in the west of Ireland and counties in Munster and Connaught were worst affected by it. A fund was started in London, called the London Relief Committee (LRC), to raise money to relieve those suffering distress.[154] The subscription was mainly for the immediate relief of people affected by the famine conditions, as the organisers of the fund believed that the inability to purchase food due to a want of employment was the cause of the famine.[155] Despite initial fears that the subscription would be inadequate to deal with the crisis, these fears were not realised. In fact the fund was oversubscribed, with considerable funds being raised not only in England but also in other parts of the British Empire.[156] The LRC met to discuss what should be done with 'the balance of the subscription remaining at their disposal.'[157] It was decided to use the surplus funds for purposes to try and pre-empt future famines similar to that in the 1820s. As the LRC believed that the 1822 famine was due to the low levels of income of the people in the areas affected, the LRC decided to use the funds to establish income generating activities in

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[152] Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no.9 (2004), p. 1521.
[153] The sources for this are shown in chapter 2 table 2.4.
[154] *Report of the committee for the relief of the distressed districts in Ireland, appointed at a general meeting held at the City of London tavern, on 7th of May, 1822; with an appendix* (London, 1823). (Henceforth *Report of the committee for the relief of the distressed districts 1823)*
[155] Ibid, p. 5.
[156] Ibid, p. 30 and the speech of Viscount Clements, *Hansard 3*, lxxi (14 August 1843), p. 640 (4*).
[157] *Report of the committee for the relief of the distressed districts 1823*, p. 19.

the areas affected. At a meeting of the LRC it was decided to distribute the surplus fund as shown in table 1.2.

Table 1.2: Distribution of the London Relief Committee's estimated surplus

Purpose	**Amount (£)**
To the board of fisheries, for the assistance of poor fishermen, to enable them to resume their accustomed modes of gaining their livelihood	5,000
(In addition to a like sum previously granted) to be applied in aid of the general contribution of clothing for the use of the most indigent in the distressed districts	5,000
For the relief of extraordinary cases of distress	2,000
In aid of the funds of the mansion house committee of Dublin, to be applied to the promotion of industry in the distressed districts of the south and west of Ireland	5,000
To the British and Irish ladies society, for improving the condition and promoting the industry and welfare of the female peasantry of Ireland	1,500
To be appropriated under trustees to the encouragement and assistance of the poor of the distressed Provinces of Ireland, in the manufacture of flax and wool, by means of small loans repayable with interest	40,000
Total	60,000

Source: *Report of the committee for the relief of the distressed districts 1823*, p. 24.

It was stated that 'the committee [LRC] are led to entertain the most sanguine hopes, that this grant will prove a substantial and *permanent* advantage to those for whose relief it was specially intended.(sic.)'[158] As can be seen from table 1.2 the largest portion of the surplus was intended to be used to lend money to the poor for the manufacture of flax and wool. The LRC decided on flax and wool as they believed that those industries were not alien to Connaught and Munster[159] and that those industries were 'particularly well adapted to improve the habits and condition of the peasantry'.[160]

Following the decision to encourage flax and woollen industries by offering small loans, the next step was to try and establish a means to disburse the loans to the poor in the designated areas. The LRC stated that:

> Having appropriated £40,000 to the ten counties on an estimated proportion, it was determined to confide the expectation of this important measure of relief to the gentlemen of each county, without whose zealous and active co-operation, no plan

[158] *Report of the committee for the relief of the distressed districts 1823,* p. 22.
[159] Ibid, p. 24.
[160] Ibid, p. 25.

> whatever could be permanently successful. Trustees were accordingly chosen for each county, who were requested to associate for the purpose of carrying these objects into effect. To these trustees was confided the management of the funds, and the appointment of District Committees, for the purpose of conducting the details of the business under their own immediate superintendence. A board of directors was also appointed in London, to whom the trustees are to make annual returns of the administration of this grant.[161]

The loan funds associated with the LRC were designated as being Reproductive Loan Funds (RLFs). They were supposed to give non-monetary loans and repayments were permitted to be non-monetary in nature. It was stated in the report that:

> No aid to be given in money, but in flax-seed, flax, wool, yarn, or implements, estimating these articles at prime cost, and not exceeding in value to any one person within one year the sum of ten pounds, or the value of two looms.[162]

It seems as though it was the actions of the LRC which inspired the loan fund act in 1823. Evidence of this is seen by the fact that some of the clauses in the act relate to the recovery of non-monetary loans,[163] but also that the LRC report also contained a copy of the act. Loans made by RLFs were supposed to be for yearly terms, repayable monthly at a rate of 5 per cent, and management of the funds was delegated to local trustees.[164] These RLFs were ostensibly answerable to a central authority in London. Table 1.3 shows the distribution of the fund in 1824 and from 1843 to 1845.

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161 *Report of the committee for the relief of the distressed districts 1823*, p. 26.
162 Ibid, p. 294.
163 An Act for the Amendment of the Laws respecting Charitable Loan Societies in *Ireland*, 1823 (4 Geo 4) c. 32, section x.
164 The report stated that they received support from the local gentry: *Report of the committee for the relief of the distressed districts 1823*, pp 296-297.

Table 1.3: Distribution of the capital of the Reproductive Loan Funds, 1824-1845

County	Pop 1821 (%)	Grant 1824 (£)	1843 (£)	1844 (£)	1845 (£)
Clare	7.20	3,000	5,697	5,909	5,919
Cork	25.28	5,500	8,028	8,844	10,155
Galway	11.68	6,000	7,060	8,551	8,592
Kerry	7.48	4,000	5,777	5,908	5,999
Leitrim	4.32	2,000	1,200	1,805	1,859
Limerick	9.60	5,300	6,370	7,381	7,465
Mayo	10.14	4,500	9,377	11,038	11,083
Roscommon	7.22	4,000	4,500	7,313	7,392
Sligo	5.06	3,200	3,870	5,106	5,215
Tipperary	12.01	2,500	2,500	3,078	3,105
Total	2,889,320	40,000	54,379	64,934	66,784

Sources: Census of Ireland, 1821.
First report of the Irish Reproductive Loan Fund Institution. H. C. 1844 (173), xlii, 531.
Report of the Irish Reproductive Loan Fund Institution. H.C. 1845, (591), xxvi, 265.
Second annual report of the Corporation of the Irish Reproductive Loan Fund Institution. H.C. 1846, (539), xxii, 405
Third annual report of the Corporation of the Irish Reproductive Loan Fund Institution. H.C. 1847, (714), xvii, 331.
Fourth annual report of the Corporation of the Irish Reproductive Loan Fund Institution. H.C. 1847-48, (730), xxix, 425.

As can be seen from table 1.3 the RLFs only operated in Connaught and Munster, the area for which the initial fund was designated. From 1836 the RLFs ran on a similar basis to the loan funds associated with the LFB, as they were regulated by the same acts of parliament but with the notable exemption from the LFB, discussed below. The loan term was 20 weeks with weekly repayments and the discount rate was 6d in the pound. The average loan in the RLFs was between 2 and 3 pound, and loans were made to small traders.[165]

The London board delegated control to local trustees, but failed to establish any power over the trustees. A classic principal-agent problem ensued whereby the London board was unaware what the trustees in Ireland were doing. There was no

[165] *Select Committee on loan fund societies 1854-55*, paragraph 716, p. 44.

supervisory arrangement and there was a lack of monitoring in the form of external inspectors. F. R. Bertolacci, a clerk appointed by the Treasury to inspect the RLFs, stated that:

> It was originally intended by the Relief Committee of 1822, that the Board of Directors should have the power of control, and general supervision of the funds. But it turned out, by the mode which these trusts were made, from the money being accidentally sent over by the Relief Committee instead of by the Directors, and, therefore, not going through the hands of the directors, that in a legal point of view it was not possible to enforce it, if the trustees opposed themselves to it…[166]

The LFB, which was established after the RLFs, had offered to assist the London Charitable Association by inspecting their societies, but the London board of the Association declined the offer. During the 1855 inquiry into loan fund societies in Ireland, an accusation was raised that Piesse, the former secretary of the LFB, had only offered the inspection services in order to augment his own salary.[167] An internal inquiry by the London board in 1846 into the state of the RLFs returned some very unsatisfactory results.[168] The years shown for the 1840s in table 1.3 above suggest that there was steady growth in the capital of the RLFs. But the reality was quite different as a number of RLFs had fabricated their accounts. The RLFs were wound up and their combined capital was transferred to the UK Treasury to be spent in the counties that were the intended beneficiaries of the fund.[169] The RLF was used for various government projects in Munster and Connaught, and was used by the Congested Districts Board to fund its fishery loans scheme in the 1890s and 1900s.[170]

During the period 1836 to 1848 the RLFs existed as a separate body of loan funds to those registered with the LFB because of lobbying by their London board. Initially the legislation in 1823 and 1836 did not make a distinction between loan funds whose capital was raised in Ireland and those whose capital was raised further afield. The 1838 act concluded with a clarification of the difference between the societies registered and administered under the LFB, and those which were established in connection with the London Charitable Association which were known

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[166] *Select Committee on loan fund societies 1854-55,* paragraph 732, p. 46.
[167] Ibid, paragraph 731, p. 35.
[168] *Fourth annual report of the Corporation of the Irish Reproductive Loan Fund Institution*. H.C. 1847-48, (730), xxix, 425.
[169] The Treasury acted as a Trustee for the fund; Irish Reproductive Loan Fund Act, 1848, (11 & 12 Vict.) c. 115.
[170] The CDB could not use it to finance fishery loans in Donegal as it was not one of the counties designated for relief by the London Relief Committee in 1822. See the CDB accounts for example in *Sixth report of the Congested Districts Board for Ireland, of proceedings under the Congested Districts Board (Ireland) Acts, 1891-1896 (54 & 55 Vict. ch. 48, section 41)* [C. 8622]. H.C. 1897, lxxii, 439.

as the RLFs. The 1838 act stated that 'nothing herein contained shall extend to any Loan Societies in Ireland which have been established by or are in connexion with the London (sic.) Charitable Association commonly called The Irish (sic.) Reproductive Loan Fund Institution.'[171] The act also called for the RLF to send a list of all the societies operating that were aligned to it. This was to make sure that there was no cross-registration of societies between the two institutions. The reason for this exemption for RLFs was at the behest of the LRC which lobbied for exclusion from the act.

The London Board also obtained exclusion from the 1843 act. The lobbying activities of the London Board are observable from the petitioning of the Queen for a charter in 1843[172] and the subsequent charter received by the London board in 1844.[173] The lobbying actions of the London Board were much to the annoyance of Viscount Clements, a member of parliament of Whig principles representing Leitrim.[174] When Viscount Clements was debating the 1843 act he pondered whether 'Ireland is to be ever made subservient to the interests or wishes of a London citizen – and I ask you, if this is just or right?'[175] This is a question of whether there was one law for English interest groups, and another one for Irish interest groups.

The 1843 act concluded in a similar fashion to that of the 1838 act in that it stated that the Irish RLFs were to be excluded from the act, and that the societies associated with the Irish RFL Institution were to be outside the remit of the LFB. The confusion between the LFB and the Irish RLF Institution was to persist despite the acts' attempt to clarify matters. Although the systems had different origins, this distinction was not very pronounced to many outside observers, even to contemporaries, as they carried out similar functions. In the LFB's thirty-sixth annual report from 1874, the LFB made the following statement:

> The Board deem it necessary to remove an erroneous impression that has caused communications to be made to them, and statements to be made to Parliament, to the effect that the Loan Fund Institution now existing in virtue of the Act 6 & 7 Vict., cap. 91, of 1843, is the same as the Reproductive Loan Fund Society [RLF established by the London relief fund], which dates from 1822, the year of one of those periodical famines which have visited this country twice in the present century, on which occasion a

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[171] An act for the amendment of the laws relating to loan societies in Ireland, 1838 (1&2 Vict.), c. 78, section xxvi.

[172] *Copy of petition of the Right Honourable George William Frederick Villiers Earl of Clarendon, and others, praying for incorporation of Irish Reproductive Loan Fund Institution*, H.C. 1843 (570) l, 401.

[173] *Charter granted by H.M. to Irish Reproductive Loan Fund institution* (443) H.C. 1844, xlii, 527.

[174] Michael Stenton (ed.), *Who's who of British members of Parliament: Volume I, 1832 -1885* (London, 1976) p. 78.

[175] *Hansard 3*, lxxi (14 August 1843), p. 640(3*).

> subscription was raised in England and throughout the British empire for the relief of the suffering poor of Ireland, and out of which circumstances, the late Reproductive Loan Fund Society [RLF] had its origins, but has long ceased to exist, and never was connected in any way with the existing Loan Fund Institution [LFB], but on the contrary was specially placed beyond the control of the Loan Fund Board by the 47th section of the existing Loan Fund Act. [176]

Clearly a body of loan funds operating outside of the power of the regulatory body is not an ideal situation. According to Viscount Clements, at the time of the debate of the 1843 act there were 100 societies legally exempt from the regulatory apparatus of the LFB.[177] Although 100 is a suspiciously round number there is some support for this statement from the returns of loan funds in 1836 and 1838. From these returns we can see that there were a high proportion of loan funds located in Connaught and Munster. This is in contrast to the low proportion of loan funds registered with the LFB from those provinces. In 1836 there were 93 loan funds, 62 per cent, located in Connaught and Munster.[178] Perhaps a more telling statistic is the fact that there were no loan funds registered in Waterford, a county in Munster that was not designated to receive funds from the LRC as shown in table 1.3.[179] In 1838, 127 loan funds, 51 per cent of the total, were located in Connaught and Munster.[180] Of these, 3 were located in Waterford. In contrast to these statistics there was not a strong tendency of LFB loan funds to be located in Connaught as will be discussed below. This seems to support the statement of Viscount Clement that there were a large number of societies legally exempt from the LFB.

The situation of legally exempt loan funds is even less desirous when these unregulated loan funds are unsupervised by their parent body. Complaints were raised about the conduct of the RLFs in that they were charging usurious rates of interest, or that they were misappropriating profits. These complaints were made to the LFB. There were complaints about loan funds as a whole, but the LFB was only responsible

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176 *Thirty sixth report of the Commissioners of the Loan Fund Board of Ireland*, p. 7. [C.953] H.C. 1874, xv, 231.

177 *Hansard* 3, lxxi (14 August 1843), p. 640(2*).

178 *Return from Clerks of the Peace in Ireland of transcripts of Rules and Regulations of Loan Funds*. (230) H.C. 1836, xlvii, 539.

179 For sources see table 1.3 above.

180 *A return of the number of loan societies which have been registered in the United Kingdom under the regulations of the Loan Societies Acts, specifying the name of each place where they are established.* H.C. 1837-38, (683), xlv, 235.

for the loan funds which had registered with it.[181] Perhaps the existence of a rival unregulated system eroded confidence in the loan fund system in general.

1.7 Microcredit, loan use and microsavings

The loan funds were financial intermediaries that offered credit and saving services. The following section will compare the loan sizes and savings sizes to data on the wages of agricultural labourers from 1840 to 1860 and Joel Mokyr's estimated personal income of the poor in the pre-famine period.[182] This section will also analyse what loans were used for, to see whether or not the loan funds provided microcredit. The data on loan funds are derived from the annual reports of the LFB and as such they only relate to loan funds registered with the LFB; hence they exclude RLFs and unregistered loan funds. The RLFs kept very poor records, but as stated previously, the average loan was said to have been between £2 and £3.[183] This is similar to the average loan of loan funds that registered with the LFB.

1.7.1 Microcredit

The primary function of loan fund societies was the provision of loans to the 'industrious poor'. They also provided savings services, although these were not advertised as prominently.

This section will analyse the loan funds as a 'microcredit' institution by using Bowley's agricultural wage index. It will use Bowley's nominal index[184] and a weighted version to give a sense of real wages. The wage series is weighted using the composite cost of living index compiled by Geary and Stark.[185] Geary and Stark's goal in creating their cost of living index was to find a real wage index for Ireland to compare with the rest of the United Kingdom. To do this they used Bowley's index,

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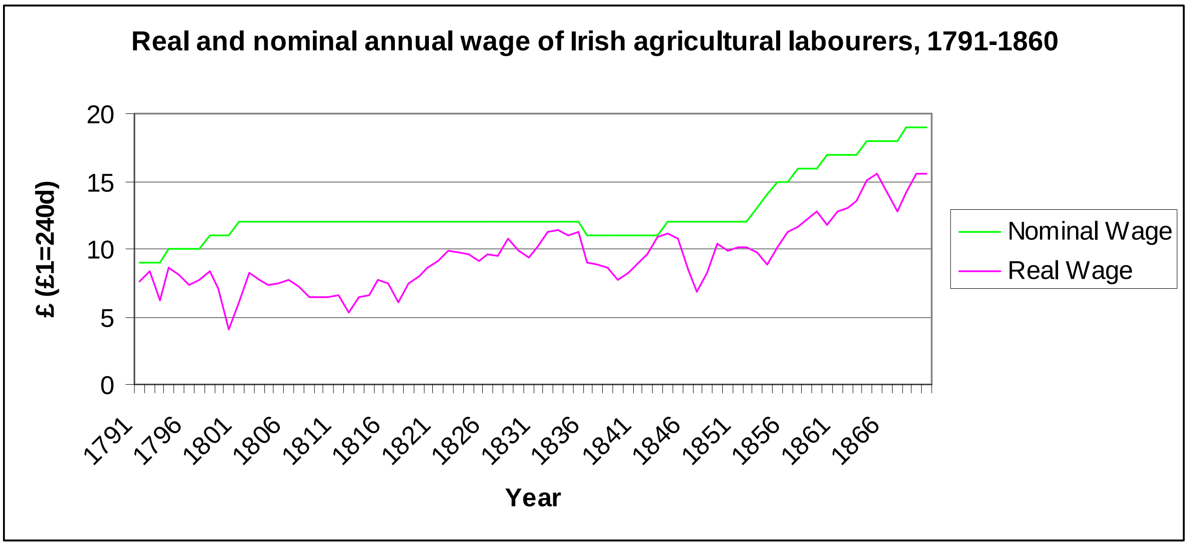
[181] Volume v of R.R. Madden's manuscript was devoted to the Reproductive Loan Fund: R. R. Madden, 'Observations on the Irish Reproductive Loan Fund Society, vol. v', c. 1857 (N.L.I. MS 4470).
[182] Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850* (2nd ed., London, 1985), pp 10-11.
[183] *Select Committee on loan fund societies 1854-55*, paragraph 716, p. 44.
[184] A. L. Bowley, 'The statistics of wages in the United Kingdom during the last hundred years. (Part iv): Agricultural Wages' in *Journal of the Royal Statistical Society*, lxii, no. 3 (September, 1899), pp 555-570.
[185] Frank Geary and Tom Stark, 'Trends in real wages during the industrial revolution: a view from across the Irish Sea' in *Economic History Review*, lvii, 2 (2004), pp 362-395.

and although Bowley's index suffers from some flaws it has been deemed reliable by other authorities on Irish economic history.[186]

The motive for using Bowley's index on agricultural wages is that agricultural wages would have been the lowest wages available, and so it will give a sense of scale to the loan fund loans. Were the average loan fund loans greater than this agricultural wage? Were they lower? Were they equal to it? Nothing can be said about loan funds until this is known. Thankfully, given that Bowley's index gives the wage level of the lowest socio-economic strata in Ireland at the time, the loan fund data also give an impression of what the wages would have been like for a semi-skilled worker. Clerks in the LFB filled a position that would have required some elementary schooling and possibly secondary schooling. These positions required employees to be both numerate and literate. The wages for these positions were given in the report of the select committee on loan fund societies. The annual salary for the secretary of the LFB was £300. There were two clerks working for the LFB. The senior clerk received £80 and the junior clerk received £50.[187] So it will not stretch the realms of plausibility to say that the difference between the agricultural wage and the £50 for the clerk can be seen as a skill premium. Figure 1.8 shows the annual real and nominal wages for agricultural labourers; they are derived from the above cited articles.[188]

[186] Chapter 2 has more discussion and critique of the applicability of using agricultural wage rates in Ireland.
[187] *Select Committee on loan fund societies 1854-55*, questions 215-217, p. 12.
[188] The main criticism of Bowley is that he created a wage series for Ireland which made allowances for the want of work. This series was not used; instead Bowley's unadjusted wage series was used in preference.

Figure 1.8



Sources: Wages: A. L. Bowley, 'The statistics of wages in the United Kingdom during the last hundred years. (Part iv): Agricultural Wages' in *Journal of the Royal Statistical Society*, lxii, no. 3 (September, 1899), pp 555-570.
Cost of living index: Frank Geary and Tom Stark, 'Trends in real wages during the industrial revolution: a view from across the Irish Sea' in *Economic History Review*, lvii, 2 (2004), pp 362-395. (Henceforth, Bowley 1899, Geary & Stark 2004)

Mokyr made estimates for the personal income of the Irish poor per person, shown in table 1.4. Mokyr estimated the wage income from evidence given to the 1836 Poor Law Commission. He also estimated income from potatoes and pigs that was not stated in evidence. In conclusion Mokyr believed that Irish national income was about £9 or £10.5 per capita.[189]

Table 1.4: Personal income of the Irish poor (per person)

Province	Labour income	Income from potatoes	Income from pigs	Total
Ulster	2.67	1.40	0.12	4.19
Leinster	2.88	1.44	0.19	4.51
Munster	2.11	1.87	0.22	4.20
Connaught	1.84	1.73	0.12	3.69
Ireland	2.42	1.61	0.16	4.19

Source: table 2.1 Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850*, 2nd ed. (London, 1985), p. 10

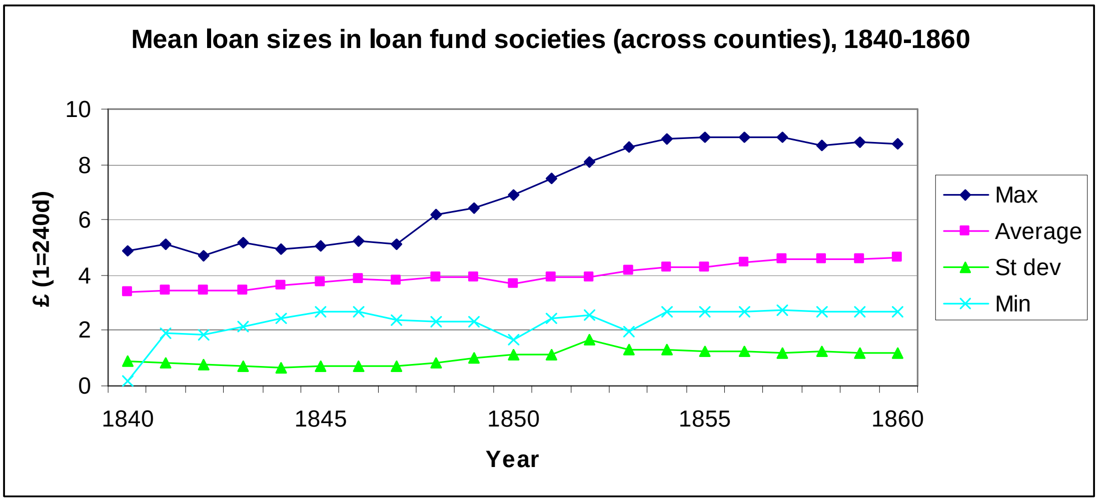
[189] Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850* (2[nd] ed., London, 1985), pp 9-10.

As can be seen from table 1.4, Mokyr's income estimates are lower than Bowley's wage statistics, and seem closer to Bowley's adjusted figures for want of work.

The data used to construct the following graphs are taken from the annual reports of the LFB. The aggregate county level data have been used and these data are found in the annual reports of the LFB. Bowley's annual agricultural wage index has been chosen primarily because it is an aggregate national wage index, and it would be best to compare like with like. The average loan size shown in this section is the mean of the average loan sizes of the loan funds operating in different counties. These mean figures were derived from the LFB data on 'loan circulation' and on the number of 'loans issued'. To give a sense of the variation in the average loan sizes across counties, measures of standard deviation, minimum values, and maximum values across time have been included in the graphs.

Figure 1.9 shows the average loan size in loan funds plotted over time. This gives a sense of the impact of a loan to a given person. As can be seen the loan size varied across time, but the general trend is of an increasing mean loan size from just over £3 in the early 1840s to above £4 by 1860.

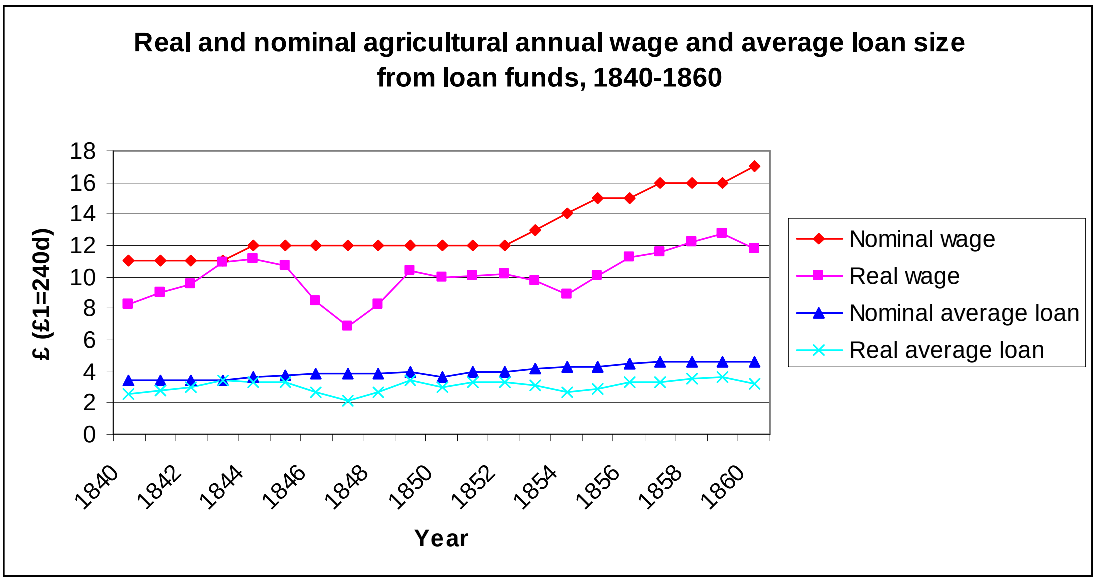
Figure 1.9



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.10 shows the annual agricultural wage level plotted against the average loan size over time, from 1840 to 1860. This graph gives a sense of the impact of the loan funds. The agricultural wage level appears to have been sticky in the early years that this graph shows. Agricultural wages were stuck at £12 per annum and only increased in the early 1850s. As the average loan size was roughly £3 in the 1840s, this was nearly half the amount of the annual wage. The data using real values, taking into consideration the cost of living, show the same effect. Given the low average values of the loan fund loans, it may be possible to state that these loans satisfy the criteria of being ‘microcredit’. When compared against Mokyr’s estimated personal income of the poor, the average loan size from the loan funds are quite large. This suggests that if the loan funds lent to the poorest, then their loans would have had a high impact.

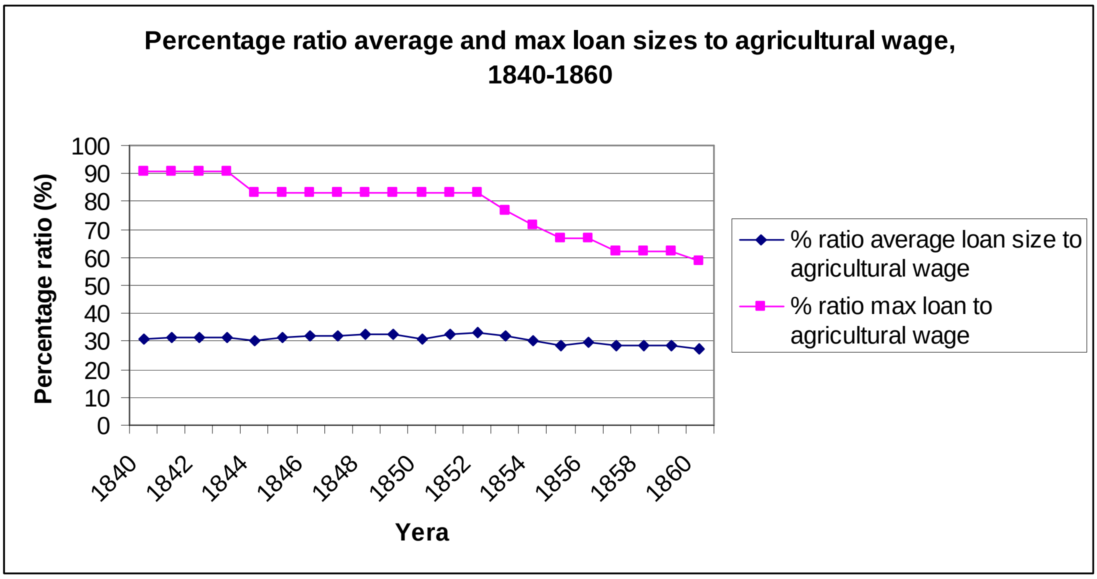
Figure 1.10



Source: Annual reports of the Commissioners of the Loan Fund Board, various years, and Bowley 1899, Geary & Stark 2004 (full reference see fig 8).

Figure 1.11 shows the percentage ratio of the average loan sizes to the annual agricultural wage. It is interesting to note that the percentage ratio is consistent in the period 1840 to 1860. From looking at figure 1.11 it appears as though borrowing may have been an income augmenting strategy on the part of borrowers from the loan funds. In the period 1840 to 1860, the nominal average loan size grew by 37 per cent, whereas the nominal annual wage of the agricultural labourer grew by 55 per cent in the same period. The higher growth in agricultural wages may explain the slight decrease in figure 1.11 in the 1850s. What is interesting is that, from figure 1.11, it appears as though borrowers from the loan funds were not leveraged, but rather were borrowing within existing income limits.

Figure 1.11

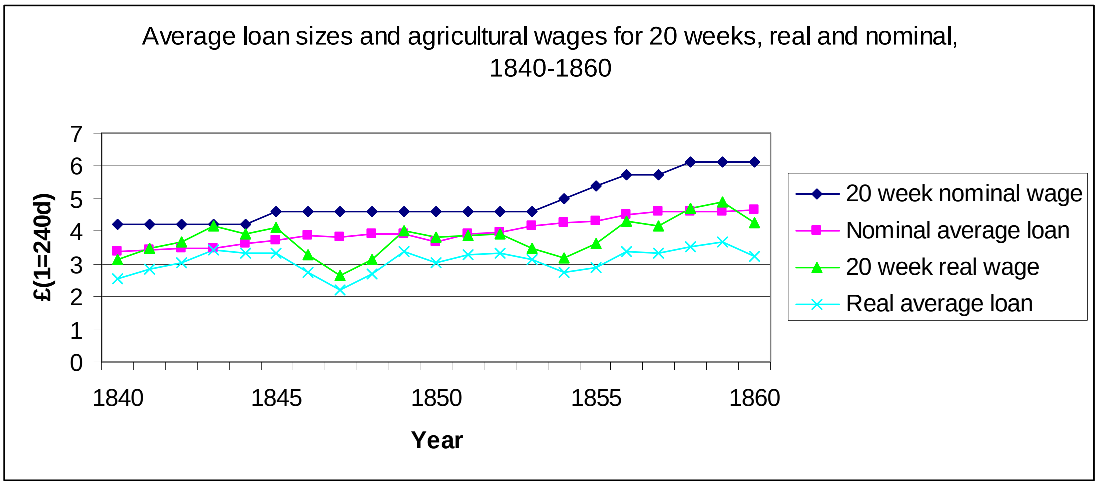


Source: Annual reports of the Commissioners of the Loan Fund Board, various years, and Bowley 1899, Geary & Stark 2004 (full reference see fig 8).

Figure 1.11 also shows the ratio of the average agricultural wage and the maximum loan available from the loan funds. The maximum loan from a loan fund was set by the loan fund acts at £10. As can be seen from the data, this £10 limit was less than the agricultural wage in the 1840s, and the ratio continued to decrease in the 1860s as the agricultural labourers' wages continued to grow. But it must be borne in mind that loan amounts of £10 were seldom given in this period.

Given that the loan term was in fact 20 weeks, agricultural wages have been estimated for a 20-week period. This has been done by using a simple arithmetical procedure of dividing the annual wage by the number of weeks in a year. Given that seasonality is quite prevalent in agriculture, it is a flawed estimate of a 20-week period. But the cost of constructing a similar index on wage data is significantly higher and the benefit of using it would be marginal; for it must be taken into consideration that the loan fund data also suffer from similar seasonality effects that cannot be adjusted owing to the manner in which the data have been collected. Therefore, this method of estimation has been chosen.

Figure 1.12



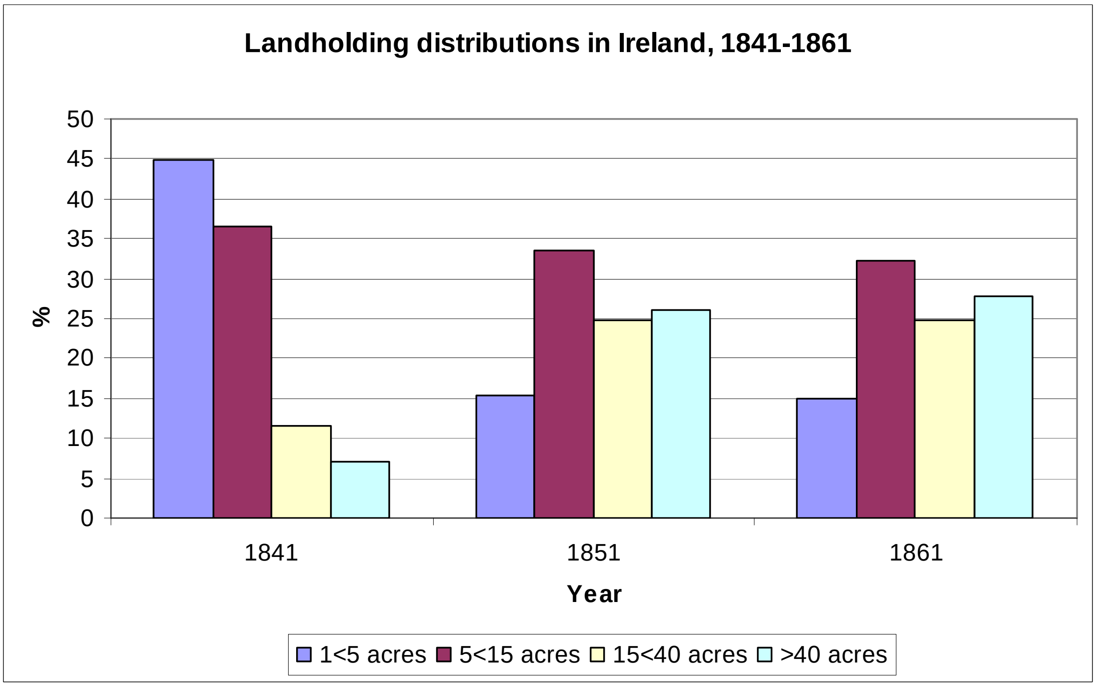
Source: Annual reports of the Commissioners of the Loan Fund Board, various years, and Bowley 1899, Geary & Stark 2004 (full reference see fig 8).

Figure 1.12 shows the real and nominal agricultural wages constructed for a period of 20 weeks and the average loan sizes, real and nominal. The main reason why the data have been represented in this form is due to the fact that the contemporary literature stated that loans were to be repaid on a weekly basis out of wages. Admittedly there are serious imperfections in the estimation technique used, and any prior savings that agricultural labourers may have had have not been factored into the calculations. But the aim is to highlight the fact that the average loan size was slightly less than the size of an agricultural labourer's wage for the same period. This would give support to the statements made by Reverend Charles King Irwin to the committee on loan fund societies. Rev. Irwin, who had been involved in a loan fund in Portadown, stated that the business in the local pawnbroker had experienced an increase which coincided with the establishment of the local loan fund.[190] The principle of loan funds was that the loan was to be repaid out of the profits from the loan, but according to King, borrowers were unable to meet these repayments and were instead compelled to pawn goods in order to make repayments. R.R. Madden, giving evidence to the same committee, stated, 'I think, where the societies are well managed, it is peculiarly beneficial to small traders, more so than to agricultural labourers.'[191]

[190] *Select Committee on loan fund societies 1854-55*, paragraph 935, p. 60.
[191] *Select Committee on loan fund societies 1854-55*, paragraph 97, p. 6.

Figure 1.8 showed that the level of agricultural wages were static for a long period of time and then increased after the 1840s.[192] But what caused the sudden and continued increase in agricultural wages? There is considerable debate on this topic with some commentators believing the increased productivity of Irish agriculture was responsible,[193] others arguing that continued emigration pushed wages up.[194] A plausible theory would be that the reduction in the number of agricultural labourers, a shift in the supply curve, pushed up the wage level for agricultural labourers. An indicator for the decrease in agricultural labourers can be seen from census returns for landholding distribution shown in figure 1.13.

Figure 1.13



Source: Census of Ireland, 1841-1861

In the period 1841 to 1861 there was a 72 percentage decrease in the number of small holdings, while in the same time period there was a 55 percentage increase in the annual wages of agricultural labourers. The consistent ratio of average loan sizes to annual wages, shown in figure 1.11, corresponded with a decrease in the number of

[192] Agricultural wages continued to increase over the duration of the time period covered by this thesis. A more complete series on agricultural wages up to 1914 is shown in chapter 2.
[193] This is the view advocated by Turner: Michael Turner, *After the famine: Irish agriculture 1850-1914* (Cambridge, 1996).
[194] An example of this view can be seen in: George R. Boyer, Timothy J. Hatton, and Kevin O'Rourke, 'The impact of emigration on real wages in Ireland, 1850-1914' in Timothy J. Hatton and Jeffrey Williamson (eds), *Migration and the international labour market 1850-1914* (London, 1994), pp221-239.

loans issued. This seems to indicate that loans were used to augment income (but as incomes increased there was less of a need for income augmenting loans) or that there were more readily available substitutes. But it must be acknowledged that there is considerable debate regarding the reliability of the census data prior to 1861. For example, Donnelly stressed that the early census data exaggerate the amount of holding fragmentation, and Mokyr has echoed this view.[195] More significantly, P. M. Austin Bourke was highly critical of the agricultural data in the 1841 census returns. Bourke showed that the number of holdings was not reported in a consistent unit of measurement, with some reported in terms of Irish acres, Cunningham Acres and Statute acres.[196] This in turn led to discrepancies between the 1841 and 1851 landholdings returns. Bourke warned that:

> Much more serious is the interpretation of direct comparisons of the 1841 census figures with the 1847 and with the 1851 census returns of farm size as an accurate reflection of the effect of the famine on agricultural economy, when in fact what is being presented is predominantly the difference between the Irish and the statute acre.[197]

Therefore, the data presented for 1841 in figure 1.13 must be treated with caution.

1.7.2 Loan use

An important consideration regarding the loans made by loan funds is what the loans were actually used for. If this can be determined, then perhaps we can understand whether these institutions had positive impacts on the income levels of users.

Loan funds were required to state what loans were used for when they made their returns to the LFB, but it is possible that many loan funds did not fulfil this obligation. For example, the Cashel loan fund made a return to the LFB using stationery supplied by the LFB but did not enter all the details that the document asked for.[198]

To overcome the problem of a lack of knowledge on the loan usage of loan funds, use will be made of two seemingly independent sources from the period to

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[195] James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975), p. 16; and Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850* (2nd ed., London, 1985), pp 31-32.

[196] P. M. Austin Bourke, 'Uncertainties in the statistics of farm size in Ireland, 1841-1851' in *Journal of the Statistical and Social Inquiry Society of Ireland*, xx, 3 (1959-60), pp 20-26.

[197] Ibid, pp 25-26.

[198] 'Report and account of the Cashel loan fund 1848', 1848 (N.L.I., MS 41,872).

determine what loans were used for. Henry John Porter presented a paper of the statistics of loan funds in Ireland in 1840 to the *London Statistical Society*, and also the Ballycastle loan fund in County Antrim sent details of its activities to the LFB. Both of these sources date from the early 1840s.

Henry John Porter was a loan fund advocate and presented a statistical paper on the operation of loan funds in 1840. Porter just prior to presenting this paper had himself established a loan fund in Portadown[199] and ironically, given that he advocated the adoption of loan funds, his loan fund was defrauded by one of its clerks.[200] Porter contacted all of the loan funds associated with the LFB that were in operation on the island at the time and asked them to fill out a questionnaire. He wrote to 215 societies; 163 replied and 52 did not. The problem he encountered was that a lot of loan funds did not keep accurate records of their operations. In some areas the records were well kept; in others there were no records. Henry Porter's survey is the most in-depth statistical account that has been encountered while researching the operation of the loan funds, and it is a statistical account which Hollis and Sweetman seem to have overlooked.[201] Porter made inquiries under a number of headings, and these will be referred to in other parts of this thesis.

What are of particular interest to this section are the inquiries made regarding loan use. Of the 163 loan fund only 83 who responded kept records of the objects for which loans were granted, '80 of those who forwarded returns to the queries having kept no record of the objects for which loans were granted.'[202] This gives a better idea of loan use than the sample used by Hollis and Sweetman, which was comprised of data from 2 loan funds.[203] Henry Porter made 9 categories for the purpose of loans use and these are shown in table 1.5.

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[199] Anonymous, *Report of the directors of the Portadown Mont de Piete and loan fund to the central board in Dublin; shewing the formation, progress, and winding up of the Portadown loan fund society* (Portadown, 1855), p. 3.
[200] Ibid, p. 9.
[201]Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 362.
[202] Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), pp 209-224.
[203] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 363.

Table 1.5: Loan use, number of loans and amount of loans

Loan use	Number of loans	Amount (£) of loans
	%	%
Loans for horses, cows and pigs	31.4	36.02
Loans for seeds, manure, implements, and other agricultural purposes	8.23	7.74
Loans for meal, potatoes and other provisions	19.58	15.45
Loans for wood, flax, yarn, and other manufacturing purposes	8.68	7.41
Loans for looms	0.4	0.31
Loans for iron, coal, leather, timber and other mechanical purposes	9.09	8.43
Loans for rent	6.84	9.13
Loans for debts	2.31	2.05
Loans for dealing	13.46	13.46

Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), pp 209-224.

As can be seen, there were a large number of loans given for the purpose of purchasing livestock, 31 per cent, which is unsurprising for an economy that had a large agricultural sector. This large proportion of loans for the purchase of livestock may explain how the pre-famine practice of labourers purchasing pigs was financed.[204] A large percentage of loans were used for purchasing meal and potatoes; this would indicate that the users were either labourers or small farmers. Another large percentage of loans were used for the purposes of dealing, which would support the views of Madden, cited above, that it was dealers who benefited from these loan funds as they had access to sources of credit. The lowest grouping was for the purpose of purchasing looms, which was less than one per cent. It should also be noted that loans for the purpose of paying rent were not insignificant, which correlates with the sample used by Hollis and Sweetman.

The returns from the Ballycastle loan fund in the third annual LFB report gave a detailed account of loan use from the years 1838 to 1840. There were 20 loan

[204] For example see James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975), p. 43.

categories. Table 1.6 below shows the loan categories, the number of loans and the amount of money lent for each category.

Table 1.6: Loan use in the Ballycastle loan fund, 1838 to 1840

Loans use	Number of loans (percent)	Amount of loans (£) (percent)
Pigs , cows, goats	17.67	24.51
Horses or asses	2.4	3.33
Poultry	0	0
Corn, hay, or grass seeds	2.95	3.41
Farm implements	0.28	0.17
Dairy utensils	0	0
Tools or handicraft trades	0.12	0.09
Looms	0	0
Yarn (for manufacture)	6.6	6.72
Wool or flax (for manufacture)	9.48	5.32
Timber (for manufacture)	1.11	1.43
Iron (for manufacture)	1.02	0.75
Leather (for manufacture)	2.65	2.36
Shop goods as clothes, hardware, grocery	12.16	14.83
Fishing tackle, nets or boats	0.39	0.3
Rent	14.35	17.6
Debts	1.25	1.06
Provisions for use	26.7	17.26
Wearing apparel or house furniture	0.48	0.38
House or land	0.39	0.49

Source: *Third Annual Report of the Commissioners of the central Loan Fund Board of Ireland*, p. 12. [319], H.C. 1841 Session 1, xii, 109.

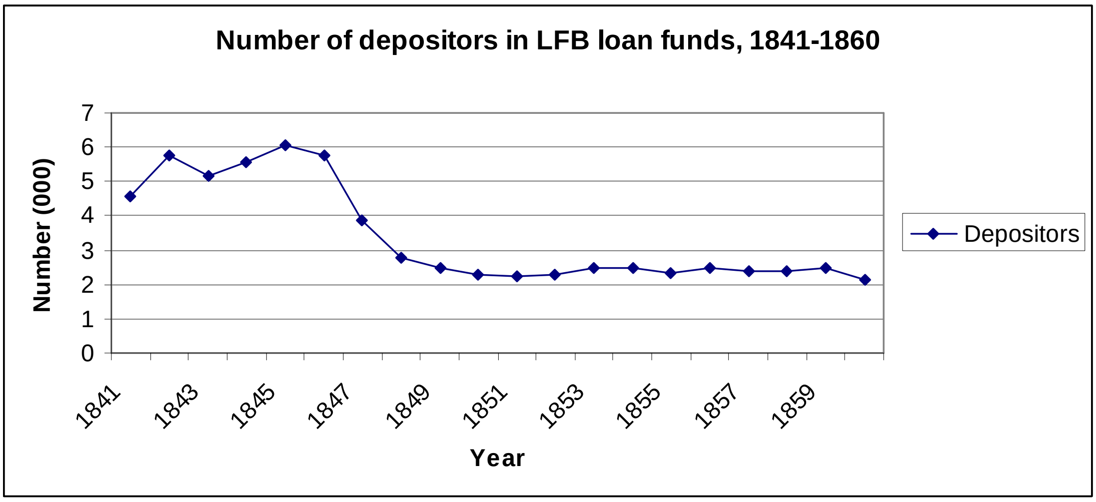
Table 1.6 is similar to Porter’s returns where the two highest ranking categories for loan uses were the purchase of livestock and the purchase of provisions. The greatest amount was used to purchase livestock.

Both statistical samples would lead one to believe that the loan funds were primarily agricultural banking institutions. But one must take care not to assume too much. Porter’s sample is biased as it is collected from loan funds that kept accurate records, and the Ballycastle loan fund is an outlier in the level of detail of its records.

1.7.3. Microsavings?

The loan fund act of 1836 was the first that permitted loan funds to raise capital by accepting debentures and deposits. Data on savings are unavailable from some earlier reports of the LFB and only become available from 1841 onwards. The annual reports of the LFB give data on 'capital' and 'number of depositors owning said capital.' Figures for average deposit size have been derived from these data, or more accurately a ratio of capital per depositor, for the years 1843 to 1860, by using the two sets of data. A slight problem arises in the data set because from 1854 the LFB began using two different definitions of capital. The 'amount of capital to be accounted for on 31st December' and the 'actual amount of capital working on 31st December'. The category of 'actual amount of capital working' is used in the following graphs. The difference between the two observations is minimal, so the margin of error is quite low. The argument which this thesis wishes to put forward is that the loan funds had a small outreach capacity in terms of microsavings and that the main savers/investors were not the 'industrious poor'. Chapter 4 discusses contemporary savings institutions that were also targeted towards the 'industrious poor', and they had significantly lower savings balances that the LFB loan funds.

Figure 1.14

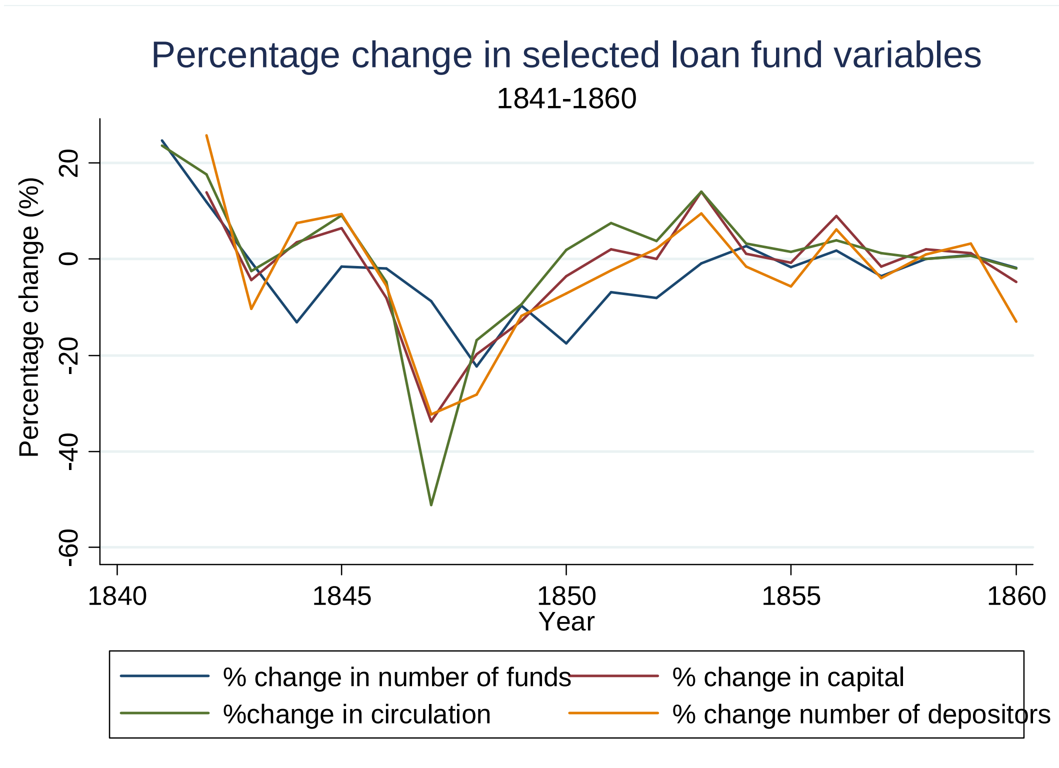


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.14 shows the number of depositors in the loan funds from 1841 to 1860. As can be seen, in the early years there was quite a large number of depositors in the loan funds, but the number of depositors decreased from 1845 until 1853, when the number of depositors began to stabilise. Coincidently, as the number of depositors decreased, the average deposit size increased, indicating that perhaps there were some small depositors in the loan funds. Most of the decreases from 1846 can perhaps be explained most by the effects of the famine. The interest reduction came into affect in 1845, and the response to the interest rate reduction was marginal. The number of depositors increased by 9.2 per cent from 1844 to 1845, but then decreased by 5 per cent from 1845 to 1846. The number of depositors decreased by 35 per cent between 1846 and 1847. As both famine and interest rate shocks overlap, it is quite difficult to isolate which shock predominated. Nevertheless, given that the greatest decline came during the famine years, it would be reasonable to suggest that the famine was a more significant influence on the decline in the number of depositors in the loan funds.

Figure 1.15 shows the percentage change in the number of depositors, average deposit size, and the capital in loan funds from 1844 to 1860. It is interesting to note that as there was a negative percentage change in both capital and the number of depositors during the famine, there was an increase in the average deposit size in the loan funds. The remainder of this section will attempt to explain why this may have been.

Figure 1.15



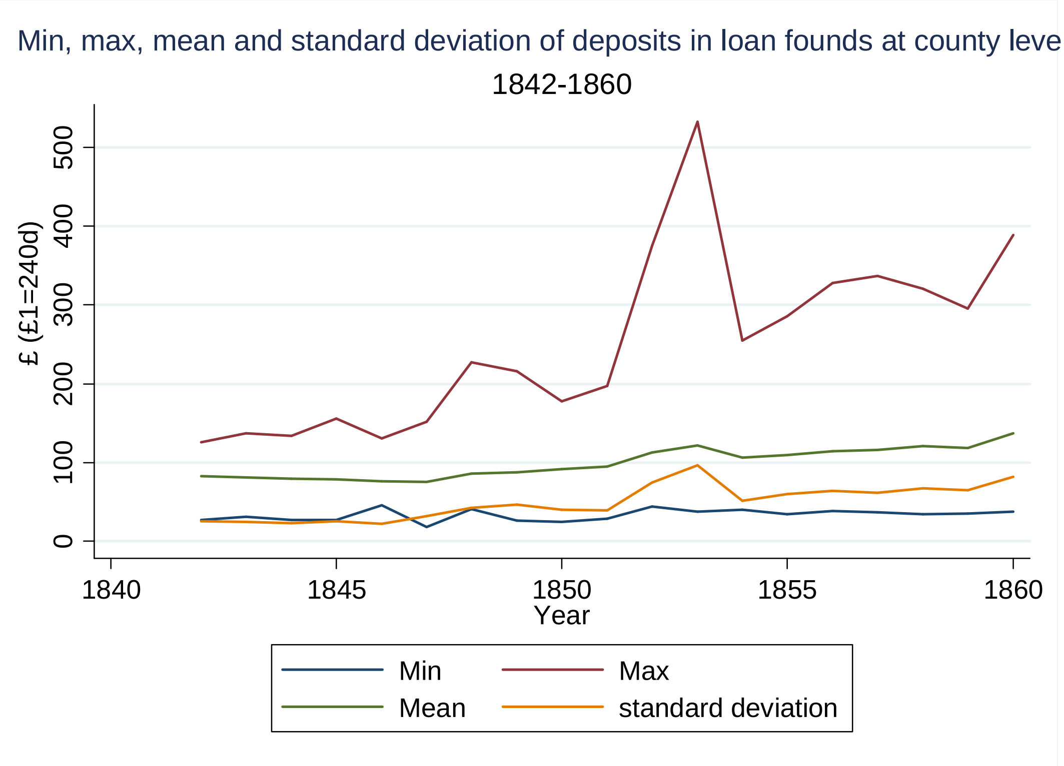
Source: Annual reports of the Commissioners of the Loan Fund Board, various years

Firstly, in order to put the average deposit size in context it is useful to compare its value with Bowley's agricultural labourers' wage series. As stated previously, Bowley's wage represents the wage of the lowest socio-economic grouping in Ireland, and as such gives a sense of scale to the following discussion. It must also be noted that the loan funds derived their capital from three sources: small savings, larger debentures and philanthropic capital. Debentures were issued when the sum was above £20 and deposit receipts when the sum was under £20.[205] Philanthropic capital was money either donated, or loans given interest-free to the loan funds by individuals with philanthropic concerns. In analysing the average deposits in loan funds and comparing them with Bowley's wage series the aim is to see if the savings were of a similar level, or if they were higher or lower. A higher level would indicate that the debentures or philanthropic capital predominated, and thus a limited outreach on behalf of the loan funds in providing savings services. In contrast, if the average deposit level is low it would indicate that the loan funds had a greater outreach in the provision of savings services. Obviously the existence of philanthropic capital can distort such findings.[206] Evidence given by R. R. Madden to the committee on loan fund societies provides support for this methodology:

> You have stated that there are two sorts of capital; one sort given by debenture holders for which they get interest, and the other, money which is given by benevolent individuals which may be called free capital? – Yes.
> Is a large proportion of the capital, free capital? – No, a very small proportion.
> Have you any idea of what that amounts to? – No, it forms a very small portion of the whole.
> Did it amount to a very considerable sum at one time? – I do not think it was a very large sum.
> Did it amount to between 40,000 *l.* [£] and 50,000 *l.* [£] at one time? – I do not think free capital derived from donations or bequests amounted to anything of the kind.[207]

[205] *Select Committee on loan fund societies 1854-55*, paragraph 141, pp 8-9.
[206] In later reports the LFB made a distinction between free and interest paying capital. These are analysed in chapter 2.
[207] *Select Committee on loan fund societies 1854-55*, paragraph 455-458, p. 24.

Figure 1.16

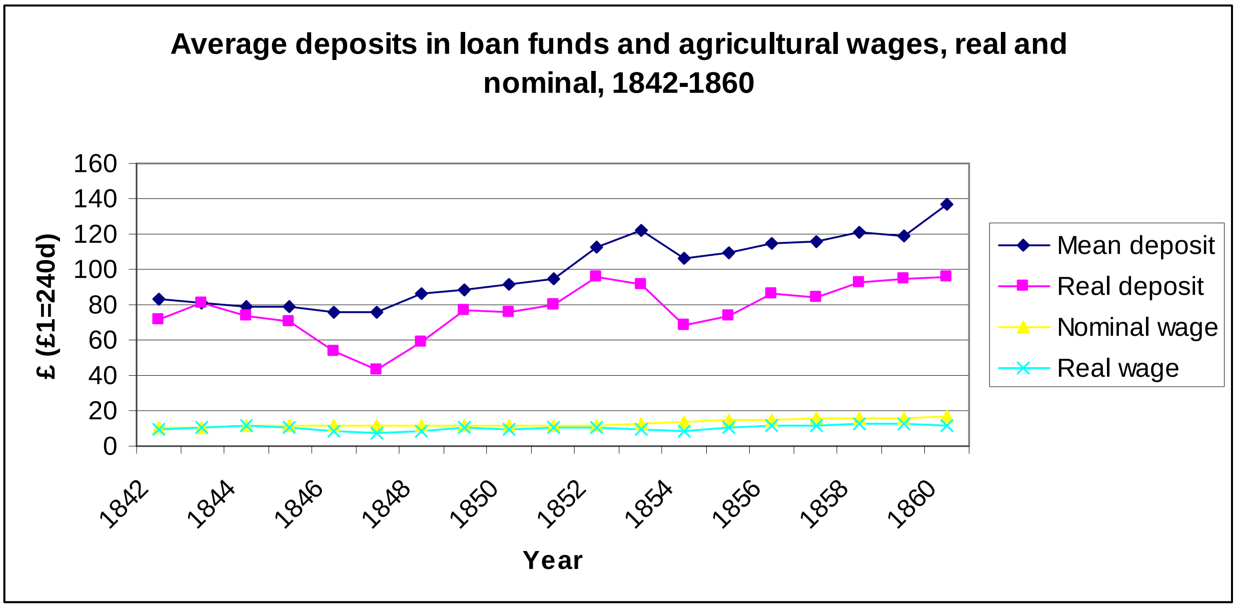


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.16 is a representation of the average deposit size in loan funds at the county level in Ireland. Minimum values, maximum values and standard deviation are shown in figure 1.16 to give a representation of the variance between loan funds across counties. This graph is uninformative due to the fact that the maximum value in the data set is considerably higher than the average value. There is also a high level of standard deviation throughout the period.

Figure 1.17 shows the average deposit, real and nominal, plotted against the agricultural labourer's wage, real and nominal. Unsurprisingly, the average deposit size is greater than the wage level. Figure 1.17 uses the same cost of living index as a deflator for the agricultural labourers' wages and the average deposits in the loan funds. Given the divergence between the two, perhaps the cost of living index would not be reflective of the true cost of living for the deposit holders in the loan funds.

Figure 1.17

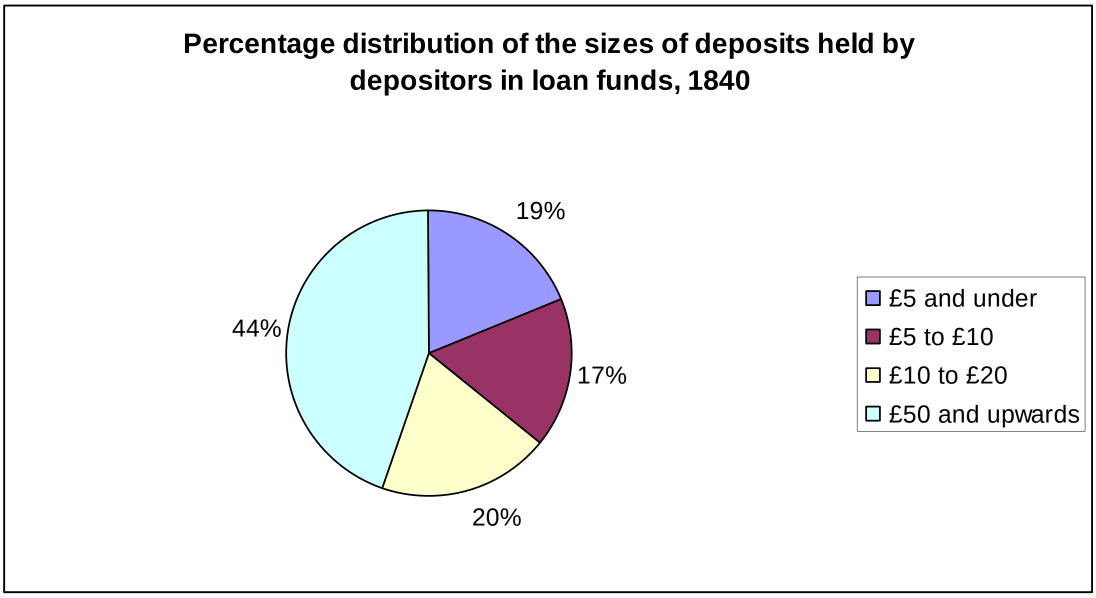


Source: Annual reports of the Commissioners of the Loan Fund Board, various years, Bowley 1899, Geary & Stark 2004 (full reference see fig 8).

This would imply that the majority of 'savers'- perhaps it would be better to call them investors - were not the 'industrious poor'. This is not to say that the 'industrious poor' did not save in loan funds; rather it indicates that the number of depositors in the loan funds was not very large. Figure 1.17 suggests that the capital of the loan funds was mainly derived from debenture holders, i.e. large depositors, rather than from small depositors. This can be seen as evidence that the loan funds were not agents promoting thrift, but rather, as their name suggests, they focused on credit. Hence, the evidence from figure 1.17 supports the argument outlined at the start of this section that the loan funds did not have a great outreach capacity with their savings services.

Using graphs on average deposit may not tell the true story of the savings activity in the loan funds. Porter's statistical inquiry into the operations of loan funds in 1840 includes observations on the number of depositors. Porter made inquiries of 215 societies; 163 made returns, 52 did not. Figure 1.18 is a pie chart of the distribution of loan sizes. The highest percentage, 44 per cent, are depositors who hold £50 and upwards. Interestingly, smaller deposits make up the remaining 56 per cent of the deposits. Porter's statistical inquiry is divided into county categories and it is possible to see whether the observations in figure 1.18 are universal throughout the island.

Figure 1.18



Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), pp 209-224.

Hollis and Sweetman found that the influence of depositors in a loan fund ensured that funds' efficiency and prevented defalcation taking place.[208] However, given the high level of average deposits, the reason for the findings of Hollis and Sweetman was because the deposit holders actually had a role in the management of the society or could influence the management of a society. As was illustrated above, in the structure of the loan fund societies the members were debenture holders; therefore the findings of Hollis and Sweetman are probably influenced by endogeneity. If we assume that there was a committee of 10 in each loan fund, and that each committee member held a debenture, this could account for a good proportion of debenture holders in a loan fund.

The loan funds were microfinance institutions but the outreach in their provision of microsaving services does not appear to be as strong as the outreach of their microcredit services.

[208] This is a finding from a working paper of Hollis and Sweetman: Aidan Hollis and Arthur Sweetman, 'The Role of Local Depositors in Controlling Expenses in a Microfinance Organization' (WP November, 2005).

1.8 Spatial distribution[209]

So far in this chapter loan fund societies have been analysed on a national level, but there were some regional variations in the operation of loan funds during this period. These regional variations shall be discussed in this section, but it must be borne in mind that given the dearth of information on RLFs, discussed above, this discussion mainly refers to LFB loan funds. The importance of a spatial analysis is to determine where exactly the loan funds were located, in particular if they were located in areas deemed poor by contemporaries, hence with high outreach capacity. The spatial distribution of loan funds over time has not been approached in the present historiography of loan funds.[210]

The earliest accounts of loan funds are the parliamentary returns from 1836 and 1838; these are shown in figure 1.19. It is uncertain how to assess the increase in registration from 1836 to 1838 as they may have existed as independent bodies before registration was required under the 1836 act. For example, the Tyrell's Pass society stated that it was established in 1824 but that it registered under the Loan Fund act in 1837. The delay in registration may be accounted for by the fact that from 1824 until 1834 the Tyrell's pass loan fund was operated solely by private donations, and it was not until 1834 that interest was paid on deposits received from external sources.[211] Indeed what figure 1.19 does show us is that there were a large number of loan funds present in Connaught, and that in 1836 and 1838 they comprised the largest proportion of registered loan funds in Ireland.

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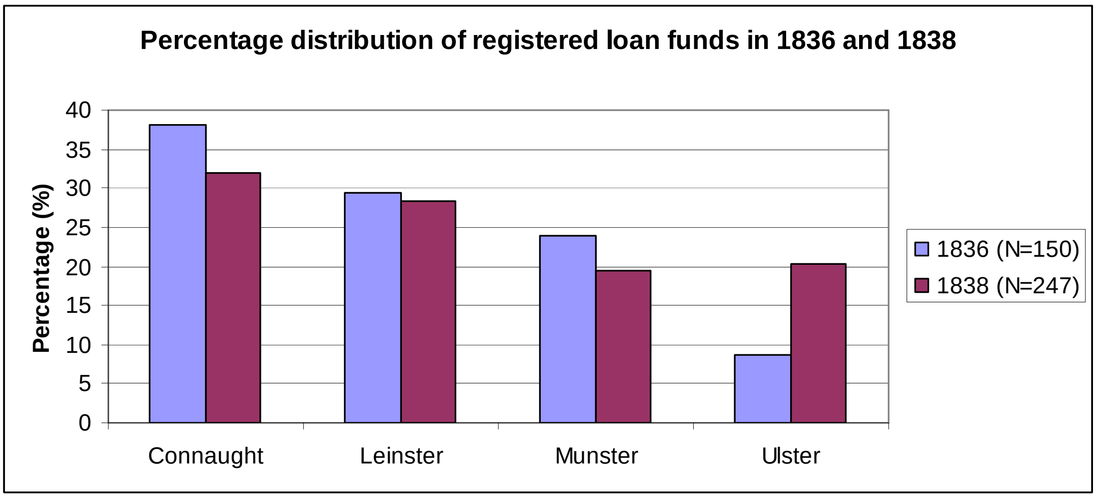
[209] Appendix 3, maps 1.1 to 2.6, contain maps of the spatial distribution of loan funds from 1836 to 1911.

[210] Hollis and Sweetman mapped the loan funds at their height. But their map was one of county concentration. They did not offer an explanation for the spatial distribution: See Fig. 1 'Ireland, loan fund activity per county in 1843' in Aidan Hollis and Arthur Sweetman 'Microcredit in prefamine Ireland' in *Explorations in Economic History* , xxxv (1998), p. 354.

[211] 'Loan Fund Board copy appeal and other papers on behalf of Tyrell's Pass charitable loan society', 1844 (N.A.I, MS OP 1844/18).

Figure 1.19



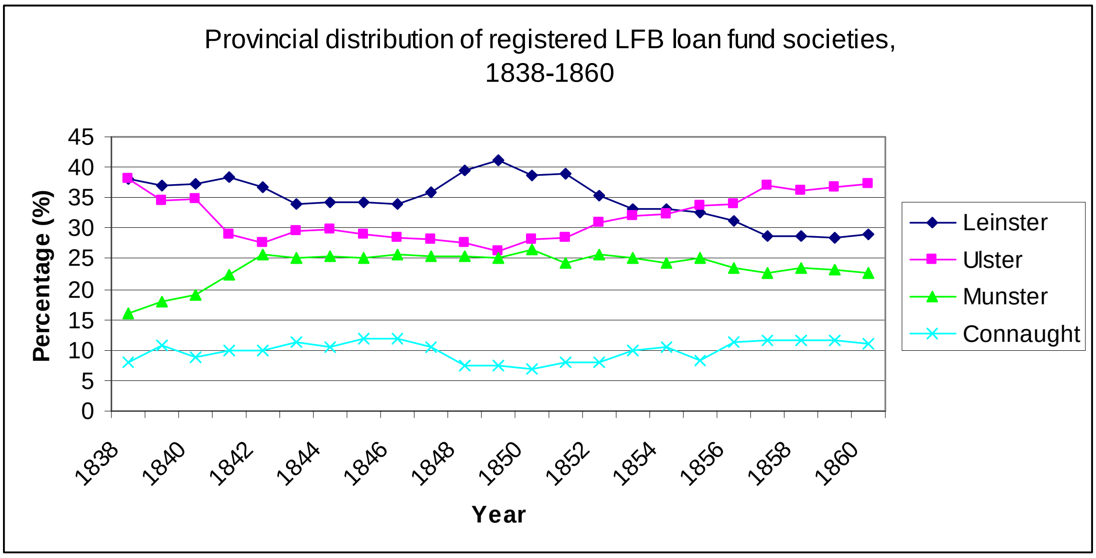
Sources: *Return from Clerks of the Peace in Ireland of transcripts of Rules and Regulations of Loan Funds*. (230) H.C. 1836, xlvii, 539; and *A return of the number of loan societies which have been registered in the United Kingdom under the regulations of the Loan Societies Acts, specifying the name of each place where they are established,* H.C. 1837-38, (683), xlv, 235.

From the establishment of the LFB and its annual reports to parliament we get another perspective on the spatial distribution of loan funds. Interestingly, LFB loan funds were located nationwide, although in some counties there were no loan funds in operation, such as Kerry and Sligo in the early 1840s. At the time, where there were no loan fund societies, there were alternatives to be found in these two counties.[212] Most notably RLFs were present in Kerry and Sligo. They may have been present, but not particularly active[213] (see table 1.3 above). There were complaints made that trustees in Kerry made loans for purposes not deemed reproductive and that they lent money to themselves. The Kerry RLFs also deposited money in the ill-fated Kerry TSBs that crashed.[214]

The aim of the following discussion is to show that regional variations existed, and that banks lending to 'industrious poor' were not found in areas which have been associated with the highest levels of poverty, hence indicating mistargeting and limited outreach on the part of the loan fund societies.

[212] Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), p. 209.
[213] *Irish reproductive loan fund institution report*, pp 2-3, H.C. 1845, (591), xxvi, 265.
[214] *Irish reproductive loan fund institution third report*, p. 3, H.C. 1847, (714), xvii, 331.

Figure 1.20



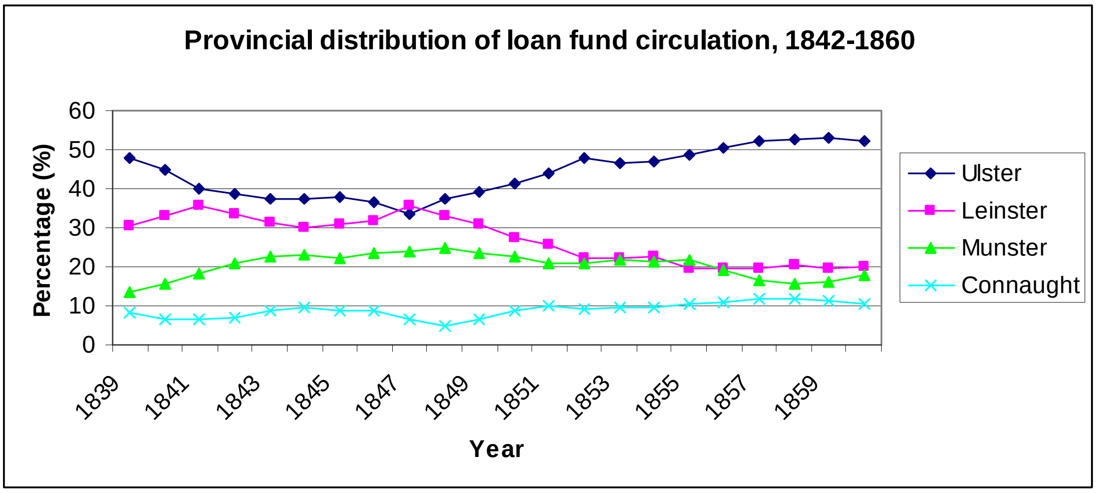
Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.20 shows the provincial distribution of the number of registered LFB loan fund societies in Ireland. As can be seen from the graph the distributions in Leinster, Munster and Ulster were quite similar. Leinster had the greater proportion of registered loan funds in the 1840s, but then Ulster took over this position from 1855 onwards. Munster started off with a low proportion of registered loan funds in the early years of the LFB, but then the number of registered loan funds increased and converged with the level in Leinster. Connaught had a consistent proportion of registered loan fund societies during this period. Connaught was underrepresented.

There are possibly two factors that can adequately explain Connaught's outlier status. Firstly, the RLF system was quite prevalent in Connaught, but then again it was also prevalent in Munster. Comparing figures 1.19 and 1.20 we see a discrepancy in the percentage of registered loan funds in Connaught, which suggests that the discrepancy is due to the presence of RLFs. The RLF system may have stifled the development of, or simply crowded out, loan fund societies that would have registered with the LFB. This leads to the second question: why did the levels in Munster converged with those of Leinster, while those in Connaught did not? A subjective ranking of the provinces according to commercial development would place Ulster first, followed by Leinster and Munster and then Connaught. This ranking can be seen in the distribution of loan fund societies in figure 1.20. But the capital of RLFs was imported and this can explain the high proportion of loan funds in figure 1.19.

Figure 1.21 shows the provincial distribution of loan fund circulation from 1839 to 1860. The loan fund societies were lauded by Hollis and Sweetman for the fact that they were able to issue £1,500,000 of loans at their zenith. But they did not account for regional variation in loan disbursement.

Figure 1.21

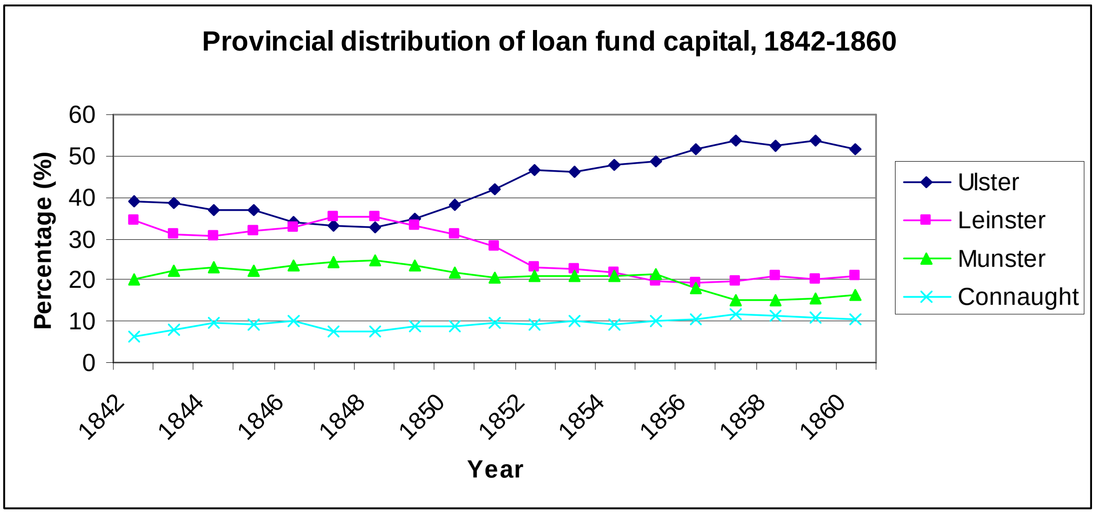


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

As can be seen from figure 1.21, the distribution of loan fund circulation was greatest in Ulster for the majority of the period. There was convergence between Leinster and Ulster during the famine, but they again diverged, with around 50 per cent of the loan fund circulation being found in Ulster by the later 1850s. Again it can be seen that Connaught has the lowest share of loan fund circulation, with less than 10 per cent between 1839 and 1855, and slightly about 10 per cent from 1857 to 1860.

Figure 1.21 is similar to figure 1.22 except that Ulster predominated in the early 1840s and slipped below the level of Leinster during the famine. After the famine there was greater divergence between Ulster and the three other provinces. Ulster held over 50 per cent of loan fund capital by 1855.

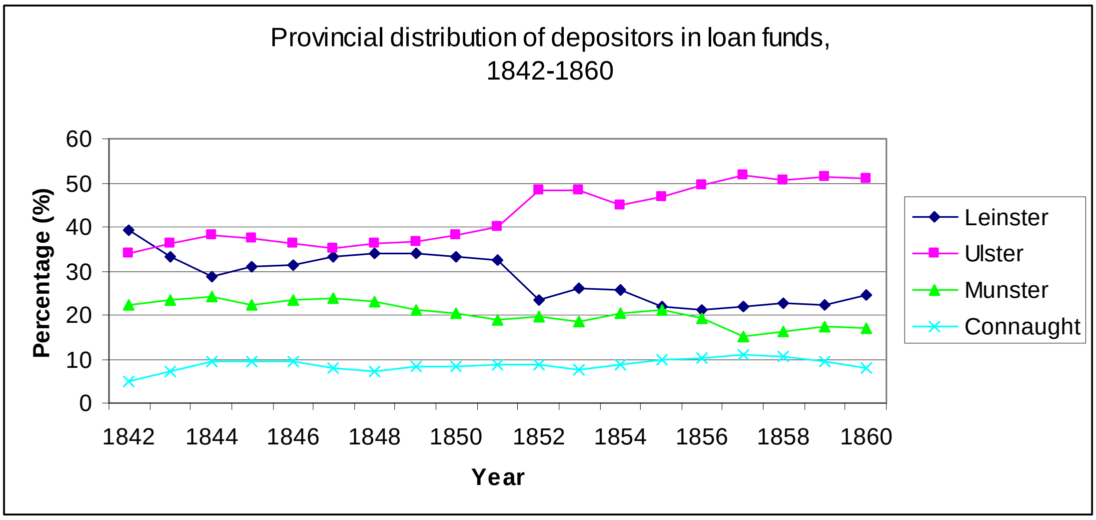
Figure 1.22



Source: Annual reports of the Commissioners of the Loan Fund Board, various years

Figure 1.23 shows the provincial distribution of loan fund depositors. Figure 1.23 again continues the same trend, with Ulster having a greater predominance. By 1860 Ulster had 50 per cent of loan fund depositors in Ireland.

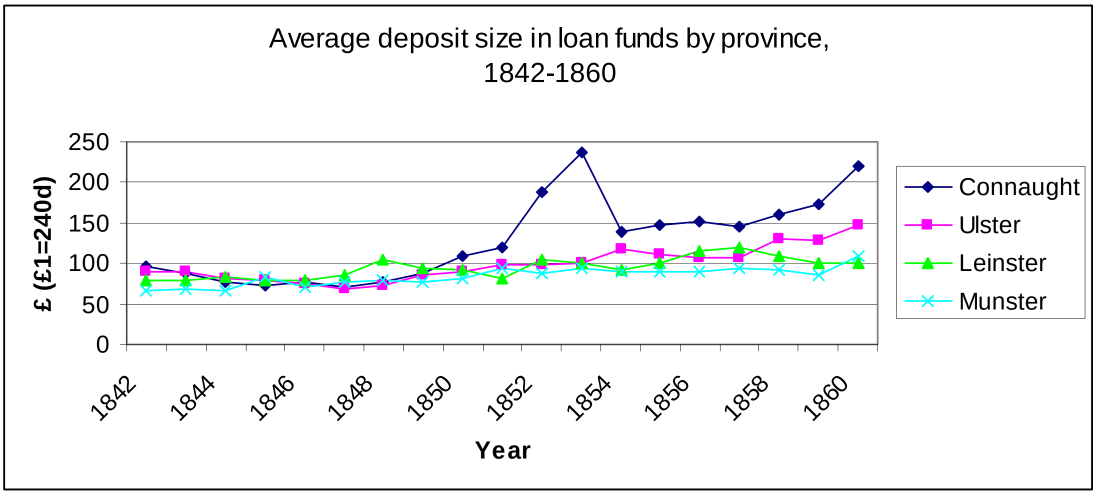
Figure 1.23



Source: Annual reports of the Commissioners of the Loan Fund Board, various years

Figure 1.24 shows the provincial distribution of the average deposit size in loan fund societies. Unlike the previous provincial distribution graphs which showed Connaught as the poorest performer, in figure 1.24 Connaught has the highest average deposit size by the 1860s. All provinces start off quite close to each other in the early 1840s and suffer a drop during the famine period. After the famine the average deposit increases in Connaught, with a spike from 1852 to 1854 which sees the average deposit size increasing to £220. The other provinces see an increase in the average deposit size, but not as great as that seen in Connaught. The average deposit size in Ulster reaches £150 by 1860.

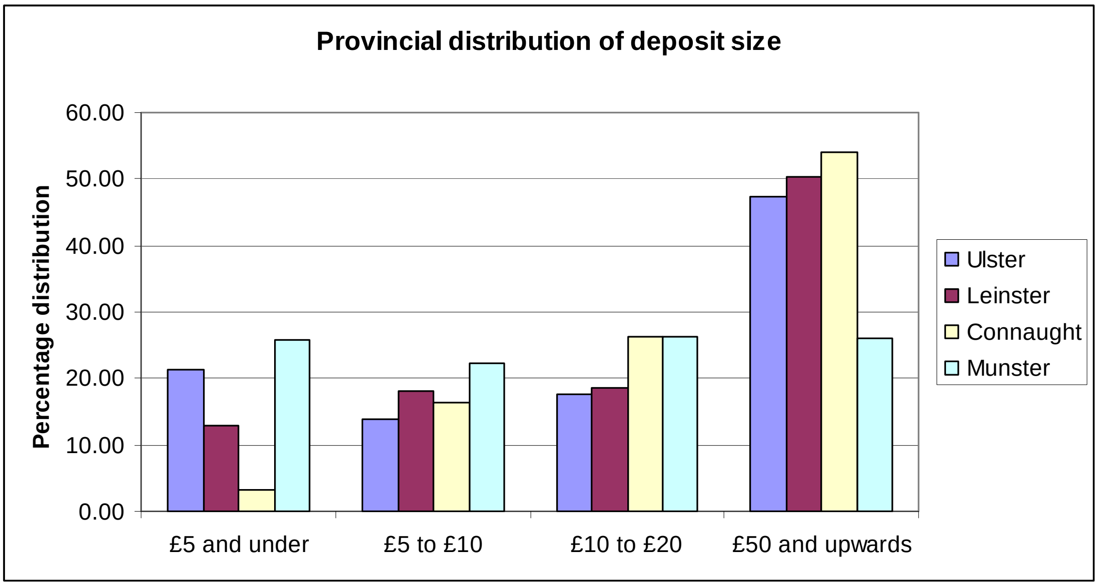
Figure 1.24



Source: Annual reports of the Commissioners of the Loan Fund Board, various years

Figure 1.25 shows the provincial distribution of deposit sizes in loan funds in 1840. It is worth noting how Ulster had a lower percentage of deposits that were £50 and upwards. This piece of information may explain the success of loan funds in Ulster.

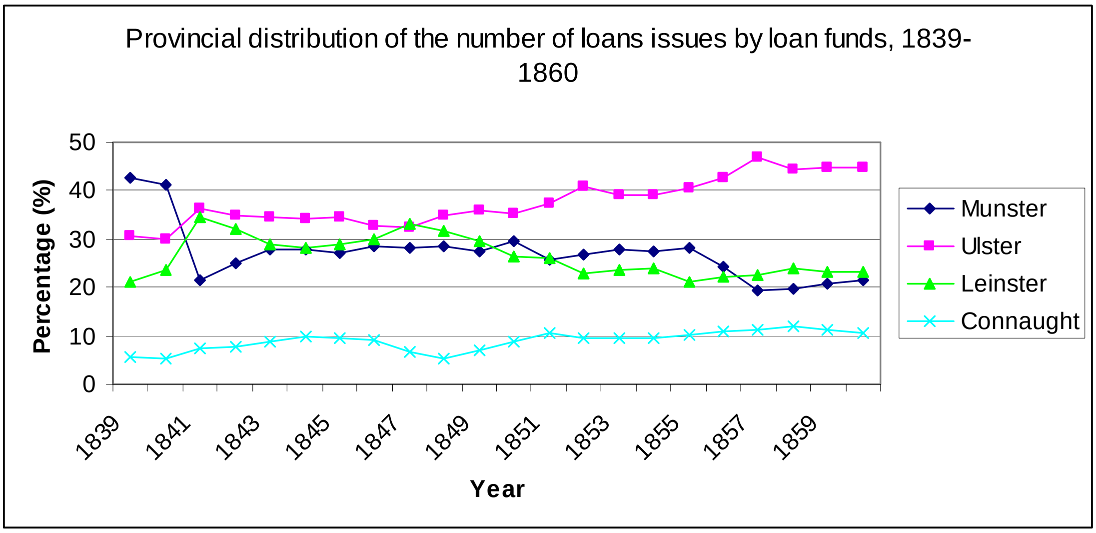
Figure 1.25



source: Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), pp 209-224.

Figure 1.26 shows the provincial distribution of the number of loans issued by loan funds between 1839 and 1860. At the start of the period Munster has the highest percentage of loans issued. This can be accounted for by the fact that Monts-de-Piété, charitable pawnbrokers that issued a large number of small loans, were included in the figures and the Limerick Mont-de-Piété was the first established on the island. When the LFB separated the statistics for the Monts-de-Piété and the loan fund societies, Munster's position changed and its percentage share of loans issued decreased. Ulster gained pre-eminence as the province with the greatest percentage of loans issued by 1848. There is greater divergence between Ulster and the rest of the island after 1847. Again, figure 1.26 shows the low percentage representation of Connaught in the activities of the loan fund societies in Ireland.

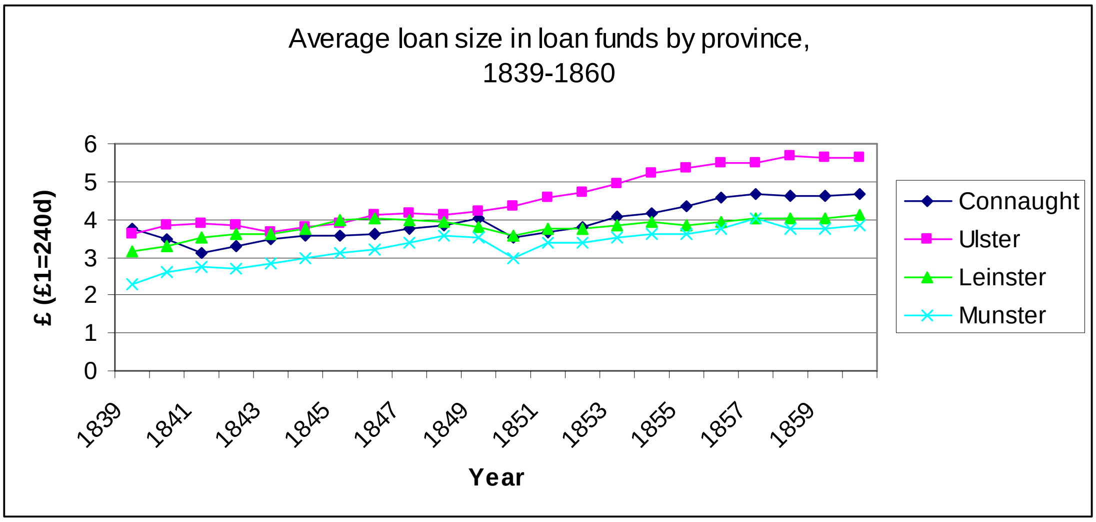
Figure 1.26



Source: Annual reports of the Commissioners of the Loan Fund Board, various years,

Figure 1.27 shows the provincial distribution of the average loan size in loan funds. Unsurprisingly the average loan size in Ulster was consistently the highest in the island, with loans averaging amounts greater than £5 by the mid-1850s. Rather surprisingly, the average loan size in Connaught is the second highest on the island. Loans in Connaught started off at around £3 but increased after the famine, and were just short of £5 by the 1860s. Munster had the lowest average loan size during the whole period, starting off below £3 in the early period of the graph, and from 1850 being between the range of £3 to £4.

Figure 1.27



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 1.27 shows that the average loan sizes gradually increased in all provinces during the time period. Arguably, this is due to the fact that the loan funds in Connaught played the role of banks more so than in the other provinces. The average loan sizes were higher in Connaught than in Munster and Leinster, both having well developed banking systems, and the average deposit sizes were also greater in Connaught. Connaught, the least developed province on the island, was the one which could have had the greatest use for loan fund societies, but not many established there. They had the lowest circulation and capital amongst the provinces and the lowest number of loans issued. The province which perhaps needed it the most did not get it. The LFB system which developed after 1860 was path dependent,[215] with the events of the 1840s shaping its development. It was the 1840s system which persisted during the remainder of the post-famine period, with very few loan funds forming during this period. In fact, there were more exits from the market than entrants in the years after 1860. Connaught was left with a lower loan fund representation and scale of loan fund activity for this period.

1.9 Conclusion: Abuses, defects and limitations

Loan funds were not perfect institutions, and this thesis does not aim to portray them as such. So it is only fair to highlight the negative aspects of their operations, negative

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[215] Path dependence essentially means that history matters in institutional evolution: For example see Douglass C. North, *Institutions, institutional change and economic performance* (Cambridge, 1990), pp 92-104.

aspects which contemporaries were aware of. Allegations were made about abuses and defects in their operations. However, it must be remembered that, as Madden noted in the closing statement of his evidence to the committee on loan funds in 1854, although there were ‘a great many badly managed societies, there are also some very well managed ones, which are productive of great good’.[216]

R. R. Madden’s reports on the state of the loan fund system regarding its abuses and defects were written in the immediate aftermath of the famine and the reduction in the operations of the LFB loan fund system. Madden made a number of observations regarding the limitations of the system and possible corrections. What is interesting was that Madden had solutions to the abuses and defects, and he envisaged corrections to the system. But Madden’s plans were never implemented, and the system remained as it was until the mid twentieth century. Thus the abuses and defects which Madden outlined in the 1850s went unchecked. This is a significant factor in the LFB scandal in the late 1890s, discussed in chapter 2.

Madden highlighted a number of areas where there were evident abuses and defects. Madden asked eight questions of the loan funds, which are paraphrased below:

1. Does the present system guarantee its successful operation?
2. Is management throughout the country successful and satisfactory?
3. Are tendencies to improvidence encouraged by injudicious loan fund accommodation?
4. Is excessive interest charged?
5. Are deposits insecure?
6. Is the system subservient to jobbing purposes.
7. ‘Are the abuses so great as to countervail the advantages of the system?’
8. Should the institution be abolished?[217]

These were philosophical questions regarding the inherent tendencies within the loan fund system itself. A consistent concern for the LFB after the famine was the use of fines by societies. Fining was not standardised and some societies had different

[216] *Select Committee on loan fund societies 1854-55*, paragraph 782, p. 49. (259).
[217] R. R. Madden, ‘Abuses and defects of the Loan Fund System, vol. iii’, c. 1857 (N.L.I, MS 4468, pp 2-4, & p. 7).

methods of fining. Madden noticed that fines had become a stream of income for some societies.[218] Either the borrowers were struggling to repay their loans, or the loan funds were arbitrarily fining borrowers; in either case it is an issue that raises moral concerns about the benefits of such an institution. In a public letter to the Lord Lieutenant, Thomas Hincks, a member of the LFB, complained that the 1843 loan fund act did not address the issue of fines.[219] Hincks attributed the high profits obtained by loan funds to their excessive use of fines, and believed that the acts' attempt to curb interest charges, the reduction from 6d to 4d, would be circumnavigated by the unrestrained fining of borrowers.[220] Hincks went so far as to recommend that fines be made illegal, but this was not done and the issue of fines was prominent in the effective collapse of the loan funds in the 1890s.[221]

It could be argued that fines were needed as a way to enforce loan repayment, but this is in contrast to the experience of mutual (membership was required for borrowers and savers) loan fund societies in England and Wales. It was illegal for the English loan societies to fine borrowers for the late repayments[222] and as such it was not done.[223] By contrast, it appears as though they were more prepared to use the legal system as a means to recover loans.[224] It may be a case that the legal structure influenced the decision-making apparatus of the LFB loan funds. If fines, an inexpensive instrument, were made illegal then the LFB loan funds would have been forced to utilise the legal system more readily as was the case with the English loan societies. This is important as fining was readily used as an income generating instrument by LFB loan funds until the 1890s.

Another problem which arose was that of loan renewals. As a result of inquiries into a number of loan funds R. R. Madden reported that the practice of loan renewals was frequently used.[225] Loans were being renewed without the previous loan being repaid, and then the old loan was repaid, with a discount, from the renewal. This

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[218]Ibid, p. 16

[219] Thomas Hincks, *Letter to his Excellency Thomas Philip Earl de Grey, Lord Lieutenant-General and General Governor of Ireland* (Ballycastle, 1844).

[220] Thomas Hincks, *Letter to his Excellency Thomas Philip Earl de Grey*, *Lord Lieutenant-General and General Governor of Ireland* (Ballycastle, 1844), pp 1-2.

[221] Ibid, p. 5; the loan funds in the 1890s are addressed in chapter 2.

[222] An Act to amend the Laws relating to Loan Societies (3 & 4 Vict.), c. 110, section 23.

[223] *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, question 618, p. 37, H.C. 1854-55, (259), vii, 321.

[224]Ibid, pp 34-35, H.C. 1854-55.

[225] R. R. Madden, 'Origin of the Loan Fund system in Ireland, vol iii', c. 1857 (N.L.I, MS 4468, pp 8-14).

raises the question of whether the borrowers were maximising the returns from their investments.

There was a lack of security for depositors. Although officers of a society gave security in the form of a bond, such security was effectively without value. This was because it was impossible to prove the liability of these officers in the case of a loan fund being wound up, unless you could prove they were guilty of neglect. Also, as stated in the legislation, officers and trustees of a loan fund were not liable for the security of depositors and debenture holders unless they stated in writing that they were. There was a danger of embezzlement on the part of clerks. The danger of embezzlement was that it weakened the entire system. Madden stated that 'the society [was] intentionally ruined by this embezzlement and defalcations of the institution itself deprived of all confidence in the minds of the people far lower'.[226] The exact number of frauds that took place within the loan fund system is unknown, but according to a parliamentary enquiry in 1896 there were 250 societies dissolved 'in many cases owing to defalcations by officials'.[227] As most of these reported dissolutions took place in the formative years of the LFB's existence, the period covered in this chapter, this may be evidence to suggest that fraud was commonplace.

The threat to savings from mismanagement was apparent to Madden. Numerous classes saved with the loan funds, not just large debenture holders. Madden stated that the reason they saved was because of the 'supposed connexion of the government with their institution, arising from the controlling power given to the L. F. Board'.[228] Small depositors saved in the loan funds because they had confidence in the institution. Madden stated that 'they confide in them moreover and perhaps chiefly on account of the connexion with them on trustees & treasurer of gentlemen of fortune and high station, of clergymen'.[229] This confidence was eroded by the actions of inadequately monitored clerks.

There were problems with the loan fund surpluses. There were misappropriations taking place, and also loan fund surpluses were spent on charitable objects when in fact there was no apparent profit. Madden stated that loan fund

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[226] Ibid, p.26.
[227] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 &7, vic. Cap 91.* , paragraph 169, p. 25. [C.8381], H.C. 1897, xxiii, 383.
[228] R. R. Madden, 'Abuses and defects of the Loan Fund System, vol. iii', c. 1857 (N.L.I, MS 4468, p. 27).
[229] Ibid, p.28.

surpluses, used to fund works on a landlords estate 'but [were] of no service to the industrious poor from whose hard earnings the large sums thus expended were obtained'.[230] There were cases of loan fund societies building schools or buildings in the pretence of them being charitable spending, but when the society was wound up, it transpired that there was no security for depositors and debenture holders.[231]

Another problem regarding this was that the societies were being run in order to finance the charitable spending, without any regard for the borrowers, from whom the revenue was derived. Madden stated that:

> The Board fear very much that where transactions of this nature are embarked in, that the primary object of the loan fund is altogether lost sight of, and the institution becomes fully banks of discount for the purpose of realising profits to build with, under the charitable loan funds granting loans to the industrious classes at a reasonable rate of interest.[232]

This was a problem with institutions that have conflicting constitutions. For example, the Parisian Mont-de-Piété was structured as a lending institution to provide low interest loans to the 'poor' and its profits were supposed to fund the *Hôpital General*.[233] The problem with this structural arrangement was that in order to maximise profits to fund the *Hôpital*, the Mont-de-Piété had to charge (subjectively) high interest rates.[234] The goal of funding social relief works conflicted with the goal of providing low interest loans. The same conflict would have been the case in Ireland.

There were also allegations of sectarianism levelled against the loan funds. A controversial incident was relayed by Madden regarding the Castletown Devlin loan fund. It links in with the preceding passage, as the society failed but the managers of the society had decided to use profits to build a school. When the society failed the school was unable to be sold and debenture holders lost their investments. Where this case is interesting is that 'the great majority'[235] of debenture holders were Roman Catholic, whereas the school was built for the use of the established church.[236] When the society was liquidated the school was not sold to repay debentures because the

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[230] Ibid, p. 41.
[231] These are the allegations raised in the 1855 loan fund committee; see discussion below.
[232] R. R. Madden, 'Abuses and defects of the Loan Fund System, vol. iii,' c. 1857 (N.L.I, MS 4468, p. 44).
[233] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), p. 2.
[234] Ibid, p. 130.
[235] *Select Committee on loan fund societies 1854-55*, paragraph 775, p.49..
[236] Ibid, paragraph 773, p. 48.

school was useless. It was built on glebe land belonging to the church and was overpriced.

> That school is not in connexion with the National Board? – The school does not exist, and no use is made of the house now, and I could not dispose of it when I was down there regulating the affairs of the society, because it was built on glebe land.
> The proceeds of that might otherwise have gone to liquidate the debt and pay a larger per-centage in the pound to the debenture holders, is now entirely lost? – It benefits the glebe, and it is lost to the depositors.
> The house having been built upon the glebe land? – Yes; between 200*l.* and 300*l.* has been expended.
> In other cases where buildings have been erected, you have disposed of them, have you not? – In many cases the treasurers did not take the precaution of getting proper leases, and the depositors were deprived of the advantage of the buildings; they could not be sold.
> Did you ever make an application to the rector at Castletown Delvin, in reference to the building? – No, we laid the papers before out lawyer, with a view to taking proceedings for the recovery; but he was of opinion that we could take no proceedings against the parties, inasmuch as there was no lease obtained for the ground.[237]

Madden believed that changes in legislation could have rectified a number of problems.

Another problem which arose in the evidence of the Rev. Irwin was that landlords established loan funds for the purpose of loaning tenants money to pay their rent. It appears that this was a practice that some RLFs were also guilty of. In some cases the rent office and the loan fund office were indistinguishable. Coincidently, this was also a feature of many contemporary savings banks.[238] There was a charge brought against the Portadown loan fund in 1847 that 'it was the rent office of the Tanderagee estate, the Duke of Manchester's estate.'[239] This was a serious charge to raise and when Rev. Irwin was asked if he had any evidence or if that was just his opinion on the matter he stated that:

> To say that I am of that opinion from facts within my own knowledge would be saying too much; I know the individual who urged the charge, and pursued it an investigation, and a very shrewd and clever man he is, and I should be disposed to rely a good deal upon results traced out by him; the charge was tried before Mr. Piesse, and it did not satisfy me that the loan fund was morally acquitted, though I believe it was technically so.[240]

[237] Ibid, paragraphs 776-780, p. 49.
[238] This was also the case with savings banks: *Return from each Savings Bank in United Kingdom, of House or Building in which Business is transacted; Names of each Trustee and Manager; Number of Days on which Bank was open, November 1850-51*, H.C. 1852, (521), xxviii, 757.
[239] *Select Committee on loan fund societies 1854-55*, paragraph 949, p. 61.
[240] Ibid, paragraph 950, pp 61-62.

Similar issues arose with the RLFs. F. R. Bertolacci, who was a secretary to the RLF and a Treasury official,[241] was sent to Ireland to investigate the operations of RLFs and he found a similar scenario at play. Bertolacci stated that:

> I found a system to exist of this kind: the loans were issued at the rent roll-office; if a man could not pay his rent his answer was, "Take a loan;" he would take a loan; that loan would at once go the credit of the rent; be would pay interest upon it; and he would become saddled, not only with the rent but with an additional debt for interest, and he would pay it back by instalments; so that in point of fact the reproductive loan system did not operate in many cases to the benefit of the individual for that reason.[242]

This evidence does not paint the loan funds in good light. In this case it suited the landlord to have a loan fund on his land and encourage tenants to use it to pay rents as it would ensure that rents were paid and that, provided the tenant could repay the loan, profits could be used to finance building on the land under the pretence of charitable spending. Perhaps if the tenant defaulted on the loan, it would be easier to recover this sum than if a tenant defaulted on rent payments.

Arguably, the biggest issue in relation to the loan funds was that the loan term and repayment schedule were unsuitable to a rural environment and in particular to agricultural production. Viscount Clements stated in 1843 that the loan repayment schedule was having negative affects on the Irish butter trade.[243] Viscount Clements claimed to have received a number of petitions. He read out the following letter he claimed to have received from a gentleman in Ballyconnell:

> The injury occasioned to the butter trade by the loan funds is, that the farmers, to pay up their weekly instalments, are obliged to send their butter to market in small quantities of two and three pounds to meet their weekly payments, little attention is paid by the females in making these small quantities. The markets are glutted with small quantities, and a new trade has sprung up, that called 'packers,' who buy up small quantities met with, and melt all together, colour it with some dye, and put it into tubs, sending it to Dublin, Newry, and elsewhere. Butter made in this way keeps good, I understand, a very short time, and in a foreign market is despised, lessens the value, and lowers the name of Irish butter.[244]

The reputation of Irish butter was perceived to be undermined by this process. This was a serious issue as loan funds were one of the few institutionalised sources of credit available in rural Ireland in the early nineteenth century. The repayment schedule in loan funds was inherently unsuitable to agricultural production. A 20-week loan with a weekly repayment schedule is more suitable to an urban

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241 *Select Committee on loan fund societies 1854-55*, paragraph 661, p. 40.
242 Ibid, paragraph 719, p.44.
243 *Hansard 3*, lxxi, (14 August 1843), p. 640.
244 Ibid, p. 640.

environment where the borrower is a wage earner and may repay the loan from his or her weekly wage. Crucially, a farmer does not receive weekly wages but instead receives his income at different periods during the year. Perhaps the loan funds could have been more beneficial if they offered repayment schemes that were more accommodating to rural life. The fact that microfinance may be mismatched and unsuited to agriculture is not an issue confined to nineteenth century Ireland, but one which modern-day microfinance needs to address.[245]

Mokyr made a brief reference to the loan funds in a discussion on lending to peasants. Mokyr placed the loan funds in the same discussion as meal mongers/Gombeen men. This is interesting as the loan fund literature, in particular Piesse, declared that the loan funds would help people by saving them from going to the meal monger for credit.[246] Mokyr cited the following conclusion from the Devon Commission when summarising the loan funds: "As loan funds are usually constituted, the highest praise which can truth be allowed to them is, that they are less ruinous than private usurers."[247]

To summarise, this chapter covered approximately a century of loan fund activity in Ireland. In this period loan funds underwent a series of institutional transformations. They changed from being solely charitable institutions into hybrid institutions with both commercial and charitable concerns. The change in institutional structure coincided with changes in the geographic distribution of loan fund activity. The earlier societies had been centred in Dublin and in some cases operated in surrounding areas in Leinster. The loan funds gradually dispersed in the early nineteenth century and by the early 1840s loan funds, including RLFs, were dispersed throughout the island. This spread was permitted by benevolent legislation enacted to encourage their spread. The loan funds were able to function in credit markets as they were able to address lower tier agency problems because of the greater local knowledge that the members[248] of the society possessed.

The RLFs ceased operating in 1848, and the only remaining loan funds were those registered with the LFB and loan funds registered under different acts of

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[245] Malcolm Harper, 'Microfinance and farmers: Do they fit?' in Thomas Dichter and Malcolm Harper (eds), *What's wrong with microfinance?* (Warwickshire, 2007), pp 83-94.
[246] Charles Piesse, *Sketch of loan fund system in Ireland* (Dublin, 1841), pp 26-27.
[247] Joel Mokyr, *Why Ireland starved: a quantitative and analytical history of the Irish economy, 1800-1850* (2nd ed., London, 1985), p. 186.
[248] It must be emphasised that membership was not a criterion for borrowers. So there is a limit to the information they possessed.

parliament, discussed in chapter 5. The RLFs are interesting in relation to modern microfinance, as the capital that these loan funds used was raised outside of Ireland. This capital was raised within the United Kingdom but also from regions further afield, notably from Calcutta, Madras, and Bombay.[249] According to Viscount Clement, of the £44,177 raised, £29,915 came from these regions.[250] There is support for this statement, but not the figures, from the report of the LRC which stated that money was raised in India and that 'natives of every rank and degree' contributed.[251] An historical irony shows that East to West charitable transfers that funded microfinance projects predates West to East capital charitable transfers used for a similar purpose. But perhaps this reliance on external sources of capital may have been responsible for the shortage of monitoring which occurred in the RLFs, and may be a contributory factor in their failure.

By 1860 the loan fund system had been consolidated and was a single system operating in rural Ireland, regulated and supervised by the central LFB based in Dublin.[252] There were evident defects in the LFB loan fund system. The LFB was a cumbersome body. It was comprised of 30 unpaid members, the majority of whom were apathetic towards the routine activities of the board, and only 3 members were required for a quorum. Therefore, it comes as no surprise that attendance at board meetings was frequently low.[253] It was inadequate for the purpose of regulating the loan fund system as it was to be underfinanced and had inadequate powers, powers which the LFB had hoped to augment with legislation in the 1850s. Internal and external monitoring arrangements in the LFB system, which had proved inadequate, were not reformed and hence there was no improvement in the system. The LFB loan fund system faced the remaining years of the nineteenth century as an unreformed body. This body had shown inadequacies in the early nineteenth century and these inadequacies went unchecked for the remainder of the nineteenth century. The problem for the LFB loan fund societies in the remaining years of the nineteenth century was that they were static institutions operating in a dynamic economic and financial environment. The following chapters will analyse how the changing

[249] *Hansard* 3, lxxi, (14 August 1843), p. 640 (4*).
[250] Ibid, p. 640 (4*).
[251] *Report of the committee for the relief of the distressed districts 1823*, p. 30.
[252] Friendly society loan funds, mutual loan funds, were beyond the remit of the LFB. These were answerable to the Registrar of friendly societies. These are discussed in a subsequent chapter.
[253] Annual reports of the commissioners of the loan fund board, various years. The annual reports gave details of board meetings, and they show a low attendance.

economic and financial environment affected the loan funds, heretofore the dominant supplier of microfinance.

2 Loan fund activity 1860-1914: debt peonage and regulatory capture

2.1 Introduction

Loan funds associated with the Loan Fund Board (LFB) were a feature of local economies in Ireland from 1860 until the 1890s. This chapter will outline the main developments in the LFB system from 1860 until 1914.

In the pre-famine period loan funds associated with the LFB were the dominant suppliers of microcredit to the Irish agricultural sector, and were competitive in markets for microsavings. This dominance in microcredit, and competitiveness in microsavings, was not continued after the famine. The decline of the LFB system was caused by a number of factors both endogenous and exogenous to the LFB system. The exogenous factors contributing to the decline of the LFB loan funds included the growth in joint stock banking, the establishment of government-backed savings banks, and the creation of government lending schemes that provided both short- and long-term credit. Other factors that influenced the LFB system were the permanent establishment of state-administered poor relief, persistent trends in emigration, and the establishment of rival microfinance institutions. Many of these factors are discussed and elaborated elsewhere in this thesis.

This chapter will outline trends in loan fund development from 1860 to 1918. Firstly, this chapter will explore a number of variables related to LFB loan fund activity. The primary focus will be on the number of loan funds, trends in the composition of loan fund capital, and the amount and number of loans made by loan funds. This chapter will show that the LFB system was in decline but experienced a 'bubble' in the late 1880s and early 1890s. The objective of the chapter is to illustrate how this 'bubble' influenced developments in the LFB system. When this 'bubble' burst it precipitated an irreversible decline and caused a loss of confidence in the LFB system.

This chapter will focus on intrinsic factors that contributed to the decline of the loan funds. The chapter will argue that institutional stagnation was a contributory factor in the decline of loan fund dominance in markets for microfinance. The LFB system was regulated by the 1843 loan fund act throughout its subsequent existence.[1]

[1] The Loan Fund Board was dissolved in 1914, but the remaining societies continued to operate under the £10 loan ceiling up until the 1970s.

The lack of any large scale reform of the legislation governing the LFB system meant that reforms to individual loan funds did not take place - reforms which arguably would have enabled loan funds to become more competitive in the post-famine era. This chapter will argue that such institutional stagnation created a niche banking institution located in an ever shrinking niche. The chapter will also argue that the decline, and paradoxically the continued existence, of loan funds in the post-famine period was caused by both regulatory failure and regulatory capture, which in turn was a product of the lack of institutional reform. It will be argued that the existence of regulatory capture in the LFB system led to a form of debt peonage in Irish society. It will also be argued that the lack of reform led loan funds to adopt practices which undermined their comparative advantages in information creation. The arguments presented in this chapter run contrary to those posited by Hollis and Sweetman who believed that the cause of loan fund decline was due to poverty in Ireland being a transitory condition.[2]

2.2.1 Loan funds 1860-1915

During the period 1860-80 and 1895-1914 the LFB published reports annually which included annual accounts of individual loan fund societies. From 1880 to 1894 these reports were unpublished. It is unclear why publication of LFB reports resumed in 1895, but it seems likely that it was a result of political interest in the loan fund system from 1896 onwards.[3] In fact, the LFB report for the year 1895 that was published in 1896 was a 'copy of the original report'.[4] The operations of the LFB were transferred to the Department of Agriculture and Technical Instruction (DATI) in 1914 by an order of council of the Lord Lieutenant of Ireland.[5] The LFB was dissolved and the annual returns of the individual loan funds registered under the loan fund acts were subsequently published in the annual reports of the DATI. References

[2] Aidan Hollis and Arthur Sweetman, 'Complementarity, competition and institutional development: The Irish loan funds through three centuries', unpublished, 1997; and Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 309.
[3] This is discussed in section 2.4.
[4] *Copy of the fifty-eight report of the Loan Fund Board of Ireland*, H.C. 1896 (243), xxiv, 363.
[5] *Seventy-eight annual report of the Loan Fund Board of Ireland for 1915*, p. 3. [Cd. 8385] H.C. 1916, xii, 539.

were made to loan funds in the DATI and the succeeding Department of Agriculture annual reports until 1975.[6]

As was stated in the introduction to this section, there is a problem caused by missing data in the period 1880 to 1894 owing the fact that LFB reports were not published for these years. This has been somewhat overcome by using data published in *Thom's Directory* as a substitute. Unfortunately, there are limitations to the use of the statistics published in *Thom's* as they are aggregate county level statistics and only give information on the basic elements on loan fund activity such as the number of loan funds, the capital, the loan circulation and the number of loans issued.[7] The statistics from *Thom's Directory* lack the depth of information contained in the published LFB reports. By using a combination of LFB reports and *Thom's Directory* statistics it is possible to give an annual overview of loan fund activity from 1860 to 1914; this will be shown in the following graphs. The statistics for the most part seem reliable, but there were accusations raised in both the 1855 and 1897 reports as to the authenticity of returns made by a number of societies.[8] It must be remembered that these statistics were not collected by professional accountants or professional statisticians, but by amateurs who in some cases were volunteers. Perhaps an over-reliance on these statistics will lead to conclusions that are not supported by events.[9] There may also have been an attempt to deceive people as to what the true nature of loan fund activities actually were. Caution must be advised against over-reliance on them as source material.[10]

Another problem with the loan fund statistics is the fact that they are annual statistics, and as such they do not give an indication as to the time of year during which loans were issued. Given the agricultural bias of loan fund activities, this is a

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[6]The last reference to the loan fund societies in the Republic of Ireland is in the *Annual report of the Minister for Agriculture and Fisheries 1975,* A.1/55, prl 5514, p.126.

[7] Over the whole existence of the loan funds, these are the only variables which were consistently reported.

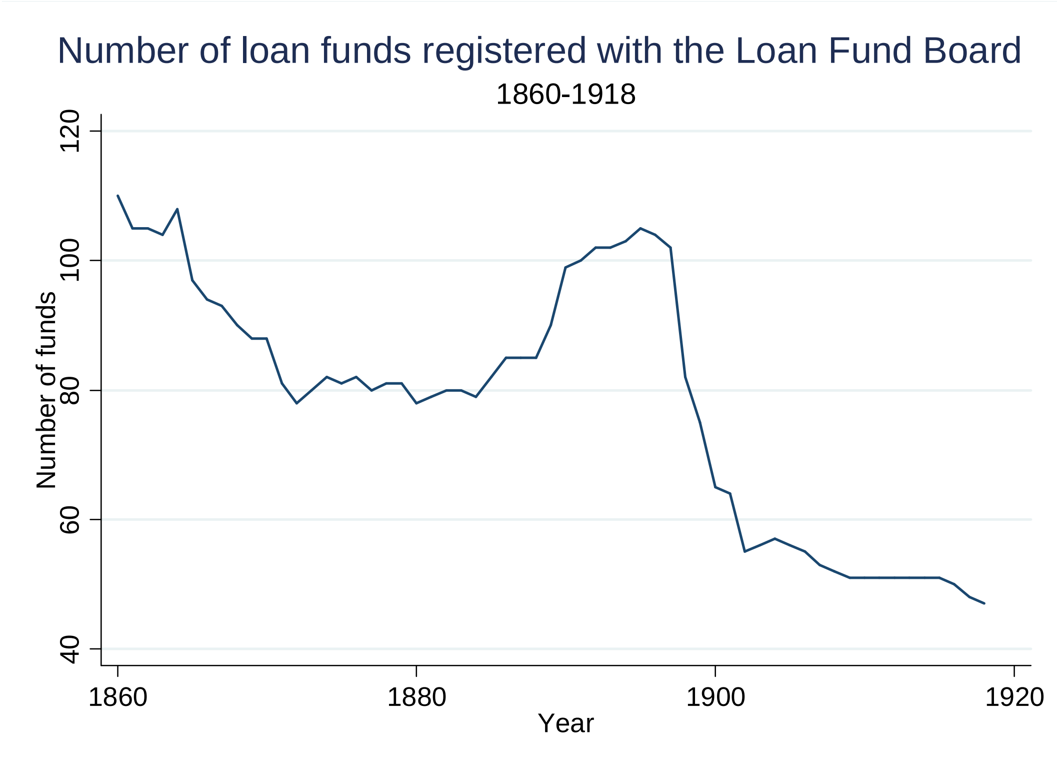
[8] The 1897 report questioned the authenticity of the reported returns of all societies.

[9] A criticism of Hollis and Sweetman is that they were over-reliant on these statistics and as such they were uncritical of them and did not question their authenticity. But as Patrick Honohan noted, perhaps the loan funds were just better at keeping and publishing statistics due to the existence of the LFB. See Patrick Honohan, 'To what extent has finance been a driver of Ireland's economic success?' in *Quarterly Economic Commentary* (Winter, 2006), pp 59-72.

[10] The importance of reliable statistics was observed by *The Economist*: 'The importance of statistics: lies, damned lies' in *The Economist* (3 March, 2007), p. 13.

serious flaw in the evidence on loan fund activity as it clouds the impact of seasonal demands for credit.[11]

Figure 2.1



Note: the LFB ceased to exist from 1915, but loan funds that were registered with it were transferred to the DATI.
Sources: Loan Fund Board reports and *Thom's Directory*, various years.

Figure 2.1 illustrates the number of loan fund societies that were registered with the LFB from 1860 to 1918. It has been constructed in order to give some context to the following discourse. Not all of the loan funds registered with the LFB ceased to function after the famine, due to the fact that there was no interdependence between loan funds. Each fund operated in isolation from each other, and given the number of frauds and defalcations that occurred in the famine period this unit independence ensured that loan funds could exist independently of others.[12] This fact was observed by Hollis and Sweetman.[13] Such independence was important because it enabled funds to continue operating even as other loan funds were being wound up, but independence did not equate with immunity to any contagion arising from the

[11] Section 2.2 contains information on seasonal trends from one of the few account books that has been found to date.
[12] This was referred to in chapter 1 section 1.4.
[13] Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), p. 1521.

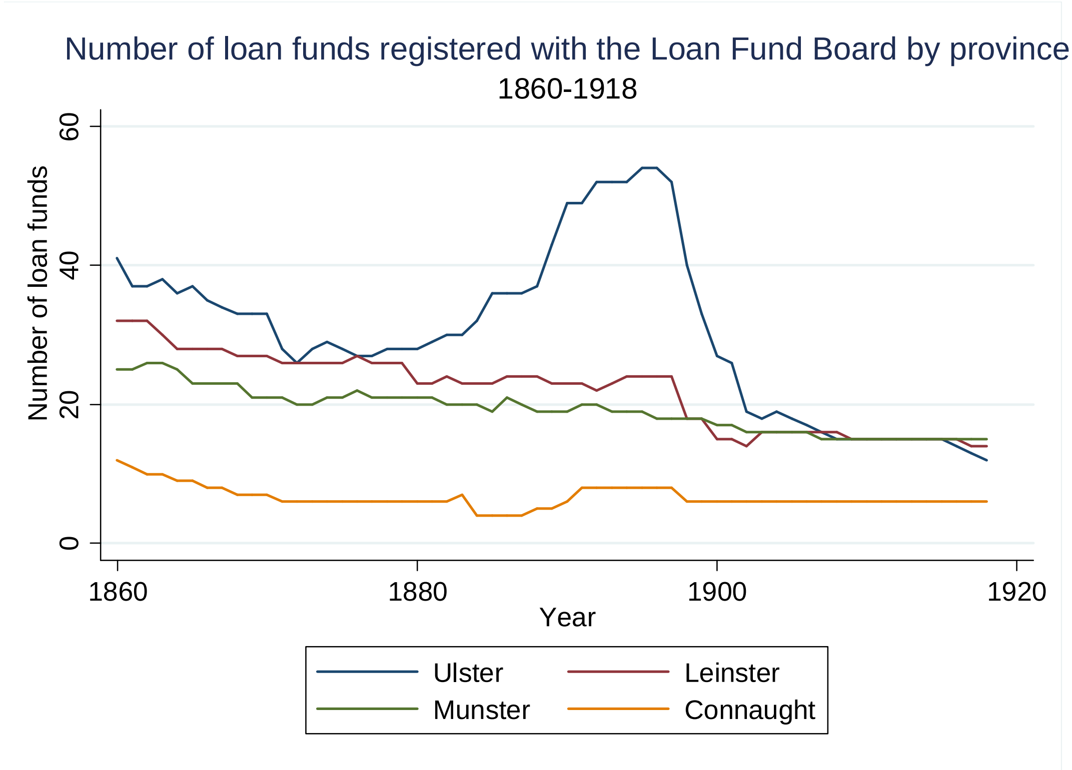
negative effects of loan fund frauds further afield. As can be seen from figure 2.1, the number of loan funds did not return to the level of the pre-famine peak of 300.[14] By 1860 there were 110 loan funds in operation throughout the country. Although the number of loan funds continued to decline over the entire period 1860-1914, the level of loan funds remained consistent from the late 1860s through to the early 1880s. The lowest troughs in figure 2.1 in the period 1860 to 1880 came in 1872 and 1880 when the number of loan funds fell to 78. Although the falling number of loan funds in the post-famine period might not compare favourably to pre-famine peak, it must be placed in the context of demographic changes that would have influenced both supply and demand for credit and the restructuring of the Irish economy. Given both factors, it is quite likely that such a large number of loan funds were no longer required. Also, from analysing figure 2.1 one feature is immediately noticeable: the growth in the number of loan funds from 1884 until it reached a new peak in 1895. This peak was subsequently followed by a rapid decline in the number of registered loan funds. By 1912 there were 51 registered loan fund societies, with 27 being in the hands of receivers.[15] It will be argued that this growth in the number of loan funds from 1880 to 1895 constituted a 'bubble', and this concept of a loan fund 'bubble' will be elaborated in the following sub-sections.

The number of loan funds in each province is shown in figure 2.2. As can be seen, there was a trend towards loan fund decline in all provinces, but from 1885 there was growth in the number of loan funds and this growth came mainly in Ulster. As can be seen, Connaught, in many senses the poorest province, had the lowest proportion of registered loan funds. Why the poorest province had the lowest proportion of loan funds is a question which Hollis and Sweetman did not address.

[14] As was outlined in chapter 1, the 1843 loan fund act and the famine pruned the loan fund system.

[15] *Report of the Departmental Committee on Agricultural Credit in Ireland*, loan fund recommendations, (b) p.117. [Cd. 7375] H.C. 1914, xiii, 1.

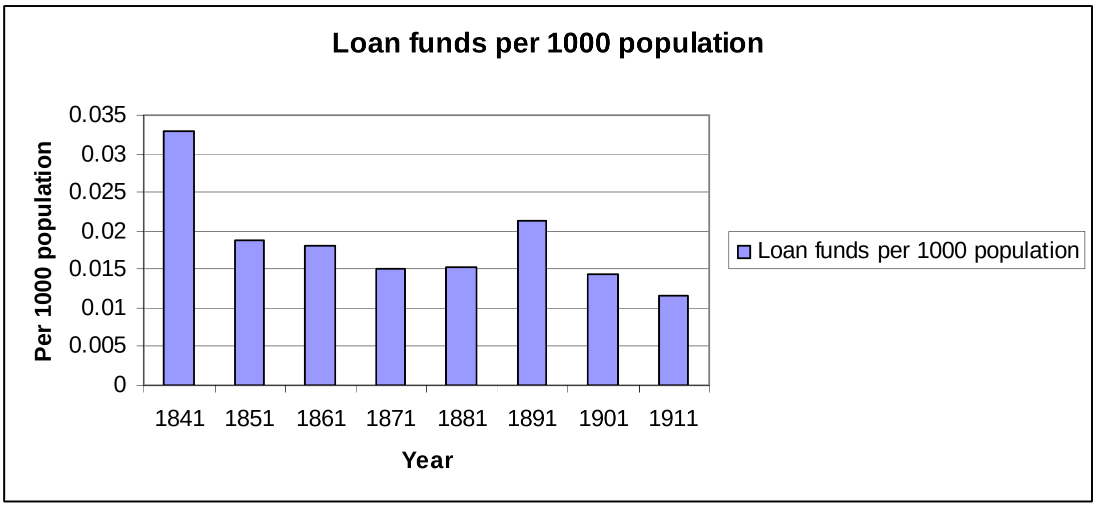
Figure 2.2



Note: the LFB ceased to exist from 1915, but loan funds that were registered with it were transferred to the DATI.
Sources: Loan Fund Board reports and *Thom's Directory*, various years.

In order to gauge the distribution of loan funds, it is useful to analyse the distribution of loan funds per thousand population which is shown figure 2.3.

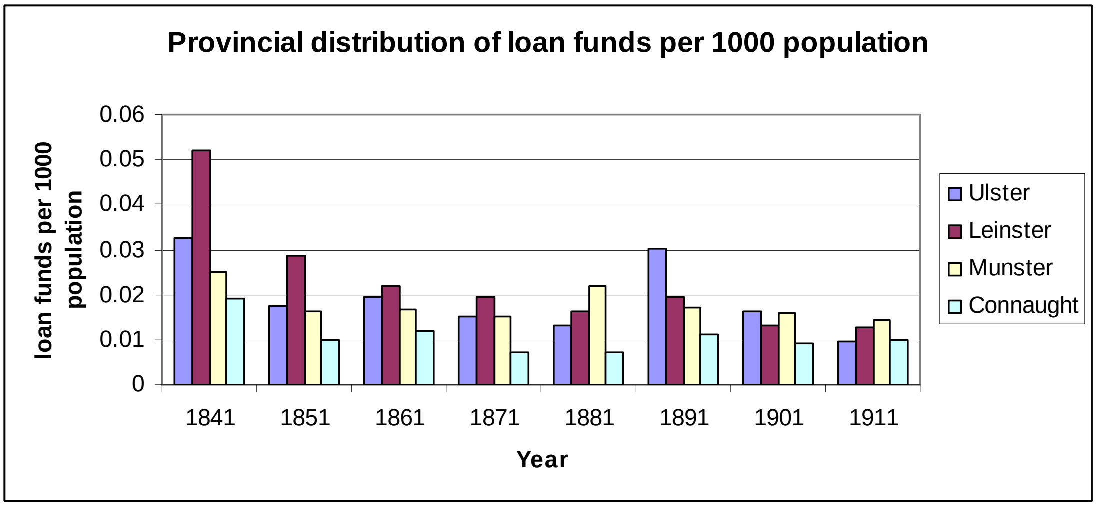
Figure 2.3



Sources: Loan Fund Board reports, *Thom's Directory* and Census of Ireland.

From figure 2.3 it can be seen that there was a decline in the number of loan funds per 1,000 population, with the largest decline coming in the period 1841 to 1851, but interestingly there was an increase in the number of loan funds per 1000 population in 1891. Figure 2.4 shows the per capita distribution of loan funds by province.

Figure 2.4



Sources: Loan Fund Board reports, *Thom's Directory* and Census of Ireland.

In figure 2.4 it can also be seen that the number of loan funds per 1,000 population decreased over the course of the nineteenth century, but with different patterns for each province. In 1841 Leinster had the highest number of loan funds per 1,000 population, but this declined over the period 1851 to 1911. The number of loan funds per 1,000 population increased in Ulster, Leinster and Connaught in 1891. These increases came as a result of growth in the number of loan funds coupled with declines in population.

The decline in the number of loan funds in the post-famine period until the early 1880s was acknowledged by the LFB. In 1874 the LFB stated that the decrease in the number of loan funds was caused by an:

> …alteration for the better in the circumstances of that portion of industrious agricultural poor of Ireland which constituted the borrower class of Loan Funds; but largely it must be ascribed to the practice which has been adopted by the Branch Banks throughout the country to a large extent issuing loans so low as £10, and even £5, to borrowers of that class of small farmers and dealers on a small scale, who could only heretofore get loans of such small amounts from Loan Funds.[16]

[16] *Thirty sixth annual report of the commissioners of the Loan Fund Board of Ireland*, p. 7. [C.953], H.C. 1874, xv, 231.

This assertion was continually made in many of the annual reports of the LFB,[17] and the allegation dates back to the 1855 committee where R. R. Madden also made a similar statement.[18] The LFB believed that the joint stock banks branch expansion was infringing on the traditional market of the loan fund societies. There is truth to this assertion as many of the banks undertook an expansion of their branch networks after the famine.[19] In fact, if we analyse the early nineteenth century, the loan funds may have prospered because there was little effective competition from the joint stock banks. There were not many private banks operating in the countryside, and many of the joint stock banks formed in the 1820s and 1830s with slow initial branch expansion. There is also truth in the fact that the traditional market of the loan funds had declined in the post-famine period and, due to legislative restrictions, loan funds were unable to compete in mainstream credit markets. The joint stock banks did not face legislative restrictions of loan sizes or area restrictions.

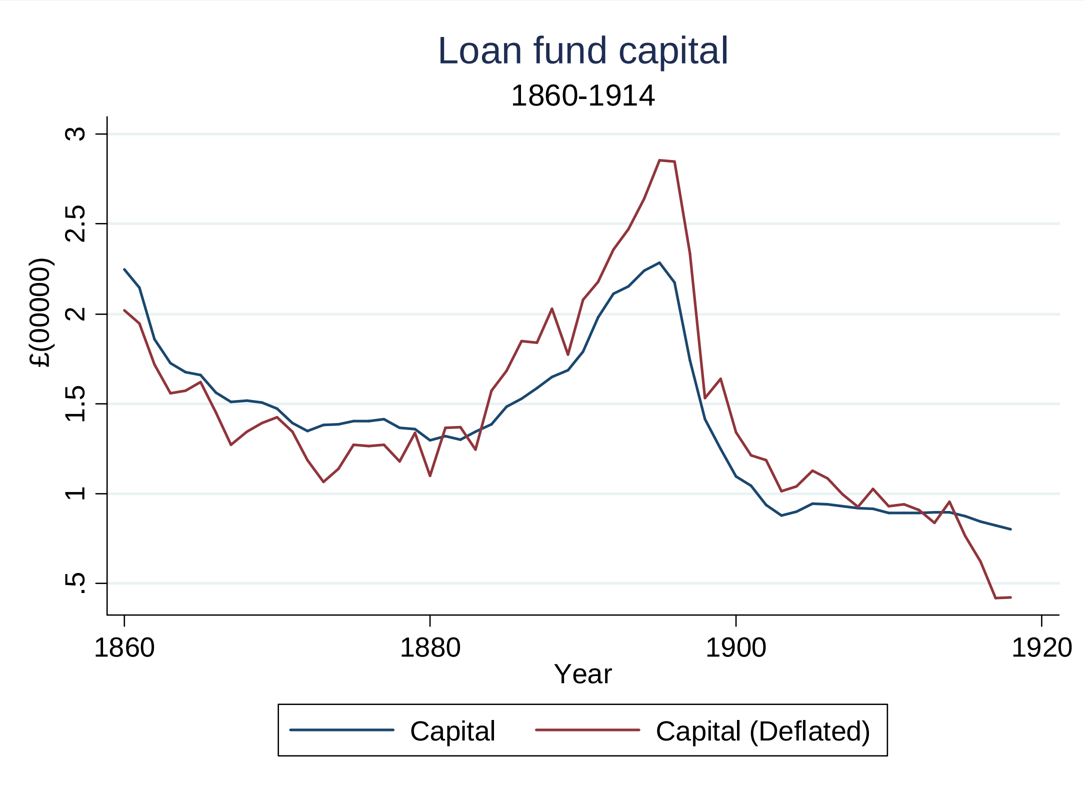
The view that the joint stock banks threatened the loan funds was acknowledged by Hollis and Sweetman, but they believed that the loan funds created information about lending in rural Ireland and that this was captured by the joint stock banks enabling them to enter the market.[20] In chapter three we will assess this argument.

2.2.2 Loan fund capital

Many of the following graphs of loan fund activity are shown in both national and provincial aggregate form to give a better understanding of loan fund activity. Firstly, figure 2.5 shows the amount of capital that loan funds had at their disposal.

[17] The written reports of LFB from 1870 to 1880 were very mundane and followed an established template, in some cases not differing at all from the previous year.
[18] Cited in chapter 1.
[19] This is shown in chapter 3.
[20] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 309.

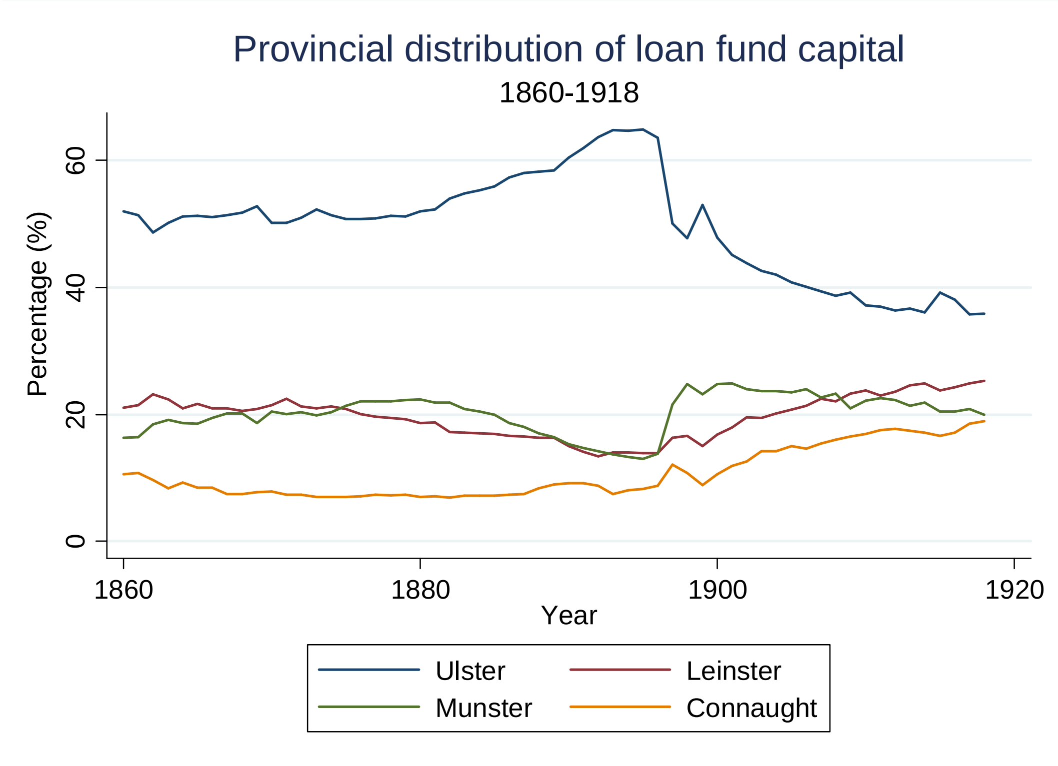
Figure 2.5



Sources: Annual reports of the loan fund board and *Thom's Directory*, and
Deflator used was the rural weights from Liam Kennedy, 'The cost of living in Ireland, 1698-1998' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 249 - 276. (Hereafter, Kennedy, 2003).

As can be seen from figure 2.5 there was a decline in the amount of real and nominal capital held from 1860 to 1880, but then there was an increase in real and nominal capital from 1884 to 1895 when it reached a peak. The provincial distribution of nominal capital, displayed in figure 2.6, illustrates that the loan funds in Ulster held a larger share of capital and also that the 'boom' in capital came mainly in Ulster.

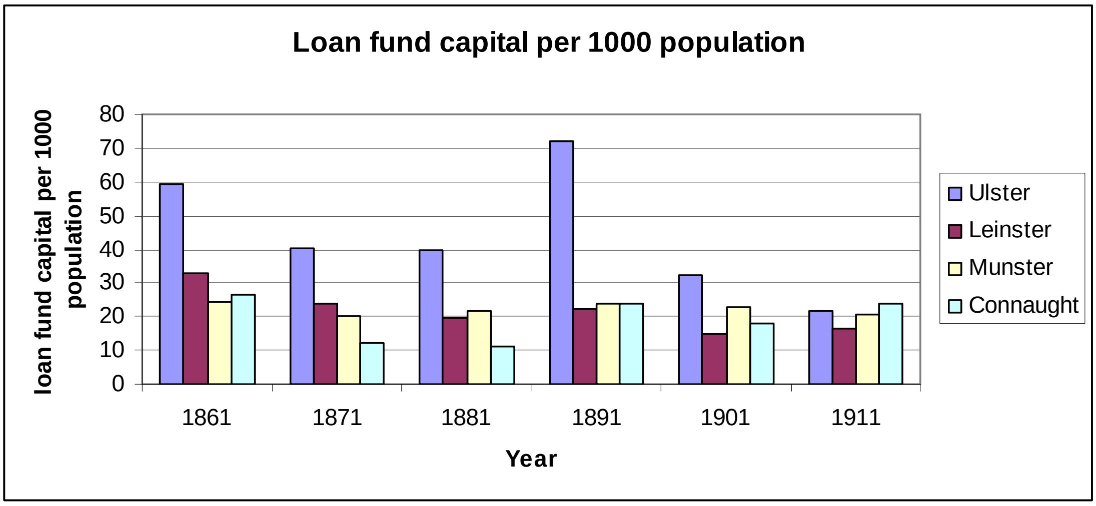
Figure 2.6



Sources: Annual reports of the Loan Fund Board and *Thom's Directory*.

To account for differences in population, the amount of capital per 1,000 population is shown in figure 2.7. The provincial distribution of loan fund capital per 1,000 population, shown in figure 2.7, indicates that the largest amount of capital relative to population was in Ulster. There was a decrease in the amount of capital per 1,000 population from 1861 to 1881 across all provinces. This is significant as both population and capital were decreasing over time. In 1891 there was an increase in the amount of capital per person in all provinces. The increase was more pronounced in Ulster and Connaught. Thereafter the amount of capital per person decreased.

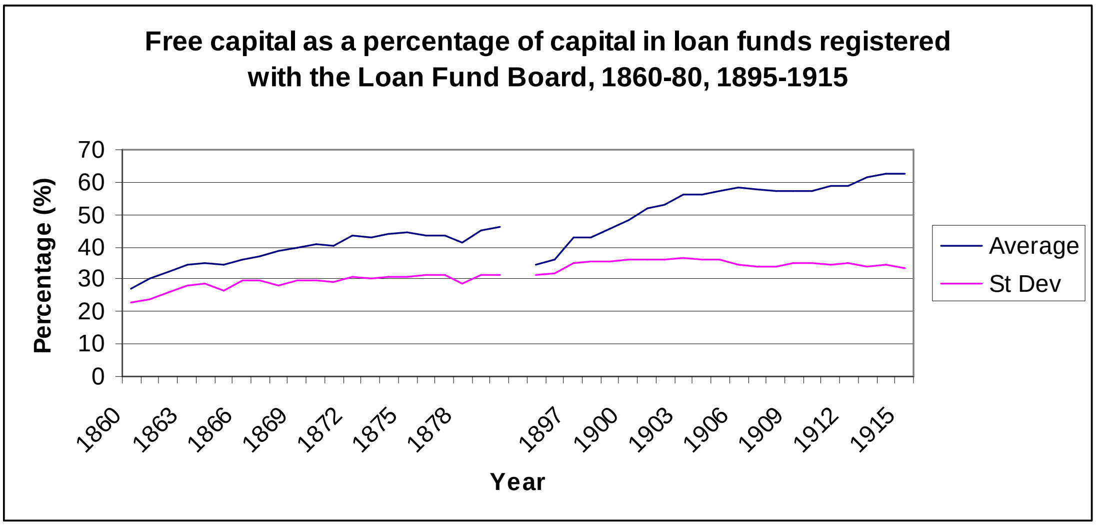
Figure 2.7



Sources: Loan Fund Board reports, *Thom's Directory* and Census of Ireland.

Loan fund capital was comprised of a number of variables including interest paying deposits/ debentures, interest-free loans, charitable bequests and retained profits. There was a differentiation in the LFB reports between capital and interest-free capital, although it did not break 'free' capital into its constituent parts. The percentage of 'free capital'[21] over total capital is shown in figure 2.8.

Figure 2.8

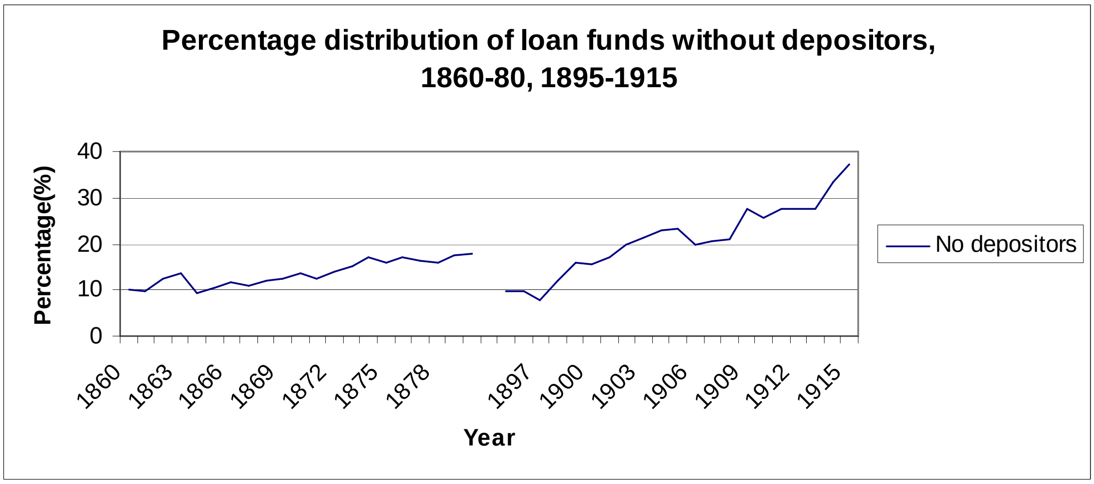


Source: Annual reports of the Loan Fund Board, 1860-80, and 1895-1915.

[21] Free capital referred to capital on which no interest was paid. From the sources of capital outlined above, this would have meant interest-free loans, charitable bequests and retained profits.

Figure 2.8 is informative as it tells us that the percentage of free capital was growing over time, indicating a fall in the amount of deposits held by LFB loan funds.[22] Unfortunately, the information from 1880 to 1894 is unavailable but what we can see is that when the series resumes in 1895 there is a drop in the amount of 'free capital'. This is one of the first indicators as to what was happening during the period 1880 to 1896 with the loan funds. It appears as though there was an increase in the number of depositors/investors. Then from 1896 onwards the percentage of free capital continued to grow, which coincided with the decrease in the number of loan funds shown in figure 2.1. Details on the number of depositors were also given in the LFB reports. In 1880 the number of depositors stood at 825 and this had increased to 2,095 in 1895. The number of depositors was not distributed evenly amongst the loan funds, as is shown in figure 2.9.

Figure 2.9

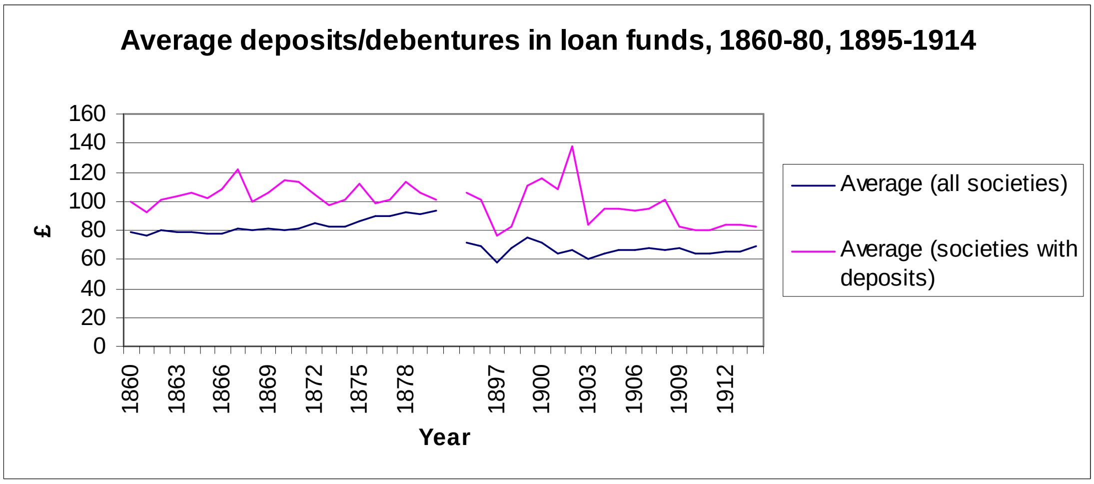


Source: Annual reports of the Loan Fund Board, 1860-80, and 1895-1915.

In the period 1860 to 1880 there was an increase in the percentage of loan funds without depositors,[23] but when the series resumed in 1895 it had fallen to 10 per cent. Thereafter it continued to rise.

[22] If figure 2.8 had shown the percentage of capital at interest (capital – interest free capital), it would have shown the opposite: high in the 1860s and decreasing over time.
[23] It may be the case the same loan funds did not report the number of depositors, in which case the percentage would be less.

Figure 2.10



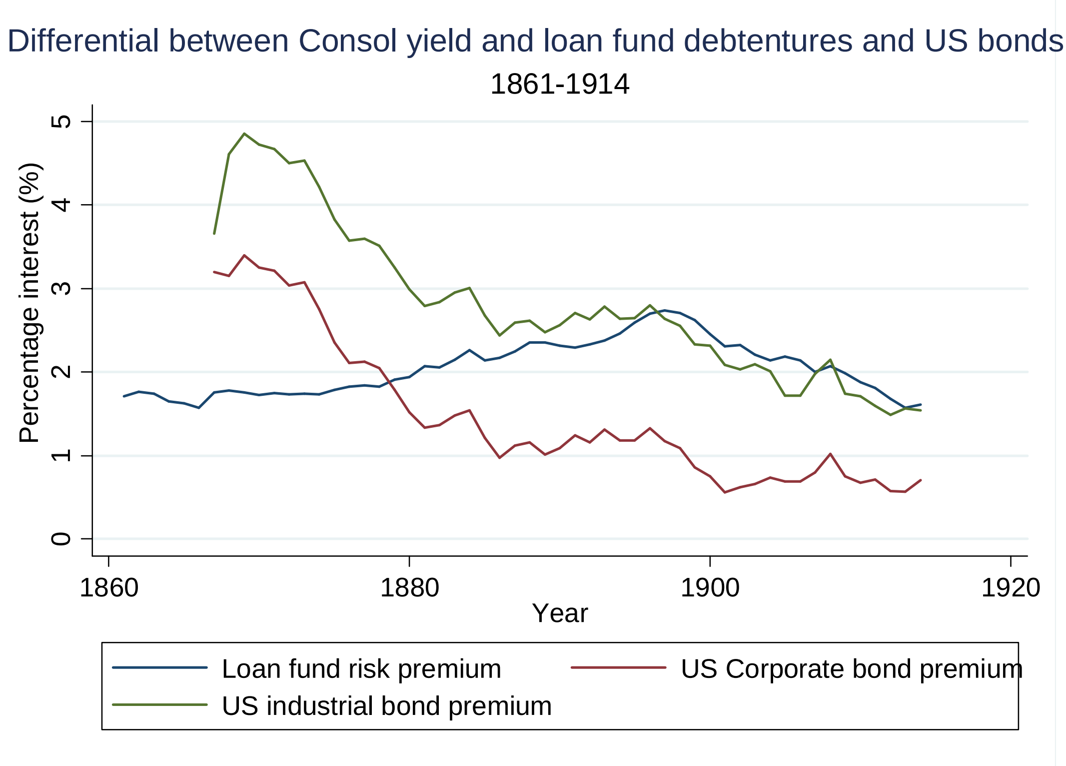
Source: Annual reports of the Loan Fund Board, 1860-80, and 1895-1915.

Finally, the average deposit in the loan funds is illustrated in figure 2.10. There are two variables in figure 2.10. One is the average with the total number of depositors in all societies included in the denominator. The second is the average with only the societies reporting depositors in the denominator - hence its higher value.[24] What figure 2.10 suggests is that there was no increase in the average deposit size in the loan funds, but that more depositors were investing similar amounts. The average deposit size is quite high relative to the agricultural wage statistics that are available - roughly two to three times the agricultural wage. This is an indicator that these depositors were not low income savers.[25] So the question that should be asked is: why was there an increase in saving in the loan funds at the end of the nineteenth century?

Tentatively, an explanation can be seen in the trends in Consol yields in the nineteenth century and US bond rates. As was stated in chapter 1, the maximum rate of interest that loan funds could pay on deposits/debentures under the 1843 act was fixed at 5 per cent.[26]

[24] Average all societies = deposits/total number of depositors in all societies (some societies have 0 values). Average only in societies with depositors = deposits/(number of depositors – societies without depositors).
[25] The POSB and TSB in the same period had lower average savings, which is another indicator of the type of investor in the loan funds.
[26] In comparison, the maximum rate paying in the POSB and TSBs was 2.5 per cent.

Figure 2.11



Note: The differential has been calculated by subtracting the Consol yield from the maximum debenture rate in the loan funds, and from the yield on US bonds. This effectively gives us a risk premium value as Consols were considered the safest asset in the nineteenth century.

Sources: Estimated Consol yield from Jan Tore Klovland, 'Pitfalls in the estimation of the yield on British Consols, 1850-1914' in *The Journal of Economic History*, liv, no. 1 (Mar., 1994), pp 164-187. And table 4.8 in Milton Friedman and Anna J Schwartz, *Monetary trends in the United States and the UK* (Chicago, 1982).

Evidence from parliamentary returns suggests that there was Irish investment in government bonds in the post-famine period.[27] As Consols would have been the safest asset available to investors in the nineteenth century, the Consol yield would indicate the price of a safe asset. So the differential between the return of an alternative investment and the Consol yield would indicate the risk premium. In the nineteenth century and early twentieth-century there was a downward trend in long-term interest rates in both the UK and the US. What figure 2.11 then suggests is that there was growth in the nominal risk premium associated with investing in loan funds. This would account for the increase in the number of investors between 1880 and 1895.

The growth in the market risk premium alone would not account for the growth in investors; there was also a perception that the loan funds were a government

[27] The figure for 1880 of the amount of government stock held by people in Ireland was £32,395,000. This figure seems to be exclusive of money held on deposits and cash balances in the joint stock banks, which in 1880 was £29,746,000. See *Report on statistics of banking in Ireland, and investments in government and India stocks Dec 1859-85*. [c.4681] H.C. 1886, lxxi.141.

guaranteed institution. Hence the higher risk premium would have been perceived as a guaranteed premium, with investors believing that in the case of default the government would guarantee the investment. But, as will be discussed below, there was no government guarantee to investors in loan fund institutions. Another factor that may have influenced investors was the income generating techniques used by loan funds. Investors may have felt that income generation via fines and loan renewals were legitimate means for a loan fund to generate income for dividend, but as will be shown below, such income generation means were actually illegal under loan fund legislation.[28] Once this was realised, and the fear of loss from loan fund investment was evident, there was a decrease in the number of depositors. What this suggests is that there was inadequate knowledge of the working of the loan fund system amongst investors, and this inaccurate information that they possessed may have influenced their decision making.

If we take into consideration the interest payments on alternative financial instruments available to these depositors, we can see that they would have been excluded from alternative savings bank accounts, TSBs and the POSB, based on deposit ceilings which were £50 per annum. Also interest rates were lower in these institutions, set at a fixed rate 2.5 per cent.[29] Joint stock banks paid lower interest on deposits based on the fact that they were short-term investments, with as little as one week's notice required for withdrawals. It was often cited that the joint stock banks paid around 1 to 1.5 per cent. Given these alternatives, it is not difficult to see the attraction of the loan funds.

So the two factors - inaccurate information that made loan funds appear less risky and higher returns compared to alternative investments - would have made loan funds an attractive alternative to investors.

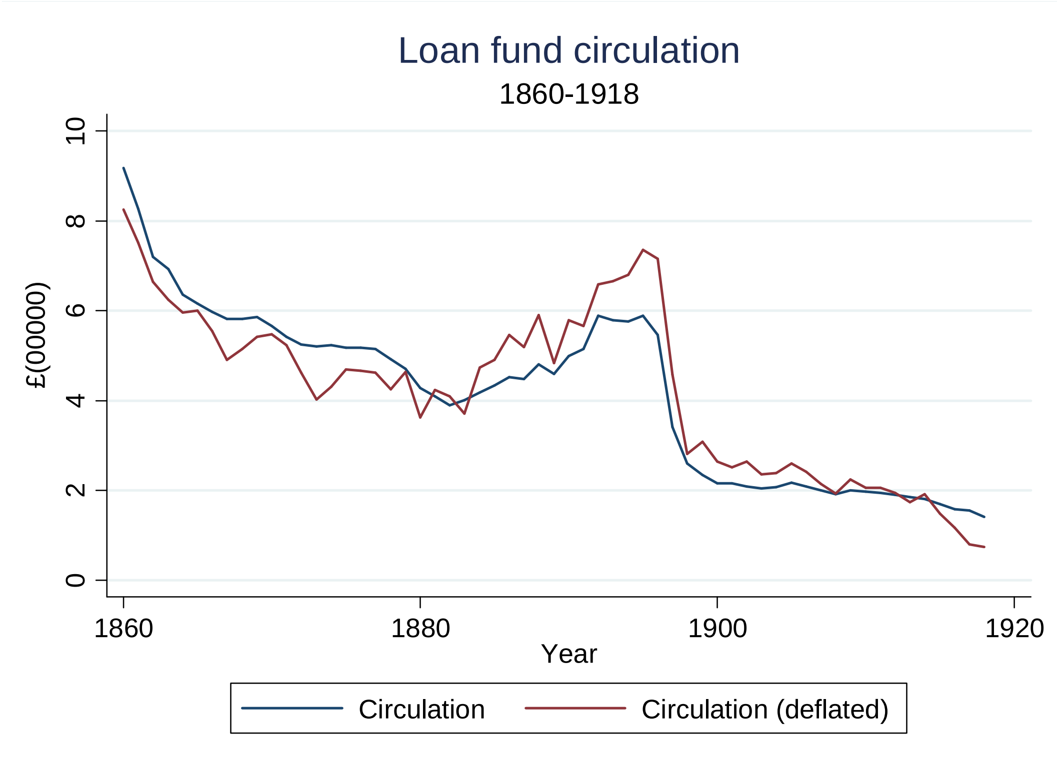
2.2.3 Loan fund circulation and loans

This section will outline trends in loan fund loan dispersal and the number of loans issued. Firstly, figure 2.12 shows the trend in loan fund circulation, real and nominal, from 1860 to 1918. As can be seen, there was a decrease in loan fund circulation[30]

[28] Loan renewals were actually illegal under the loan fund acts, and this is shown in chapter 1. A court decision in 1896 made it illegal to recover loan fund loans that were issued in violation of the 1843 loan fund act, i.e. renewals. This will be discussed in greater detail below.
[29] These are discussed in greater detail in chapter 4.
[30] Circulation was the term used by the LFB to indicate the amount lent.

from the period 1860 to 1880, but it then increased from 1885, peaked in 1895 and afterwards fell rapidly.

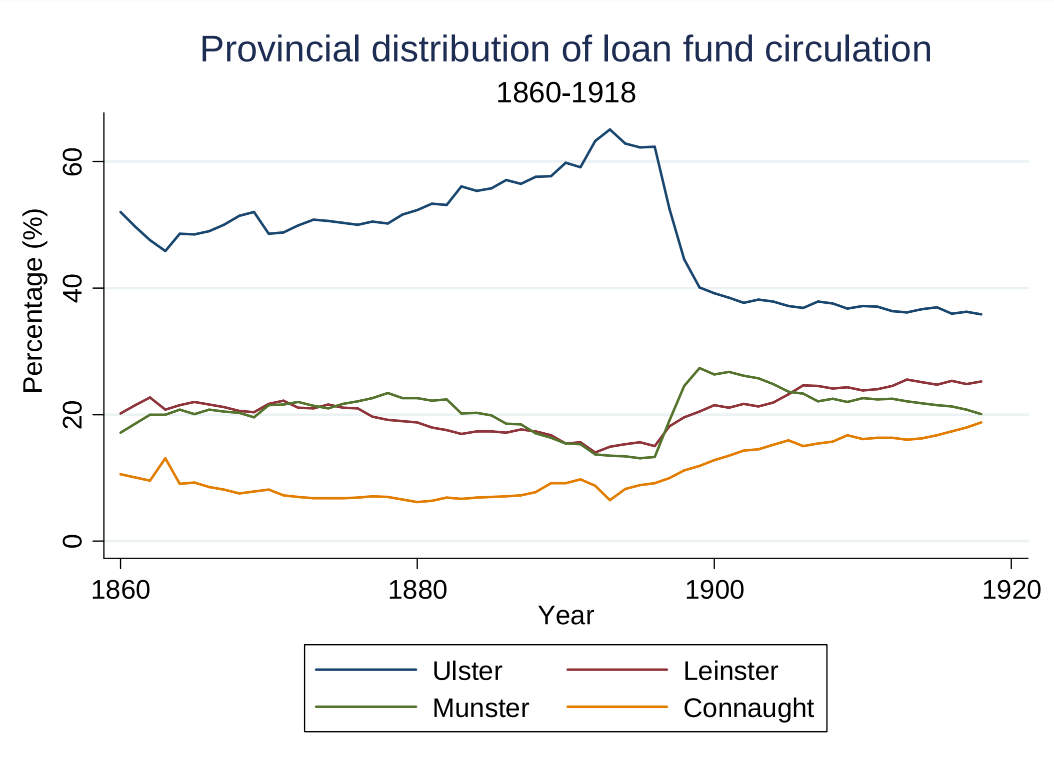
Figure 2.12



Source: Annual reports of the Loan Fund Board, *Thom's Directory*, and Kennedy, 2003 (rural weights)

The provincial distribution of loan fund circulation in figure 2.13 shows that Ulster also had a large proportion of loan circulation, consistent with its larger share of loan fund capital. The distribution of loan fund circulation shown in figure 2.10, and its decline after 1896, raises questions about the nature of loan funds in Ulster.

Figure 2.13



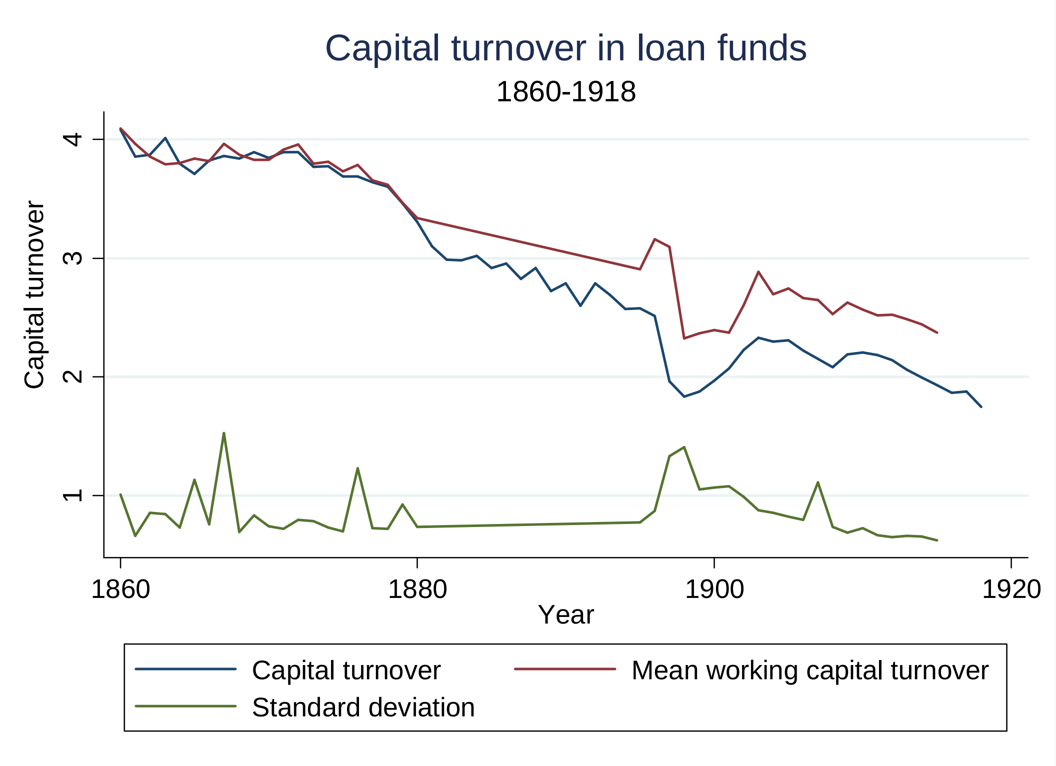
Source: Annual reports of the Loan Fund Board and *Thom's Directory*

Figure 2.14 links the data on circulation and capital to show the ratio of capital turnover in the LFB loan funds.[31] A word of explanation is needed regarding the construction of figure 2.14. As the data for the period 1880 to 1885 are unavailable through LFB reports, the data from *Thom's* have been used to create the spine of figure 2.14, but this spine differs from the average derived from the LFB reports from 1896 onwards. The reason for this is that after 1896 a number of societies, although possessing capital, ceased to issue loans. The *Thom's* statistics are aggregates and would not have picked up this decrease in activity, whereas the averages from the LFB reports have been purged of inactive societies. What figure 2.14 does show us is that the loan funds experienced a decrease in capital turnover during the period 1860 to 1918. The importance of capital turnover in terms of the loan fund business model is that the greater the number of times capital was turned around, the more income a loan fund would receive. The decrease in capital turnover is an indication of the decrease in the demand for loans from loan funds, but also that the loan funds were no

[31] Capital turnover = Amount of loans/capital

longer as profitable as they had once been, this being perhaps a reflection of competition.

Figure 2.14



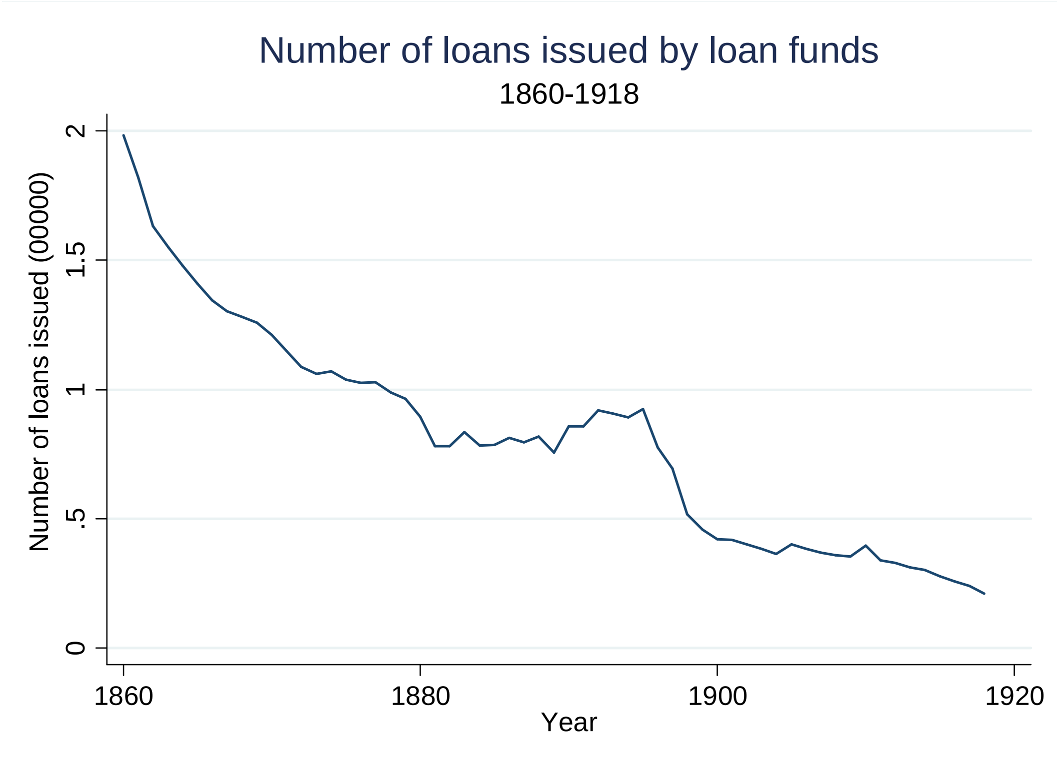
Note: This graph has been constructed using STATA. The missing years from 1881 to 1894 were automatically estimated linearly for standard deviation and mean working capital turnover.
Sources: LFB reports and *Thom's Directory*.

Figures 2.15 and 2.16 give an indication of the number of loans issued, but it must be borne in mind that in the period 1880-95 the data are very questionable, a point which was raised in the 1897 report. The main factor that should be considered is the high incidence of loan renewals, something which the 1897 report was very critical of. Hollis and Sweetman seem to have equated the number of loans with the number of borrowers, but this may not be valid. As loan terms were for 20 weeks or 5 months, and with 52 weeks in a year, this opens the possibility that the number of borrowers may have been less than the number of loans issued.[32] The issue of renewals is very important, and it is not clear whether or not they were included in the number of loans issued. Renewals it was said were systemic and a tradition of the loan fund system, but a complaint of the 1897 report was that the loan renewals were not

[32] This point is also made in chapter 1.

officially recorded.[33] A development that occurred in the LFB system in the post-famine period was the increase in the number of monthly loans. These were loans that were repayable in monthly, instead of weekly, instalments. The growth in the number of monthly loans[34] may account for both the decrease in the number of loans issued, and the lower capital turnover, in the post-famine period.

Figure 2.15

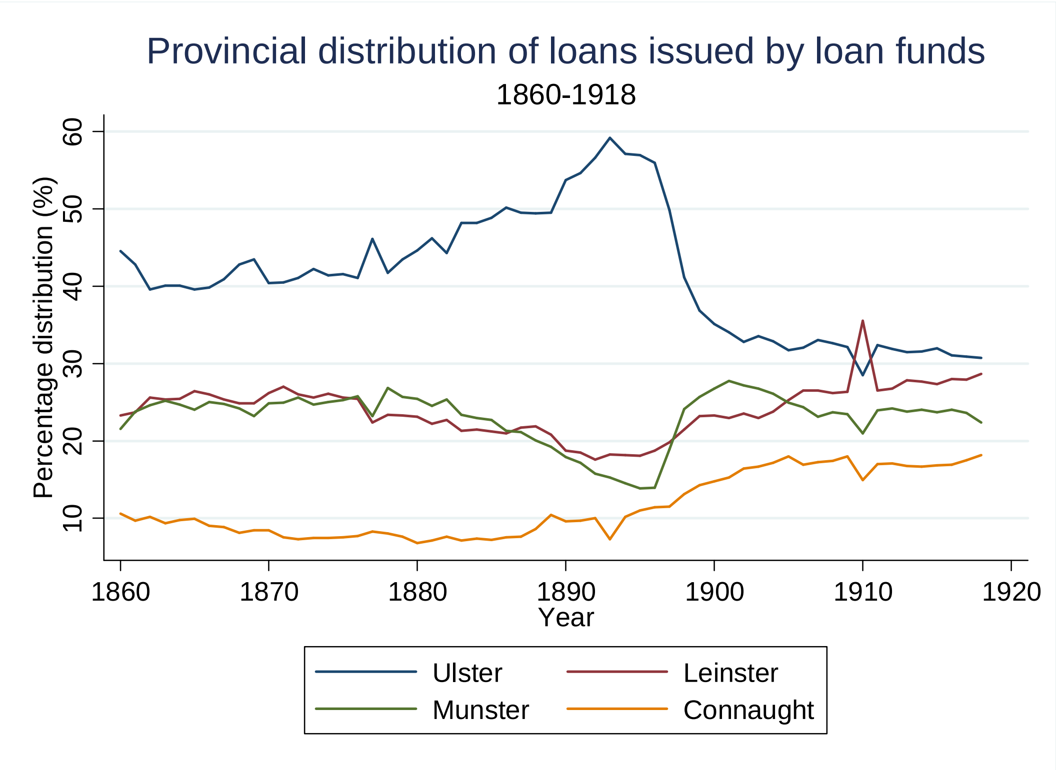


Sources: Annual reports of the Loan Fund Board and *Thom's Directory*

If we look at the provincial distribution of loans issued, shown in figure 2.16, again we see that Ulster had the highest distribution of loans issued by loan funds. It surpassed all the other provinces and its lending services were more active than in the other provinces.

[33] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 & 7, vic. Cap 91.* , paragraph 61, p. 12. [C.8381], H.C. 1897, xxiii, 383. (Hereafter *Report on charitable loan societies, 1897*).
[34] These are discussed in greater detail in section 2.3.

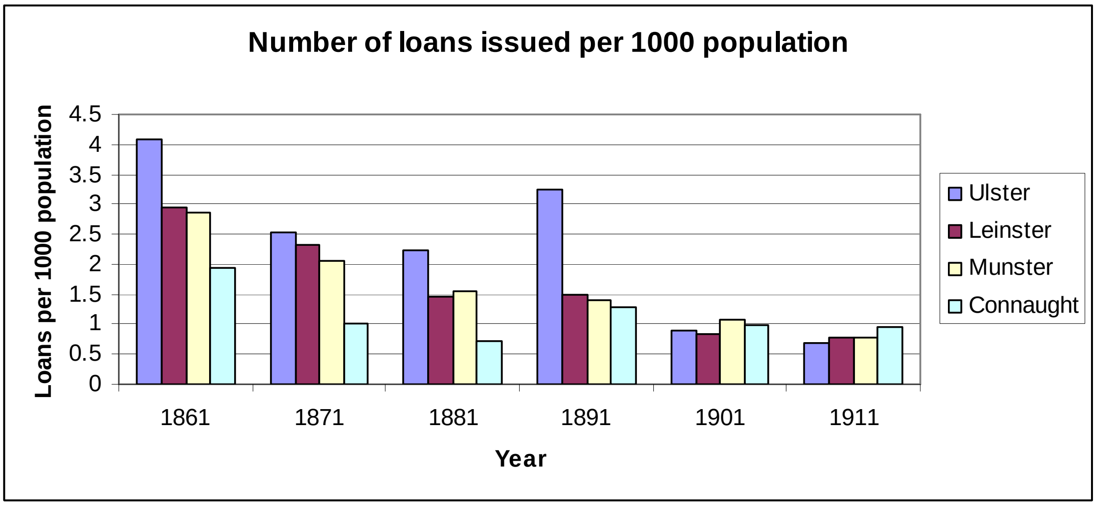
Figure 2.16



Sources: Annual reports of the Loan Fund Board and *Thom's Directory*

To put figure 2.16 in some demographic context, figure 2.17 shows the provincial distribution of loans issued per 1,000 people.

Figure 2.17



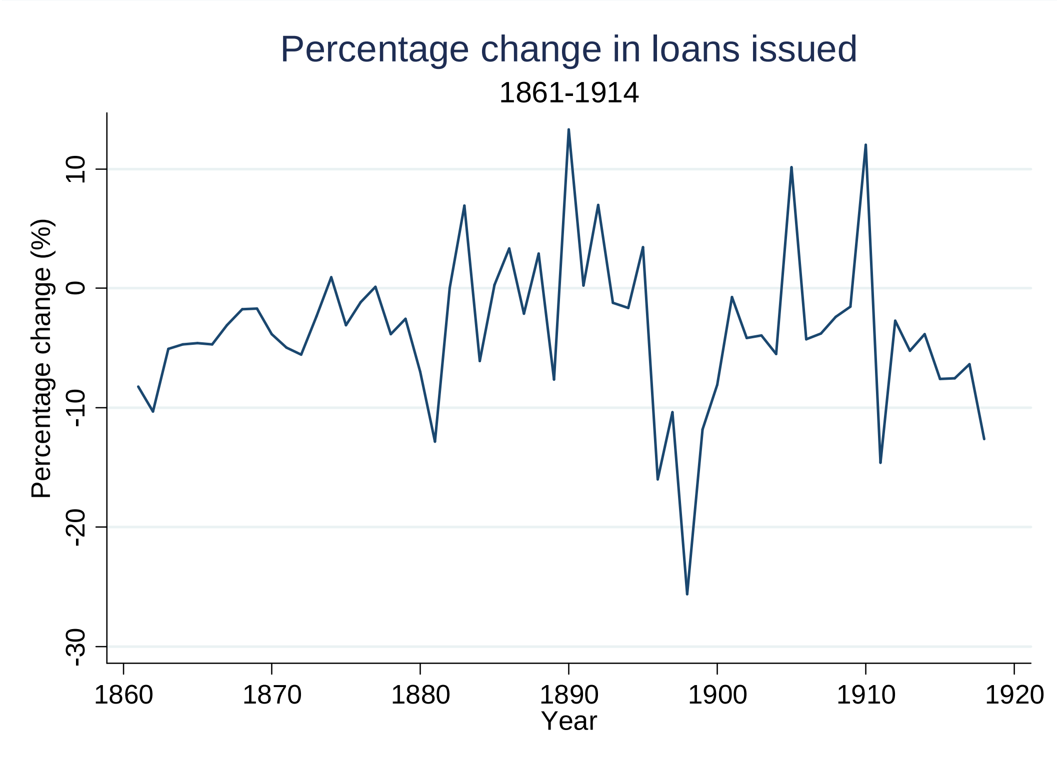
Sources: Loan Fund Board reports, *Thom's Directory* and Census of Ireland.

Figure 2.17 shows that the number of loans issued per 1,000 population was highest in Ulster. It is consistent with the other graphs that show loan fund variables per 1,000 population in that it shows a decadal increase in activity in Ulster and Connaught in 1891 compared with the previous census years. The following census year, 1901, shows a marked drop in the numbers of loans per 1,000 population in all provinces.

Figure 2.18 shows the percentage change in loans issued by loan funds. Figure 2.18 shows that the issue of loans continued to decline, and that the sharpest declines came during the agricultural depression of the early 1860s, the land war period and after 1896. The declines in the depressions of the 1860s and late 1870s show how the general economic environment influenced loan fund activity. This it seems is consistent with general banking activity. Ollerenshaw cited a letter from one of the Ulster banks circulated amongst its bank branches advising them to restrict agricultural advances during the depression of the 1860s.[35] In a newspaper article cited in chapter 1, the Earl of Belmore suggested that borrowers found it difficult to find sureties in a recessionary period, this being due to the fact that when a borrower defaulted his sureties were called on to repay the debt. The 1896 decline which is evident in most graphs shown in this section will be discussed in detail in the following sections of this chapter.

[35] Philip Ollerenshaw, 'Aspects of bank lending in post-famine Ireland' in Rosalind Mitchinson and Peter Roebuck (eds.), *Economy and society in Scotland and Ireland 1500-1939* (Edinburgh, 1988), pp 222 - 232.

Figure 2.18



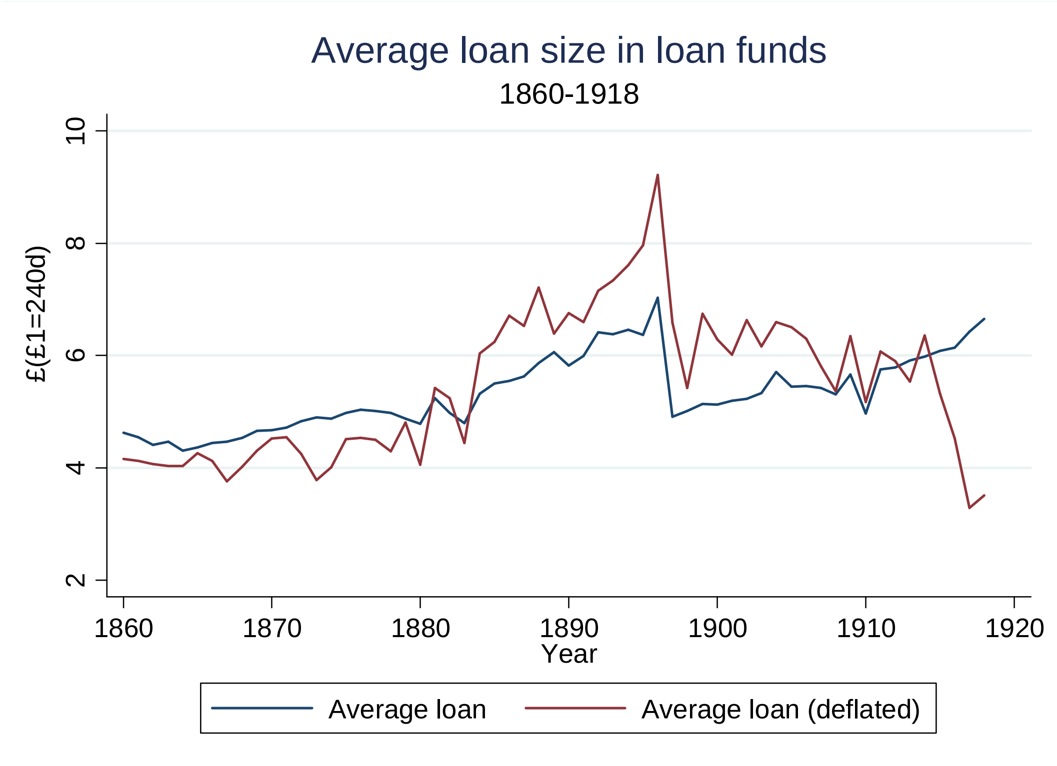
Sources: Loan Fund Board reports and *Thom's Directory.*

Figure 2.19 shows the average loan size, real and nominal, from loan funds in the period 1860-1918. In this period the average loan size remained within the limit of £10, but there was a trend towards gradual increases in loan sizes. Although this is only an average and fails to represent extreme values, it can be seen that many borrowers from the loan funds did not have demands for loans greater than £10. This is not to say that people did not want loans greater than £10; it is possible that they did. Rather it is to say that those people associated with the loan funds only required consistently small loans. In essence the loan fund data is a truncated sample of credit demand at the time,[36] and as there is no published data on average bank loans during the period it is a biased representation of the demand for credit. We do not know what the demand for credit may have been, only what the supply of credit from the loan funds was. Previous graphs, figures 2.12 and 2.15, indicated that there was a decrease in the amount of loans and the number of loans that were issued. It could be argued that many people had finished dealing with the loan funds as the loan funds were unable to facilitate demands for increasing amounts of credit. This is questionable as

[36] It is a lower tier truncated sample. We do not have information on what demand may have been like for amounts over £10.

it depends on whether or not loan fund loans were able to keep pace with agricultural input costs. But this may not have been the case, as many farmers had small credit needs owing to the low level of input costs.[37] What we can say is that the average sizes of loans kept increasing as the number of people borrowing from the loan funds continued to decrease.

Figure 2.19



Note: The average loan (deflated) is derived from the deflated circulation in figure 2.12.

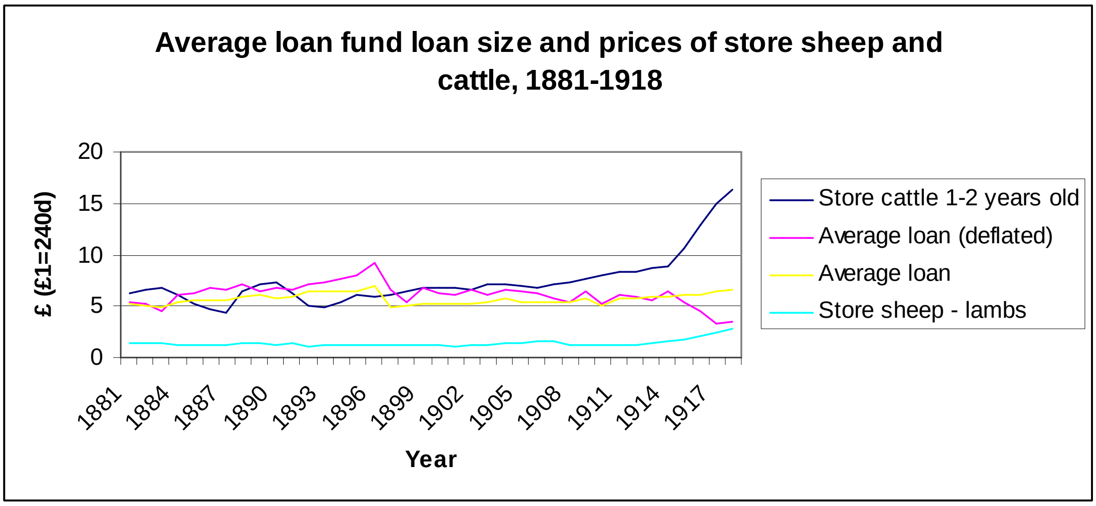
Sources: Annual reports of the Loan Fund Board and *Thom's Directory*, Kennedy, 2003 (rural weights).

In this context it is worth asking: how important was the £10 loan ceiling that was legislatively imposed on the loan funds? In order to put the average loan sizes into some relevant context it would be useful to compare these loan sizes in relation to contemporary price and wage levels. The average loan size is compared with the prices of young livestock and the levels of agricultural wages in figures 2.20 and 2.22. Figure 2.20 shows the price of store cattle and lambs. These prices are used to give an indication as to what investment a loan from a loan fund could or could not have been used for.[38] The data available at hand were limited to what was published in the DATI

[37] I have not found any detailed work on input costs in Irish agriculture during this period.
[38] This is assuming that loan funds were used for investment and used for agricultural purposes.

price series and hence the focus for analysis is limited to cattle and lambs.[39] Ideally one would like to compare the price of pigs, goats and poultry. From figure 2.20 it seems that the price of young store cattle gradually exceeded the average loan size from a loan fund. Although data on actual loan usage are not available, the information in figure 2.20 suggests that these loans may not have been used to purchase store cattle. It may have been likely that a borrower purchased a cow using a loan plus the family's own accumulated savings, and it is also probable that loans would have been used to purchase other livestock, namely milch cows, sheep and pigs.

Figure 2.20



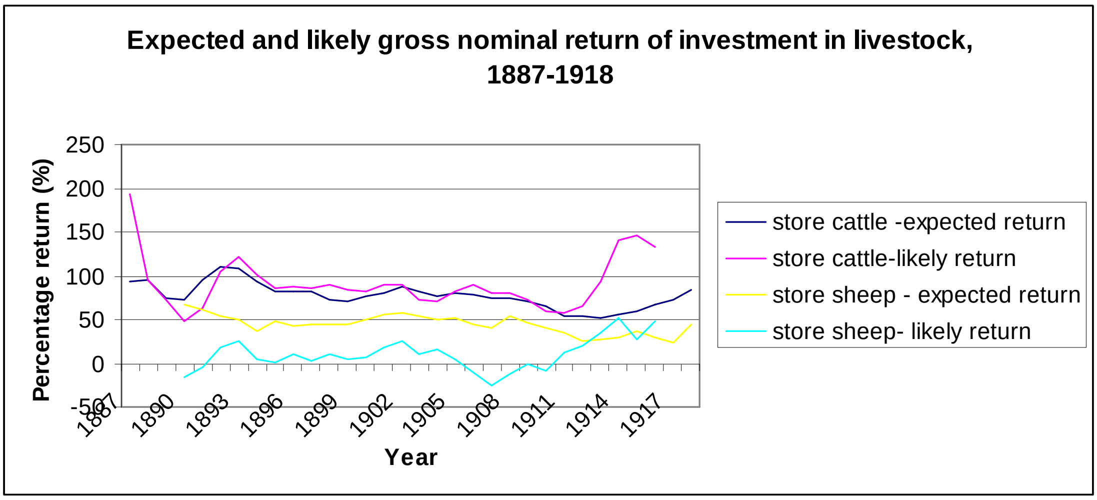
Sources: Annual Loan Fund Board reports, deflator Kennedy 'The cost of living in Ireland' *A return showing, as far as practicable, for Ireland as a whole, the annual average Prices for each year 1881-1909; the annual average Prices for each period comprised from 1881 to 1918 of 5 years, 10 years, 15 years, 20 years, and 25 years, and for the period of 4 years 1906 to 1909; such prices to be compiled from the Returns of Prices of crops, live stock, and other Irish Agricultural products heretofore published from time to time by the Irish Land Commission, or the Department of Agriculture and Technical Instruction for Ireland, or from other information in the possession of those Departments*, H.C., (201) 1919, li, 91. (hereafter *A return showing the annual average prices for each year 1881-1909…)*

In order to give us an idea of what the scale of return to investment in livestock might have been, figure 2.21 shows the expected return to investment in livestock in purely nominal monetary terms - this being the price for older livestock as a percentage of the price of young livestock and the likely return which would be the

[39] For the purposes of this study these are the best available price listings. The prices collected by Liam Kennedy and Peter Solar relate mainly to agricultural output. There are two tables (table A. 14 and table A. 15) giving prices of cattle, but these refer to 3-year-old cattle: See Liam Kennedy and Peter M. Solar, *Irish agriculture: a price history from the mid-eighteenth century to the eve of the First World War* (Dublin, 2008).

price for livestock in two years' time as a percentage of the price of livestock today.[40] Admittedly using this crude measure, which does not take account of input costs involved in rearing livestock or the risk of livestock dying before being reared, would suggest that the highest return would be obtainable from investment in store cattle. But, in terms of loan fund loan size, the purchase of store cattle would have been beyond the scope of loan fund activities. If the expected gross return of investment was to be adjusted for potential input costs it would reduce the rate of return as suggested in figure 2.21, and perhaps indicate that the expected return from investing in non-cattle livestock would have resulted in negative returns from the perspective of a loan fund borrower.[41]

Figure 2.21



Note: These are gross returns and no allowance has been made for costs.
The formula used in calculating these returns was:
For expected returns: the price of a 3 year old store cattle/sheep at time t0 as a percentage return of the price of a 1 to 2 year old calf at t0: ((p3t0-p1t0)/p1t0)*100
For likely returns: The price of a 3 year old store cattle/sheep at time t+2 (t, t+1, t+2 = 3 years from time of purchase e.g. if a calf was bought in 1887, the price for 1889 was used), as a percentage return of the price of a 1 to 2 year old calf at time t0:
((p3t+2 – p1t0)/p1t0)*100

Source: *A return showing the annual average prices for each year 1881-1909….*

To give the average loans a sense of scale, figure 2.22 plots the average loan size against agricultural wage and figure 2.23 gives a ratio of average loan size to agricultural wage. To compare the average loan size of loan fund loans, an annual

[40] Expected return is the price of older cattle at time t when the young calf is bought. Likely return is the price for cattle at time t+2.
[41] This return has not taken into account the value of wool that a given sheep could produce.

wage series has been constructed using both Bowley's and Board of Trade wage series. The value of such a series can give us a sense of scale to loan fund activity, but agricultural wage series are of dubious value in terms of Irish agricultural activity. Firstly, the series for agricultural wages used by the Board of Trade do not capture additional cash payments that occurred during harvest time, nor do they capture the value of benefits in kind such as access to plots of land. This is also a problem common with agricultural wage statistics for the rest of the UK, but the Irish statistics suffer from additional problems. These limitations were outlined in a Board of Trade report on wages in 1913:

> The difficulty, however, is increased in Ireland insomuch as in certain counties especially in the West, there are comparatively few farm labourers who are continuously employed throughout the year, and it is impossible to select any one predominant class of labourer as in the case of ordinary labourers in England.[42]

Given the shortage of loan funds in the west, and their small contribution to loan fund activity, the problem regarding few farm labourers in the west can be discounted. The report concluded that there had been a trend towards agricultural wage increases over the nineteenth century, and that one of the reasons for the rise was the 'increasing scarcity of labour'.[43]

The criticism of the Board of Trade statistics also hold for Bowley's, but the available evidence is supported by qualitative statements. For example, Bailey's 1903 report on land purchase referred to higher costs of labour.[44] Although the wage series may not be over-reliable as regards the actual level of wage rates, they do give us a sense of the trend in agricultural wage rates. What is not often cited as a cause of the increase in agricultural wage rates is the effect of shifts in demand. Undoubtedly the supply of labour decreased over time, but it appears that the demand for labour also decreased, with family labour units replacing demand for individual labourers.

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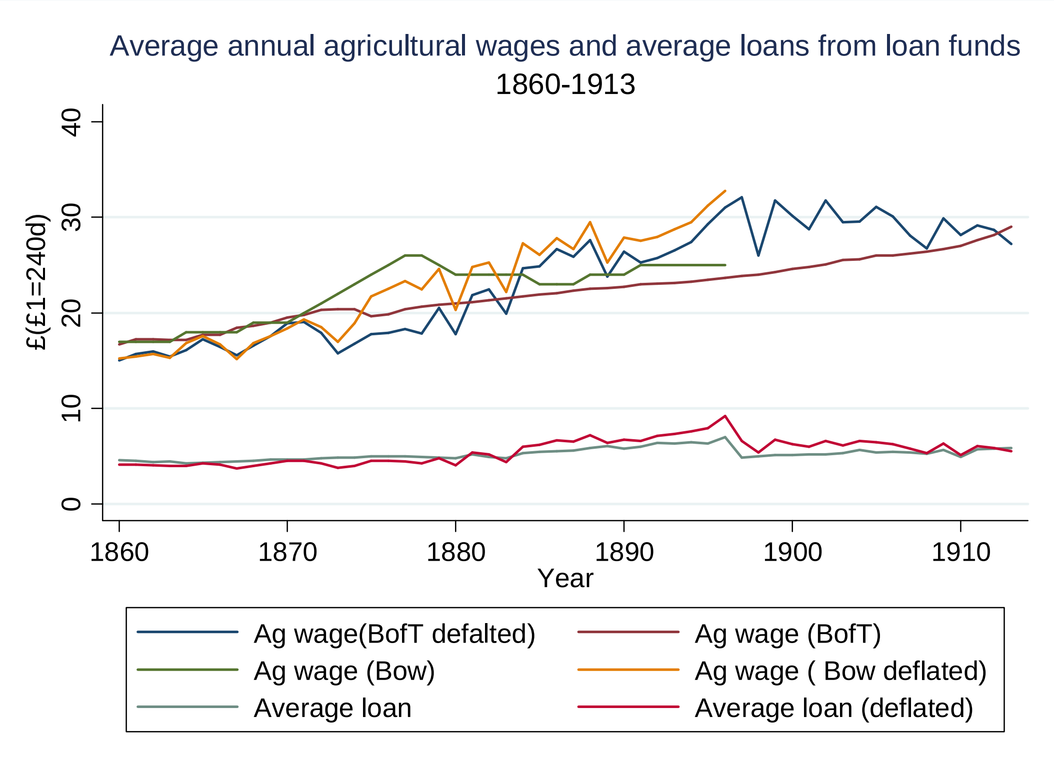
[42] *Report on Changes in Rates of Wages and Hours of Labour in the United Kingdom, for 1913,* p. xxix, [Cd. 7635] H.C. , 1914-16, lxi, 769.
[43] *Ibid,* p. xxix
[44] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 19, (92) H.C. 1903, lvii, 333.

Figure 2.22

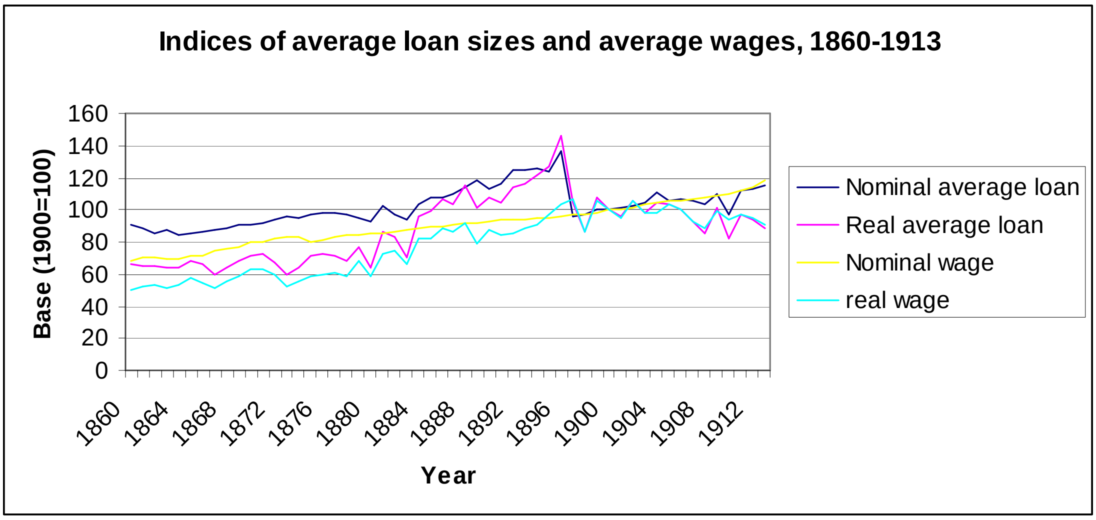


Note: The Ag wage (BofT) is comprised of three different series. Firstly from 1860 to 1874 it is an average from 10 farms; from 1874 to 1903 it is an average from 22 farms. These were taken from the report of Wilson Fox. An index was created from Wilson Fox's series and merged with the index from the abstract of labour statistics. This is a similar procedure to that undertaken by Boyer, Hatton and O'Rourke. Finally the nominal annual wage series was constructed by combining information of the indices with the information on weekly wages in Wilson Fox's series and multiplied by the corresponding number of weeks in the calendar year, with the base year being 1900.

Sources: Average loan fund loans: Annual reports of the Loan Fund Board and *Thom's Directory*.
Ag Bow: Bowley, 1899
AgBot: Board of trade labour statistics were used. *Second report by Mr. Wilson Fox on the wages, earnings, and conditions of employment of agricultural labourers in the United Kingdom, with Statistical Tables and Charts*, p. 137 [cd. 2376], H.C. 1905, xcvii, 335. ; and *Seventeenth abstract of labour statistics of the United Kingdom*, p. 67 [Cd. 7733], H.C. 1914-16, lxi, 295. (Hereafter Board of trade, 1905 and 1914)
Kennedy, 2003 (rural weights)
George R. Boyer, Timothy J. Hatton, and Kevin O'Rourke, 'The impact of emigration on real wages in Ireland 1850-1914,' *Centre for Economic Policy Research* , discussion paper 854 (December 1993). (Hereafter Boyer, Hatton, O'Rourke, 1993)

From figure 2.22 it can be seen that the average loan fund loan was less than the average agricultural wage. In the pre-famine period average loan sizes had kept pace with the average agricultural wage, mainly because of sticky wages and downward pressure on wages, but this was no longer the case in the post-famine period.

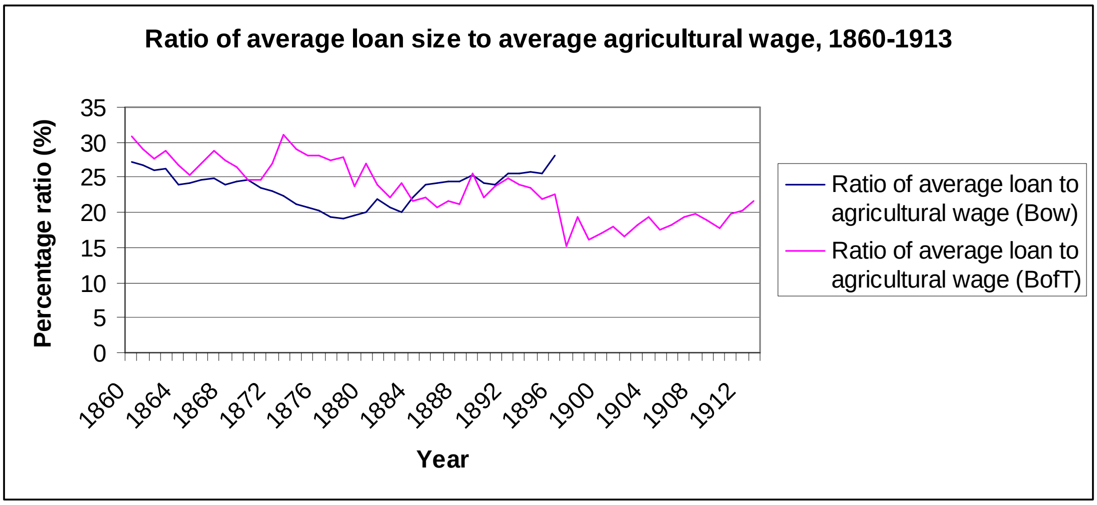
Figure 2.23



Sources: Bowley, 1899; Board of Trade, 1905 and 1914; Kennedy, 2003 (rural weights); Boyer, Hatton, O'Rourke, 1993.

Figure 2.23 shows indices of wages and loan funds, both with base years in 1900. From figure 2.23 it would appear as though the average loan sizes shared a similar growth pattern as the average agricultural wages, but the average loan size fell sharply after 1896. This seems to suggest that borrowers from loan funds increased borrowing with increases in income. Figure 2.24, which is a ratio of average loans to the average agricultural wage, illustrates that although the average loan size did increase, the increases did not occur at the same rate, or level, as the increase in the agricultural wage.

Figure 2.24



Sources: Bowley, 1899; Board of trade, 1905 and 1914; Kennedy, 2003 (rural weights); Boyer, Hatton, O'Rourke, 1993.

2.3 Individual loan funds; some random examples

The LFB annual reports are one of the main historical sources for loan fund activity in Ireland, but there are some individual isolated sources that are worthy of reference. Although they may not be able to influence a general understanding of loan funds, they do point to some pitfalls in the over-reliance on the LFB reports and to possible limitations of the LFB system.

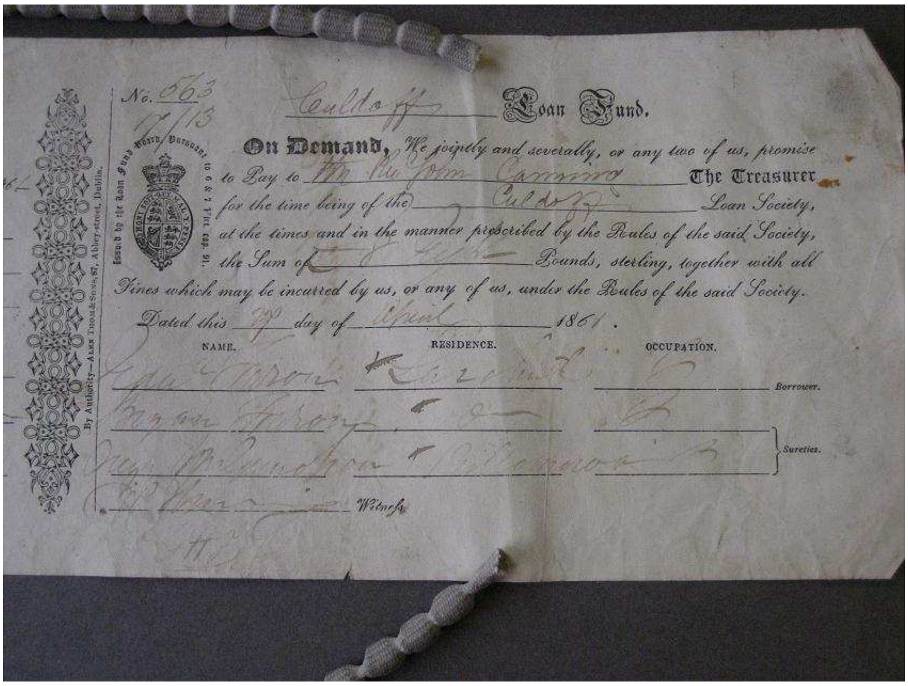
One obvious limitation of the annual statistics of the LFB is that they do not give us an indication as to whether or not the loans made by loan funds were made at regular intervals, or whether there were seasonal demands for loans. Seasonal demand for credit is what one would expect from lending institutions operating in an agricultural market. For example, one might expect loans to be made in spring time for the purchase of seeds or fertilisers to be used in the coming season. It is difficult to overcome this problem owing to the scarcity of available source material.

There are two account books of loan funds available in the National Library of Ireland. One is on microfilm from the Knockmourne Loan Fund in Co. Cork[45] and the other is from the Culduff Loan Fund in Co. Donegal. [46] Unfortunately, of the two, only the Knockmourne has been preserved in good condition. The Culduff account is a ledger for what seems to be the activity of one month. It gives us information on the name and residence of the borrower, but it does not give the surety nor does it state what the purpose of borrowing is. The account book is official LFB stationery, which is arranged in 20 weeks to indicate the repayment schedule, and repayments were weekly. Although the account book itself is in very poor condition, there are three used promissory notes in good condition contained within the account. These are shown in plates 2.1 and 2.2. It can be clearly seen on the promissory notes that the LFB's official stamp is present, and there is a clearly visible crown on the stamp which signifies a government office.

[45] 'Knockmourne loan fund, list of loans, May 1869-May 1871 (original in possession of Mr Frank Power, Garry Ann, Conna, Co Louth)' 1869-1871 (*N.L.I* , m.f. p3939) (Hereafter 'Knockmourne loan fund..')

[46] 'Culdaff loan society account book,' 1860 (*N.L.I*, MS 23063 (bad condition))

Plate 2.1



No. 563

Culdaff Loan Fund.

On Demand, We jointly and severally, or any two of us, promise to Pay to ______ The Treasurer for the time being of the Culdaff Loan Society, at the times and in the manner prescribed by the Rules of the said Society, the Sum of ______ Pounds, sterling, together with all Fines which may be incurred by us, or any of us, under the Rules of the said Society.

Dated this ______ day of ______ 1861.

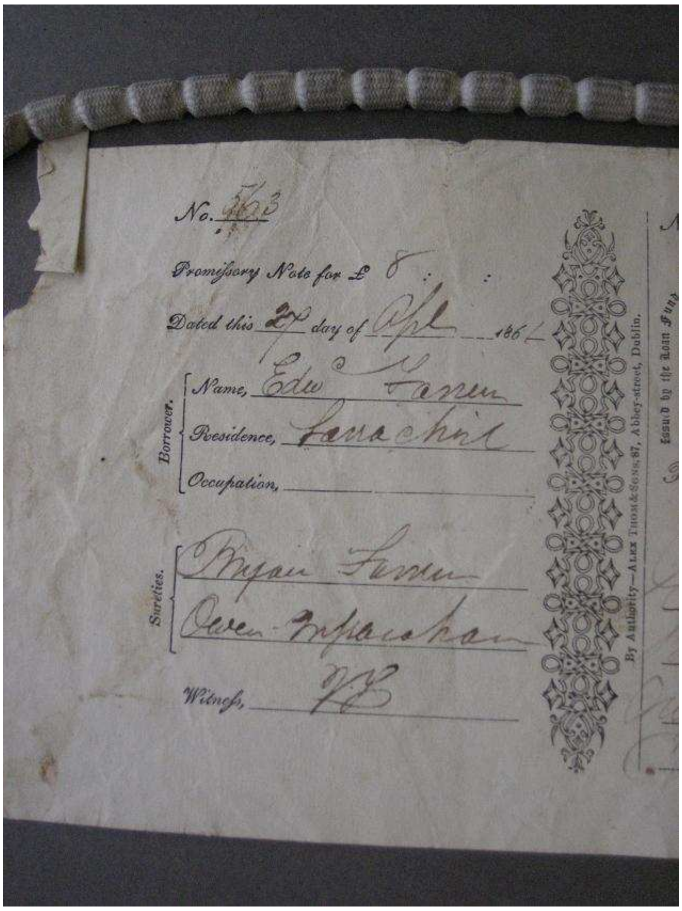
NAME.	RESIDENCE.	OCCUPATION.	
			Borrower.
			Sureties.

______ Witness.

By Authority—Alex Thom & Sons, 87, Abbey-street, Dublin.

Source: ‘Culdaff loan society account book,’ 1860 (*N.L.I*, MS 23063 (bad condition))

Plate 2.2



No. 563

Promissory Note for £ 8

Dated this 27 day of Apl 1861

Borrower. Name, ______

Residence, ______

Occupation, ______

Sureties. ______

______

Witness, ______

By Authority—Alex Thom & Sons, 87, Abbey-street, Dublin.

Source: ‘Culdaff loan society account book,’ 1860 (*N.L.I*, MS 23063 (bad condition))

The importance of the LFB stamp is that it gave both borrowers and investors (debenture holders and depositors) a sense that the loan funds were somehow government institutions. Government security, or perceived security, is a theme which arises in the 1890s and 1900s in the loan fund debates.[47] Unfortunately, the other information from the Culduff account is illegible and does not provide as much information as is in the Knockmourne loan fund account.

2.3.1 Knockmourne loan fund

The Knockmourne loan fund account is the most comprehensive loan fund account found to date. Using the Knockmourne loan fund account is by no means a definitive statement on loan fund activity, as it is only one loan fund out of hundreds, and the information is only for a two-year period. The information, although scant, can give us a better understanding of the operations and limitations of a loan fund in nineteenth century Ireland.

The Knockmourne loan fund Co. Cork was established in 1860[48] and continued to operate until 1876 when it was wound up.[49] It is unclear why the society was wound up, but it may have something to do with the fact that Rev. R. D. Campion, who had been the society’s treasurer from 1860 to 1875, was replaced by J. W. W. Nason in 1876, the year the society was wound up.

The Knockmourne account shows the weekly loans issued by the loan fund from May 1869 to May 1871. The information contained in the account book includes the number of loans made, the amount for which the loan was issued, the names and occupation of borrowers and sureties, and the residence of borrowers and sureties. The benefits of this account are that it gives an indication of who the borrowers of this loan fund were and it also gives an indication as to the relationship between the borrowers and the sureties. However, the account does not give any information regarding loan use. The account is also useful in that the information is given for the years 1869 to 1871, which were relatively calm years. So these are not years which

[47] This is discussed in section 2.4.

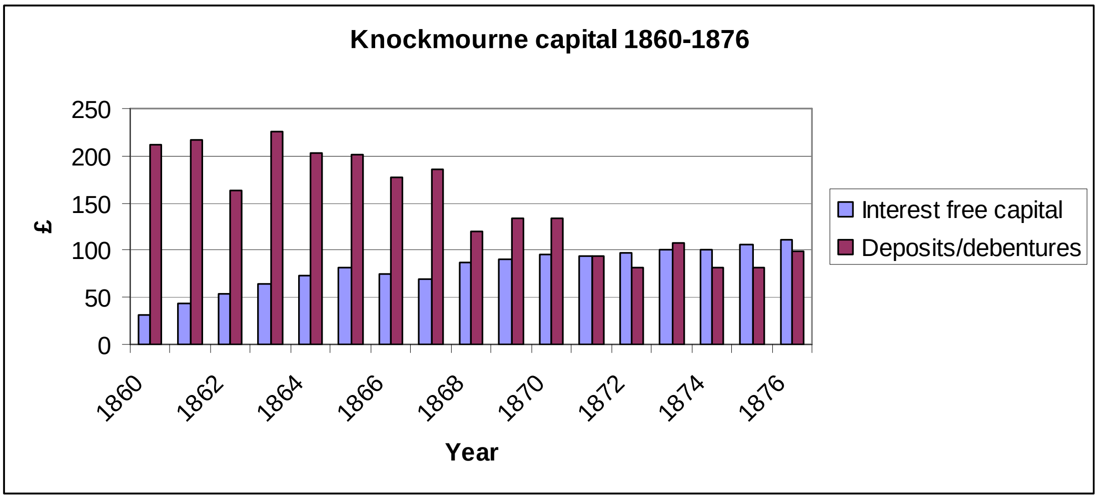
[48] *Twenty-third annual report of the Commissioners of the Loan Fund Board of Ireland,* [2834], H.C., 1861 xxvii, 601.

[49] *Thirty-ninth annual report of the Commissioners of the Loan Fund Board of Ireland,* [c.1704], H.C., 1877, xxvii, 91.

are outliers in terms of the nineteenth century. The frequency of the information in the account allows us to get a view of what the demand for loans were like during the year. The majority of the surviving evidence on loan fund usage comes in the form of annual report, so weekly data of this type are very welcome.

Firstly, to put these years into context, the following information taken from the annual reports of the LFB shows the operation of the Knockmourne loan fund from 1860 to 1876.

Figure 2.25



Sources: *Twenty-third Annual Report of the Commissioners of the Loan Fund Board*, [2834], H.C. 1861, xxvii,601; [2989], H.C. 1862, xix, 214; [3169], H.C. 1863, xxviii, 553; [3337], H.C. 1864, xxxi, 315; [3485], H.C. 1865, xxviii, 553; [3644], H.C. 1866, xxiv, 443; [3838], H.C. xix, 295; [4013], H.C. 1867-68, xxi, 127; [4143], H.C. 1868-69, xvii, 365; [C.76], H.C. 1870, xvii, 337; [C.325], H.C. 1871, xvi, 123; [C.525], H.C. 1872, xviii, 381; [C.753], H.C. 1873, xxi, 269; [C.953], H.C. 1874, xv, 231; [C.1186], H.C. 1875, xxi, 89; [C.1468], H.C. 1876, xxi, 1; [C.1704], H.C. 1877, xxvii, 91.

Figure 2.25 shows the distribution of capital in the Knockmourne loan fund from 1860 to 1876 between interest-free capital and deposits and debentures. As can be seen there was a decline in the amount of deposits in the loan fund over the period, and there was an increase in the amount of interest-free capital. Interest-free capital seems to have come mainly from retained profits that were reused in the loan fund. From 1866 the Knockmourne loan fund spent on average £4 a year on charitable purposes, with the remainder of its profits being reused the following year. The amount of capital used as working capital was consistently high and on average for the whole period it was 98.9 per cent of the society's capital. But the amount of money kept in the hands of the treasurer was on average 13 per cent of the capital, so in effect there was a 13 per cent reserve. Table 2.1 gives us an indication as to what discount was charged on loans and the interest paid on deposits. Discount and interest have been calculated by using the information on discount and fines charged from the annual reports and calculating the percentage of charges divided by the total number of loans issued. The same procedure was followed for interest on deposits.[50]

Table 2.1: Capital turnover, rates of interest of loans, and deposits in the Knockmourne loan fund, 1869-71

Year	Capital turnover	Discount as a % of loans	Fines as a % of loans	All charges as a % of loans	Interest paid to depositors as a % of deposits
1869	4.23	1.67	0.41	2.40	5.00
1870	4.20	1.67	0.43	2.41	5.00
1871	4.50	1.67	0.44	2.40	5.85

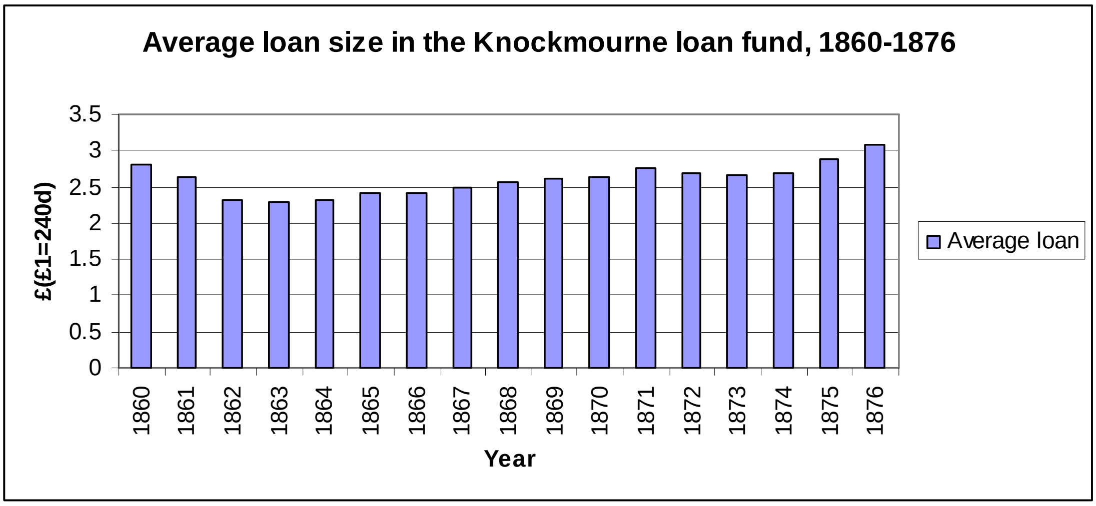
Sources: *Thirty-second Annual Report of the Commissioners of the Loan Fund Board of Ireland*, [C.76], H.C. 1870, xvii, 337; *Thirty-third Annual Report of the Commissioners of the Loan Fund Board of Ireland* [C.325], H.C. 1871, xvi, 123; *Thirty-fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland* [C.525], H.C. 1872, xviii, 381.

In the LFB annual reports there is a term called 'gross profit' which indicates all charges on loans, or the total amount of income from lending. As can be seen, the calculated rates that borrowers were charged on loans were relatively low and the charging of fines was not excessive. The interest paid to depositors was an annual rate, and provided a society had a high capital turnover it would have been able to meet its liabilities to depositors.[51] From the annual reports it is also evident that the Knockmourne loan fund only issued loans that were repayable by weekly instalments. Finally figure 2.26 shows the average loan sizes in the Knockmourne loan fund from 1860 to 1876. The number of loans issued from 1860 to 1875 declined by 27 per cent, with the highest number of loans being issued in the early 1860s. This trend is in line with the LFB system in general as outlined in section 2.2.

[50] There was no information given on discount rates in the account book. But from table 1 it is seen that the society used the 4d in the £1 discount, i.e. (4/240)*100 = 1.666667

[51] Multiply the capital turnover by the rate of discount, and then subtract the rate of interest on deposits.

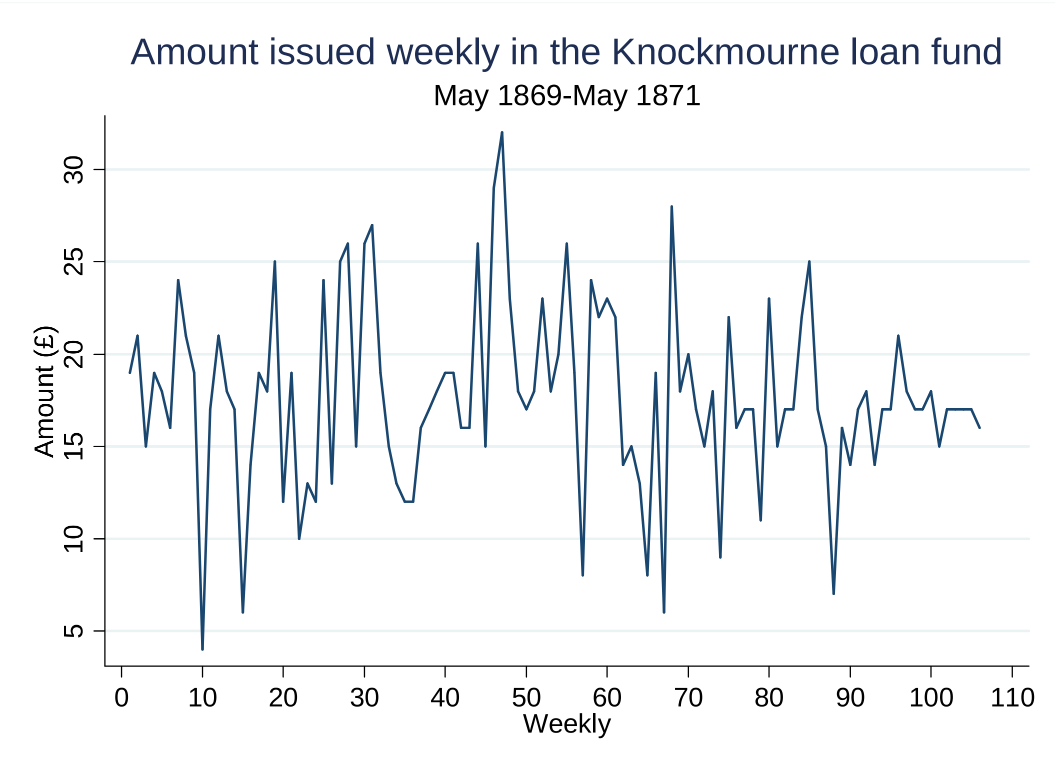
Figure 2.26



Source: Loan Fund Board Reports, various years.

Given this context, the weekly loan and monthly loan distribution of the Knockmourne loan fund provide us with some useful information regarding the demand for credit. Firstly, we will look at weekly loan issues.

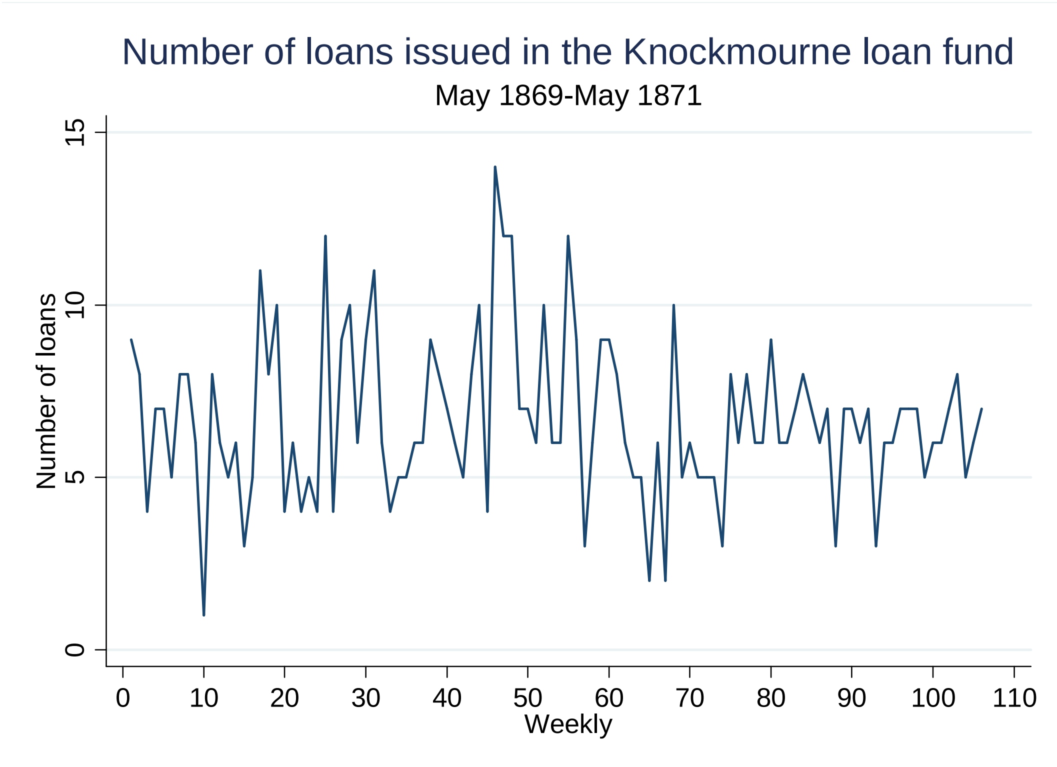
Figure 2.27



Source: 'Knockmourne loan fund…'

Figure 2.27 shows the amount of loans issued weekly in the Knockmourne loan fund.[52] As can be seen there was a lot of volatility in the amount of loans issued weekly. The average amount issued weekly was £17, with a standard deviation of 5.02. The outlying values in the period came in July 1869 when the smallest amount, £4, was issued and in April 1870 when the highest amount, £32, was issued. Figure 2.28 shows the number of loans issued; again there is some volatility in the frequency of loans issued, but the volatility decreases towards the end of the period.

Figure 2.28

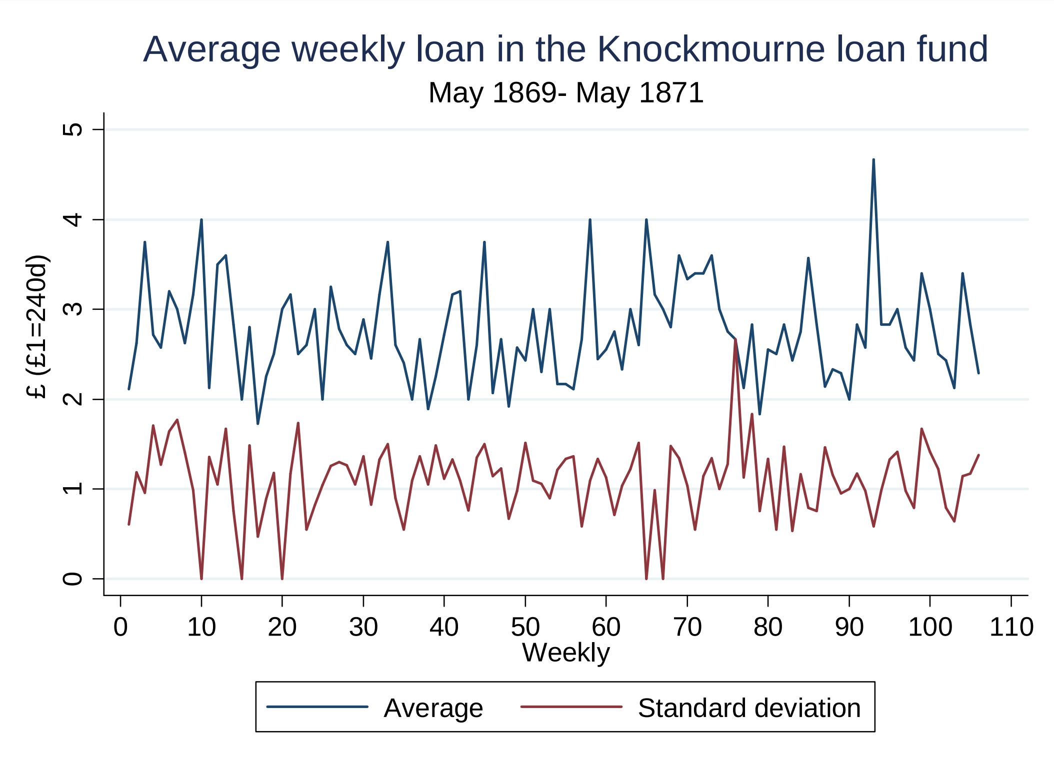


Source: 'Knockmourne loan fund…'

The average weekly loan along with the standard deviation is shown in figure 2.29. Although the average is very volatile it does show a tendency to stay between £2 and £4 during the period.

[52] The x-axis is the week number, starting from the first week in May 1869 and finishing in the last week of May 1871.

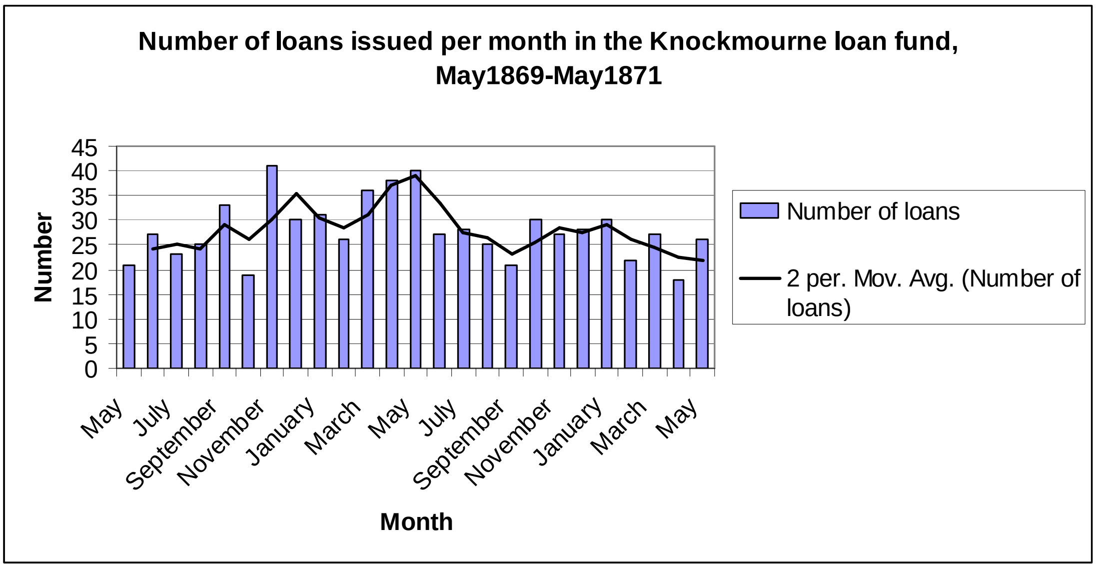
Figure 2.29



Source: 'Knockmourne loan fund…'

Finally from a monthly perspective, figure 2.30 shows the number of loans issued by month with an MA(2) process. From the vantage of monthly observations it does appear as though there is some seasonality in the distribution of loans from the Knockmourne loan fund. But it is also interesting to note that the level of loans is fairly constant throughout the year, even in the winter months. This would suggest that loans from the Knockmourne loan fund were not solely for agricultural investment. Particularly telling is the peak in November 1869 as November was traditionally associated with being one of the bi-annual periods for rent payment.

Figure 2.30



Source: 'Knockmourne loan fund…'

In the period May 1869 to May 1871, the Knockmourne loan fund made 705 loans to 295 borrowers,[53] or borrowers equalled 41.84 per cent of the number of loans in the period. Of these borrowers 18.87 per cent received only one loan, while the other borrowers received multiple loans, with 56 per cent of the borrowers receiving between 3 and 5 loans. For example, Edmond Geary, a labourer from Conna, Co. Cork, borrowed £2 on four separate occasions: 6 September 1869, 31 January 1870, 18 July 1870, and 19 December 1870. What is interesting about the pattern of borrowing is that each loan came very shortly after the 20-week loan period expired. From the Knockmourne account, it appears that Geary was not the only borrower who had multiple loans.

Of the loans made, 78.43 per cent of these borrowers were male, whilst 21.56 per cent were female. The number of sureties for the same period was 1,408, with 98.15 per cent of these being male and 1.85 per cent being female.[54] The occupations that were given for female borrowers varied, but the majority of them were classified as widows. The occupational distribution of borrowers and sureties of both genders are given in tables 2.2 and 2.3.

[53] The methodology used to count the number of borrowers was to sort the borrowers by name and then match the name with area and occupation.
[54] Two loans were made where a borrower only had one surety.

Table 2.2: Occupational distribution of the people who borrowed from the Knockmourne loan fund, May 1869-May 1871

Occupation	Percentage
Labourer	49.9
Widow	12.2
Farmer	11.6
Tailor	4.3
Shoemaker	3.9
Carpenter	3.4
Other	14.7

Note: there were 705 borrowers in the sample. The occupations contained within the group 'other' are; Butcher, Manty maker, Saddler, Mason, fisherman, Inn man, Tinker, Smith, Nailor, Dealer, Cooper, Musician, Pensioner, Steward and Spinster.
Source: 'Knockmourne loan fund…'

Table 2.3: Occupational distribution of sureties in the Knockmourne loan fund, May 1869-May 1871

Occupation	Percentage
Labourer	40.6
Farmer	27.2
Shoemaker	5.1
Butcher	3.8
Saddler	3.1
Tinker	2.8
Carpenter	2.6
Dealer	2.4
Fisherman	2.1
Other	10.3

Note: There were 1408 sureties in the sample, (two borrowers were able to borrow with only one surety). The occupations contained within the group 'other' are; Tailor, Nailor, Dealer, Pensioner, Cooper, Widow, Steward, Inn man, Smith, Mason, Gardener and Unknown.
Source: 'Knockmourne loan fund…'

The occupational distributions show that labourers made up the largest proportion of borrowers, but that the loan funds were used by a wide variety of people in the region of Knockmourne and its surrounding area. The occupational distribution of sureties is also interesting as it shows that labourers were also the largest grouping, perhaps a reflection of mutual securitisation whereby a borrower would reciprocate the act of surety. Farmers are also more represented in terms of sureties than they were as borrowers. This may be an indication that farmers acted as sureties for labourers. Given the variety of occupations of borrowers in table 2.2, maybe this is an explanation for the lack of obvious seasonality in the data on lending in Knockmourne.

2.3.2 Cloone and Kiltegan loan funds

Two other cases that are of interest to the loan fund narrative are the Cloone loan fund in Leitrim,[55] and the Kiltegan loan fund in Wicklow.

The case of the Cloone loan fund is an example of the local politics involved when a loan fund was dissolved while still possessing 'surplus assets'.[56] An interesting aspect of the Cloone case is that the main protagonist was the infamous Earl of Leitrim. The Earl of Leitrim, William Sydney Clements (1806-1878), was a cantankerous character in Irish history. Leitrim was a large landowner with estates in Donegal, Galway and Leitrim. He served as an M.P. representing Leitrim from 1839, after the death of his older brother R. B. Lord Clements, until he retired as an M.P. in 1847.[57] After succeeding his father as Earl of Leitrim he entered the House of Lords and was a sitting Lord from 1854 to 1878.[58] The Earl of Leitrim was previously cited in chapter 1 in relation to his speech admonishing the RLF and loan funds in general in Ireland.[59] Given that his biographer believed that there was a shift in the politics of the earl of Leitrim, from radical in the period 1839 to c. 1847 to an Irish Tory,[60] it would be interesting to see if there was a similar shift evident in his attitude towards loan funds.

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[55] *Copy of all correspondence between the stipendiary magistrate, the manager of the fund and others, and the Irish government, on the subject of the Cloone Loan Fund*, H.C. 1863 (502), xxix, 285. (Hereafter, *Cloone 1863…)*

[56] The correspondence was labelled by R. R. Madden to be on 'the subject of the disposal of the surplus assets of the late Cloone Loan Fund.': Ibid, p. 1

[57] A. P. W. Malcomson, *Virtues of a wicked earl: the life and legend of William Sydney Clements, 3rd Earl of Lietrim (1806-78)* (Dublin, 2009), p. 121.

[58] Ibid, p. 144.

[59] The earl of Leitrim was cited as Viscount Clements, and the speech cited was made in the House of Commons. Malcomson made reference to this speech as evidence of the 'intellectual power of the speaker': Ibid, p. 108.

[60] Ibid, p. 179.

The Cloone loan fund was one of the earlier loan funds formed in Ireland, as there is a record of it in the 1836 return of loan funds in Ireland.[61] The Cloone loan fund society was dissolved on 9 July 1861,[62] so this would give it a lifespan of approximately thirty years. It appears as though the dissolution of the society was in relation to fraud perpetrated by the clerk of the society,[63] but there was no comment on the case in the LFB reports so the details are somewhat vague. In appendices listing societies dissolved there was comment on the Cloone loan fund. It was stated that:

> All depositors paid in full, with one exception, that of Mr James Evan, for whose claim of £1000 the cheque remains in the hands of Secretary till such time as an indemnity is given to Board, the said depositor not being able to produce his debentures. The above-mentioned depositors has been paid in full since 31 December 1861.[64]

The fact that one of the depositors in this loan fund held £1,000 is interesting, further evidence to suggest that loan fund depositors were not from low income groupings.

If we analyse the LFB reports for a period of ten years prior to the cessation of activities in the Cloone loan fund we can get information on the activity of the society. Firstly, in terms of the capital, the structure of the LFB reports enables us to determine what amount of the capital was from deposits and what amount was free of interest. This is useful information because in the event of the society being wound up, the 'free' capital had no claimant, and if debts to the fund's creditors (depositors) were paid in full then what could be done with the surplus funds was at the discretion of the LFB.

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[61] *Return from Clerks of the Peace in Ireland of transcripts of Rules and Regulations of Loan Funds*, p. 5 (230) H.C. 1836, xlvii, 539

[62] *Twenty-fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, p. 14. [2989] H.C. 1862, xix, 214.

[63] R.R. Madden, '*In re* Cloone Loan Fund. Memoranda of Secretary of for Board's consideration,' 8 November 1861 in *Cloone 1863*…p. 1.

[64] *Twenty-fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, p. 14. [2989] H.C. 1862, xix, 214.

Table 2.4: Capital (interest free and deposits) of the Cloone loan fund society, Co. Leitrim, 1850-61.

Year	Capital	Interest free capital	Free capital as a % of capital	Deposits	Number of deposits	Average deposit
	£	£	%	£	£	£
1850	3,223	407	12.63	2,816	38	74.11
1851	4,196	555	13.23	3,641	40	91.03
1852	4,578	831	18.15	3,747	57	65.74
1853	3,004	963	32.06	2,041	26	78.50
1854	2,697	1,041	38.60	1,656	21	78.86
1855	3,055	1,188	38.89	1,867	25	74.68
1856	3,861	1,348	34.91	2,513	25	100.52
1857	4,227	1,533	36.27	2,694	25	107.76
1858	4,645	1,699	36.58	2,946	25	117.84
1859	4,462	1,822	40.83	2,640	20	132.00
1860	4,467	1,934	43.30	2,533	13	194.85
1861	4,525	2,022	44.69	2,503	13	192.54

Sources: *Thirteenth Annual Report of the Loan Fund Board, App*. [1370] H.C. 1851, xxiv, 39; [1509], H.C. 1852, xviii, 553; [1638] H.C. 1852-53, xli, 331; [1766], H.C. 1854, xx,197; [1937] H.C. 1854-55, xvi, 117; 1856 [2085] H.C. 1856, xix, 165; [2211], H.C. 1857 Session 2, xvii, 49; 1857-58 [2384], H.C. 1857-58, xiii, 565; [2521] H.C. 1859 Session 2, x, 425; [2625], H.C. 1860, xxxiv, 741; [2834], H.C. 1861, xxvii, 601; [2989], H.C. 1862, xix, 214.

From table 2.4 we can see that 'free' capital made up a significant proportion of the Cloone loan fund capital, growing to 44.69 per cent by 1861. In the same period there was a decrease in the number of deposits and depositors in the society. Before discussing the controversy surrounding the Cloone loan fund it is worth highlighting how the Cloone loan fund was able to accumulate such profits, as it is an example of how other loan funds operated.

Table 2.5: Income and expenses of Cloone loan fund society, 1850-1861

Year	Capital turnover	Discount as a % of loans	Fines as a % of loans	Salaries as % of loans	Interest as a % of loans	Interest as % income [a]	All costs % of total income [b]
		%	%	%	%	%	%
1850	3.45	3.11	0.35	0.54	1.14	31.98	51.40
1851	3.35	3.12	0.33	0.43	1.19	33.70	49.94
1852	3.39	3.12	0.38	0.43	1.25	35.05	50.01
1853	4.84	3.12	0.54	0.52	1.41	37.58	57.17
1854	3.81	2.92	0.47	0.73	0.85	25.07	52.40
1855	3.87	2.92	0.41	0.75	0.76	22.86	49.83
1856	3.62	2.92	0.41	0.64	0.79	23.73	52.67
1857	3.63	2.92	0.46	0.63	0.84	24.82	50.90
1858	3.76	2.50	0.43	0.56	0.80	27.29	53.89
1859	3.76	2.50	0.31	0.58	0.81	28.69	58.92
1860	3.86	2.50	0.37	0.56	0.77	26.79	60.52
1861	1.77	2.06	0.46	0.61	0.81	31.53	57.46

Notes:

a - interest refers to interest paid to depositors and income is the term profit in the LFB reports, which is discount plus fines.

b - All costs indicating total expenses and interest paid on deposits.

Sources: *Thirteenth Annual Report of the Loan Fund Board, App*. [1370] H.C. 1851, xxiv, 39; [1509], H.C. 1852, xviii, 553; [1638] H.C. 1852-53, xli, 331; [1766], H.C. 1854, xx, 197; [1937] H.C. 1854-55, xvi, 117; 1856 [2085] H.C. 1856, xix, 165; [2211], H.C. 1857 Session 2, xvii, 49; 1857-58 [2384], H.C. 1857-58, xiii, 565; [2521] H.C. 1859 Session 2, x, 425; [2625], H.C. 1860, xxxiv, 741; [2834], H.C. 1861, xxvii, 601; [2989], H.C. 1862, xix, 214.

Firstly, we can see that the Cloone loan fund had a high capital turnover, indicating that a large number of loans were made from the capital of the society. Table 2.5 shows the income and cost variables of the Cloone loan fund society as a percentage of the loans that were made. This is a useful way to illustrate how the income from loans was greater than the costs. And in the final column of table 2.5 we can see that the total costs of the society were roughly one half of the income, indicating that the societies were making a profit. In the case of the Cloone society it is also interesting that out of the profits annual sums were expended on charitable causes, whilst the remainder of the profit was added to the society's capital. In the period 1851 to 1860, an average of 29.81 per cent of profits was expended on charitable purposes.[65]

[65] This is the mean percentage of charitable expenditure between 1851 and 1860.

After the Cloone society was dissolved, it was stated in an LFB report in 1863 that:

> The total amount lodged to Board's credit, including £21 14s 5d interest allowed by Bank to 31st December, 1862, was £4,352 6s 3d. The actual amount available, after paying all depositors in full, £2,603, and charges of collection, &c., £239 8s, was £1,500 18s 3d. Out of above, available assets Board ordered to be applied to the relief of urgent distress in the district the same to be administered through the Resident Magistrate, C. De Gernon, Esq., the sum of £1,300, which was accordingly lodged in hands of government for disposal by Mr. De Gernon, leaving a balance in Bank to Board's credit on the 31st December, 1862, of £209 18s 3d, of which amount £200 up to 31st December, 1862, was applicable to charitable or useful purposes in Loan Fund district.[66]

The main problem in the case of the Cloone loan fund was that it had accumulated a large unappropriated reserve. The LFB received numerous petitions from local people for the use of the funds, either to reconstruct a loan fund or to use the funds for charitable purposes. The LFB was reluctant to allow a new loan fund to be established. In a memorandum, written for the LFB, R. R. Madden outlined the position:

> …the circumstances and difficulties above referred to [malpractices and prosecution of the clerk of the society] connected with those of the present calamity of the distress prevailing in the district, which there is reason to believe will increase, and in the course of the ensuing winter, amount to actual wide-spread destitution, make it quite evident the old Loan Fund cannot be reconstructed with advantage or with safety to the surplus profits of the old charity.[67]

Another contentious issue related to the fact that the borrowers from the society had not all been exclusively from Cloone, but instead were from all over the region. The rules of loan funds were supposed to have restricted their activities to certain localities. However, it seems from a variety of sources, including the Knockmourne loan fund cited above, that this requirement was not always followed. This practice, coincidently, undermined the theoretical informational advantages of a loan fund in screening and monitoring borrowers. In the case of the Cloone loan fund the practice of lending outside the legal district meant that people outside of the district of Cloone, by using the loan fund, had contributed to the surplus profits which were in the trusteeship of the LFB. There were continued petitions from local interest groups for access to these surplus profits for charitable purposes, but the LFB's legal advice did

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[66] *Twenty-fifth Annual Report Annual Report of the Commissioners of the Loan Fund Board of Ireland*, p. 14. [3169], H.C. 1863, xxviii, 553.

[67] R.R. Madden, '*In re* Cloone Loan Fund. Memoranda of Secretary of for Board's consideration,' 8 November 1861 in *Cloone 1863*…p. 1.

not believe that such requests could be acceded to as they came from outside of the district of Cloone.[68]

The LFB had decided to use the money for charitable relief in Cloone, but in this they were challenged by the Earl of Leitrim who claimed that the doling out of funds was illegal and that the surplus funds should be invested in stock and that the interest from such investment should be in future used for charitable relief. The Earl of Leitrim, in a letter to the secretary of the LFB, stated that:

> I now beg that you will submit to the Board my earnest hope that they will not allow the large sum of money now staged to be at the disposal of the Board, to be distributed in alms during the present season, but that they will take into their consideration the propriety of either devoting the money to some useful and charitable local purpose, or else that they will direct the money to be invested in the funds, and devote the interest to charitable distribution.[69]

The Earl of Leitrim seems to have taken exception to his request being ignored by the LFB,[70] as was seen in his subsequent actions.

The local magistrate, Mr. De Gernon, distributed Indian meal in July 1862 to people in the district of Cloone and Mohill in county Leitrim, the Indian meal was given on credit and secured by IOUs to be repaid in December of that year.[71] It was alleged that the Earl of Leitrim encouraged his tenants to default on these loans. The Earl of Leitrim justified his actions by saying that charity should be given and not be expected to be repaid. In a letter written to the Lord Lieutenant in December 1862, the month the loans were due to be repaid, the Earl stated that:

> I am of opinion that the We O U's should be abandoned forthwith, and that the poor should not be required to repay what was given in charity, in my opinion improperly given; but if not a bona fide gift, the case becomes one of far greater impropriety.[72]

But the accusation was raised that the Earl of Leitrim had willingly encouraged loan defaults in order to maximise the payment of rent for the season.[73]

The earl of Leitrim continued his attack on the LFB in the House of Lords. In 1863 he raised a motion for:

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[68] See for example 'Letter from Reverend G. Beresford to Secretary of the Loan Fund Board,' 2 January 1862, and 'Letter from C. De Gernon to Loan Fund Board, 16 January 1862 in *Cloone 1863…* pp 8-9.

[69] 'Letter from the earl of Leitrim to the Secretary of the Loan Fund Board,' 24 December 1861, in *Cloone 1863…* p. 7.

[70] Rather from statements made in the House of Lords, cited below, he seems to have taken issue with R. R. Madden.

[71] 'Copy of letter of Mr. De Gernon to Secretary, Loan Fund Board. Original document forwarded to Governemnt, wth cheque 200*l.*' 8 July 1862, in *Cloone 1863…* p. 16.

[72] 'The Earl of Leitrim to the Lord Lieutenant' 11 December 1862, in *Cloone 1863…* p. 57.

[73] 'Letter from C. De Gernon to the Under Secretary [Thomas Larcom]' 12 January 1863, in *Cloone 1863…* p. 285.

Her Majesty to appoint a royal commission to inquire into the propriety of the Loan Fund Board having ordered that the Cloone Loan Fund should be closed and the funds confiscated, and to inquire into the state of those funds, the manner in which they have been employed, and how far the same can be appropriated to the benefit of the poor of that locality. [74]

Leitrim's motion and attack on the LFB was questioned by the Earl Granville, who argued that there was no ground for complaint, as the LFB did not abuse its power. Rather he believed that the fault lay with the earl of Leitrim. The Earl Granville was the leader of the Liberal party in the House of Lords, and at the time in question was also the lord president of the council in the Whig cabinet.[75] The Earl of Leitrim's complaint appeared to be how the surplus funds were used, and the Earl Granville outlined how that a local non-denominational committee took responsibility for the disbursal of the surplus funds.[76] He cited a case where one of the clergymen had written to the Earl of Leitrim and that Leitrim's response was to 'express a desire that the writer would never communicate with him on any subject whatever'.[77] Granville also raised the issue of the Earl of Leitrim encouraging debt defaults, stating that 'he was assured that the noble Earl actually advised some of his tenants not to repay the advances made to them'.[78] The Earl of Leitrim stated that both accusations were incorrect.[79] The earl Granville, in reply to Leitrim's denials, declared that:

From everybody, except the noble earl, he had received the facts as he had just stated them to the House, he must say, that he had never heard a more idle accusation against a body so respectable as the Loan Fund Commissioners.[80]

After this the Earl of Leitrim retreated from his attack on the LFB, stating that:

[He] did not deny that the Loan Commissioners were very respectable in name; but the members of that Commission rarely attended to their duties. The Board was a mere farce, the whole business being in the hands of one gentleman. As regarded the correspondence to which reference had been made, the fact was, that having applied for information at the outset, he received a letter stating that his interference was not required. Subsequently, when all the funds had been expended, one of the clergymen wrote to him, asking for additional contributions, which were to be expended in the very manner of which he had all along expressed disapproval. Not unnaturally he returned a refusal. Conceiving that there had been an improper use of public money, when applied to for

[74] *Hansard 3,* clxiii (26 March 1863), p. 1927.
[75] Muriel E. Chamberlain, 'Gower, Granville George Leveson, Second Earl Granville (1815-1891)' in *Oxford Dictionary of National Biography*, xxiii (Oxford, 2004), p. 111.
[76] Earl Granville's account is corroborated by *Cloone 1863…*
[77] Ibid, p. 1928.
[78] Ibid.
[79] If we were to believe Malcomson we would take this denial at face value as Malcomson's enamoured account of Leitrim led him to state that Leitrim 'was a truthful man': A. P. W. Malcomson, *Virtues of a wicked earl: the life and legend of William Sydney Clements, 3rd Earl of Lietrim (1806-78)* (Dublin, 2009), p. 239.
[80] *Hansard 3,* clxiii (26 March 1863), p. 1928.

> advice by several of his neighbours, he advised them to resist payment of sums with which they were improperly charged. But he never recommended any man to withhold money that was legitimately due.[81]

It is difficult to evaluate the nature of Lord Leitrim's gripe in the Cloone loan fund case as he had a track record of harassing public bodies with hostile letters. He was also on bad terms with the then under-secretary Thomas Larcom. As the LFB was appointed by the Lord Lieutenant or 'other chief governors of Ireland',[82] this meant that the under-secretary to the Lord Lieutenant was in effect responsible for the LFB. Evidence of this was given by his biographer:

> Leitrim's letters were provoking; they were intended to be so; and they certainly succeeded in being so in Larcom's case [letter written in relation to an unfounded charge made by [earl of] Leitrim that the Co Leitrim police had been guilty of wilful dereliction of duty]. But they were neither foul-mouthed nor ill-mannered.[83]

The letter referred to in the citation above was a completely unrelated matter, but Leitrim seems to have had a track record of writing letters to public bodies and figures and then expecting personal and prompt replies.[84]

The allegations that the earl of Leitrim encouraged loan defaults out of self-expedience seem to be supported by some circumstantial evidence. His biographer stated that:

> It was not as a turbulent parliamentarian and local magnate, or as an unremitting harrier of Dublin Castle and its stipendiary representatives in the localities, that Leitrim achieved his greatest notoriety: it was as a landlord.[85]

His biographer asserted that it was a policy to recover arrears that had accumulated on the family estate in 1840s[86] and that the estate had accrued debts during the famine financing drainage works.[87] Malcomson stated that 'Leitrim's first and main objective was to clear arrears and maximise rental income'.[88] All of which suggests that perhaps there is truth to the accusations raised against Leitrim. Leitrim seems to have personalised the case by placing blame on the secretary of the LFB, to whom correspondence was directed. But there may be truth in Leitrim's belief that the

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[81] Ibid, p. 1928.
[82] An Act to amend the Laws relating to Loan Societies in Ireland, 1836 (6 & 7 Will. 4) x. 55, section ii.
[83] A. P. W. Malcomson, *Virtues of a wicked earl: the life and legend of William Sydney Clements, 3rd Earl of Lietrim (1806-78)* (Dublin, 2009), p. 155.
[84] For example he wrote a letter to the Prime Minister Peel regarding another policing issue and seems to have been upset by the terse reply that he received:, Ibid, p. 154.
[85] Ibid, p. 193.
[86] In 1854 arrears for the estate in Donegal amounted to £15,585 and in Leitrim to £7,214: Ibid, p. 196.
[87] Malcomson estimates that the inherited debt was around £12,500: Ibid, p. 197.
[88] Ibid, p. 201.

LFB secretary possessed too much power. The 'bubble' outlined in section 2.2 occurred after the retirement of R.R. Madden who had occupied the position of secretary to the LFB for thirty years.[89] Perhaps the fact that a loan fund 'bubble' did not take place before 1880 was due to the presence of Madden as secretary. Therefore the bubble after 1880 may then be a reflection of a lack of long-term institutional evolution within the LFB as it was effectively personally administered by one individual.

Finally, the reply from the LFB to a request to sanction the establishment of a new loan fund in the area of Cloone is interesting regarding the operation of loan funds in general. The following letter was written by R. R. Madden in 1862 in response to the request to extend interest-free loans beyond the original area of the loan fund:

> I am directed by the Board to inform you, in reply to your letter of 27th ult., respecting the Fund at your disposal for the relief of the suffering poor of the district included in the limits of the late Cloone Loan Fund, namely, the parishes of Cloone and Mohill, that no machinery exists for carrying out your suggestion of issuing small loans to poor farmers, payable, without interest, in quarterly instalments. It is to be borne in mind that there are many expenses and trouble attendant on opening and conducting a loan fund, such as stationery, office rent, salaries of two or more officers, &c. If there is no revenue in the shape of discount, fines, &c., how are the expenses to be met except by drawing on the principal, which in a very short time must be eaten up by such charges? If it is urged that disinterest[ed] persons will undertake all the expense and trouble attendant on such business, it must be observed it has been invariably found by the Board's Inspector, that in cases even where depositors have large sums at stake, it is next to impossible to get them to attend for one or two hours in each month to perform a duty on which the safety of their own money depends, and that the important and troublesome duties of loan fund business would be very imperfectly done, in any case, by unpaid and uninterest[ed] persons in subordinate positions, and, after a little, not done at all, or done disadvantageously with regards to the funds dealt with, and likewise to the character of the Loan Fund Institution itself.[90]

This statement from the LFB suggests that depositors were poor monitors of loan funds, and that this was a persistent weakness in the LFB system.

Another case is the Kiltegan loan fund, which was referred to in the unfinished memoirs of Edward O'Toole[91] (1860-1943) that were written towards the end of his life in the 1940s.[92] In his memoir O'Toole referred to the re-organisation of a loan

[89] Thomas More Madden (ed.), *The memoirs (chiefly autobiographical) from 1798 to 1886 of Richard Robert Madden* (London, 1891), p. 275.
[90] 'Letter from Secretary of Loan Fund Board to C. De Gernon', 3 May 1862, in *Cloone 1863…* p. 12.
[91] Edward O'Toole died before his memoirs were finished: See Edward O'Toole, *Whist for your life, that's treason: Recollections of a long life* (Dublin, 2003).
[92] Edward O'Toole's account is corroborated by the evidence given by Rev John Delany to the 1914 Committee on agricultural credit: See *Departmental committee on Agricultural Credit in Ireland:*

fund in the parish of Kiltegan, Co. Wicklow, in 1904.[93] The society had previously been in existence, but had died out and a cash balance of £395 was left in the National Bank in Baltinglass.[94]

The case of the Kiltegan loan funds is interesting as it highlights a sectarian element to the loan funds. In his description of the fund, which was first established in 1841, O'Toole emphasised the Protestant nature of the society. O'Toole stated that:

> The Society was very well managed and as the population of the country at the time was at a peak point and consisted principally of small farmers and agricultural labourers, a very large business was done and a good profit was made. It is interesting and instructive now to examine how most of that profit was disposed of. The debenture holders were all Protestants and got 5 per cent on their investments, the two Protestant clerks got £30 in salaries and an annual endowment of from £10 to £5 was given yearly to the Protestant teachers of the schools at Stratford lodge, Baltinglass, Fortegranite, Kiltegan and Torboy. If anything were left it was used to buy blankets for the Catholic paupers of Kiltegan and neighbourhood.

The languishing of the old society led to action and the actions 'made by some representatives of the old crowd to have the society re-organised' led O'Toole and a local parish priest, Fr. Delany, to apply to the LFB to have representation in the society and access to the idle funds of the loan fund that was to be reorganised in the area.[95] The argument of Fr. Delany and O'Toole was that 'the Catholic community which provided the vast majority of borrowers should have adequate representation in any meetings which were to be held for the re-organisation of the Society.'[96] When the Society was reorganised Fr. Delany was elected as Chairman and Treasurer, and O'Toole was elected as clerk, with O'Toole stating that 'we are both, thank god, carrying out the same duties to the present day, July 1941.'[97]

O'Toole also referred to the general lack of awareness about the loan fund system. In an incident in the 1920s he recounted how his house was searched by British Auxiliaries and upon their finding the loan fund accounts in his possession he was suspected of running a Sinn Féin Loan Fund.[98] The Kiltegan loan fund received a mention in the 1914 report on agricultural credit as being an exemplary model for loan funds in the way that 'all the representative persons in the district were taken into

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minutes of evidence, appendices and index, paragraphs 16845-16984, pp 438-442. [Cd. 7376] H.C. 1914, xiii, 431.

[93] Edward O'Toole, *Whist for your life, that's treason: Recollections of a long life* (Dublin, 2003), p. 125.

[94] Ibid, p. 124.

[95] Ibid, pp 124-125.

[96] Ibid, p. 125.

[97] Ibid, p. 125.

[98] Ibid, p. 184.

the society – the clergymen, county councillors, and others.'[99] But it was an atypical loan fund as it was established in the twentieth century.

2.4 The demise of the LFB loan funds, 1896 to 1914

As was stated in section 2.2 the LFB reports were inconsistently published in the second half of the nineteenth century. One period where there is an abundance of available source material regarding LFB loan fund activity is between 1896 and 1906. During this period the LFB resumed the publication of its annual reports and there was also a parliamentary inquiry into the activities of all loan funds associated with the LFB.[100] There were also references to loan funds in both parliamentary debates and local newspapers.

This sudden appearance of source material needs to be questioned as to why it emerged and why such interest in loan funds was not constant throughout the nineteenth century. There is a straightforward explanation at hand: in 1896 verdicts in cases taken by a number of loan funds against defaulting borrowers went in favour of the defendants.[101]

The court decisions adjudicated that the loans, for which cases were brought, were issued in violation of the 1843 loan fund act,[102] and that the borrower was exonerated from the repayment of the debt under the loan fund legislation.[103] The initial verdicts were challenged, but the appeals were dismissed. In the judgement of the case of 'the treasurer of the Enniskillen loan fund society v Green' it was found that as the borrower did not reside within the area which the Enniskillen loan fund had given as its area of operations, the loan could not be pursued in the petty session courts system. The main issues that arose from the case were: that the sum of money being sought was in fact a renewal of a loan issued seventeen years previously, that the borrower was residing outside the loan fund's stated jurisdiction, that the loan fund had violated its own rules, and that there had been a change of treasurer since the

[99] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 288, p. 100, [Cd. 7375], H.C. 1914, xiii.1.
[100] *Report on charitable loan societies, 1897*.
[101] *Fifty-ninth annual report of the Loan Fund Board of Ireland*, p. 5 [C.8725], H.C. 1898, xx, 351.
[102] Renewals were illegal under loan fund legislation, and interest was reduced under the 1843 act.
[103] A headline from a newspaper in 1897 was 'decision in favour of borrowers', *Anglo-Celt* (7 August, 1897).

original loan was made and the new treasurer could not sue for the debt in the name of the old.[104]

As this was a landmark case in the context of the LFB system it is worth elaborating on some of the evidence that was presented. In particular the point regarding the society violating its own rules referred to the fact that the borrower and sureties were already in debt to the society. In the case the borrower was previously indebted to the society, as he was the surety for his sureties. Also his sureties were already in debt to the society, as they themselves had outstanding loans. It was stated that:

> No money, however, had been advanced to any of the defendants on the 30th January, 1896, nor for many years previous, this note being the last of a series of renewals of an original note given more than seventeen years ago. It had been the custom of this society to allow borrowers to renew their loans every three months, the borrowers first paying all fines incurred under the previous note, and the interest which would accrue due on the new note, in the present case in all amounting to the sum of 9s 4d. The defendant had already paid £44 to the society, by way of renewal fines and interest on the original note.[105]

The borrower was also residing 5 miles outside of the district stated to be the area where the Enniskillen loan fund society operated. What the courts deemed to be at odds with the act was the fact that the loan fund act deemed that loan fund societies were to be for the benefit of the industrious poor within a stated area. Provided they operated within the area stated there would be no legal doubt surrounding the recovery of debt, but if the loan fund operated outside its stated area, then the loan fund ceased to abide by the loan fund laws. It is interesting that some of the elements in this case were so instrumental in derailing the LFB system as the reverberations seem to suggest that the faults highlighted in this case were universal amongst LFB loan funds in Ireland. Shortly after the Enniskillen loan fund society v Green, an appeal from the Castlederg loan fund society in Tyrone was dismissed. The resulting case determined that loan renewals were in fact ‘contrary to the provisions of the loan fund act, 1843’.[106]

These decisions created panic amongst people involved in loan funds. As was alluded to in section 2.2 there had been an increase in the number of loan funds from 1880 until 1896, and the verdicts, which were upheld, endangered any capital invested in loan funds. It meant that loans made via the LFB system could only be recovered if

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[104] *The treasurer of the Enniskillen loan fund society v Green*, [1898] 2 Ir. R. 103 (QB).
[105] Ibid, pp 104-105.
[106] *Skey v. Shield* [1899] 2 IR 119 (QB).

they were made in adherence to the 1843 act and to the rules that the societies had lodged with the LFB, and the report published in 1897 showed that the majority of loan funds had not adhered to the law. The problem was compounded by the fact that loan funds, as they had registered under the 1843 Loan Fund Act, were thereby disqualified from suing for promissory notes (i.e. debts)[107] under the alternative Petty Session Acts.[108] This situation was outlined in the fifty-ninth LFB report in 1898:

> The decisions lately given do not appear to involve the invalidity, under the ordinary law, of renewed promissory notes given to loan fund societies, working under 6 and 7 Vict. c. 91. They merely decided that such renewals cannot be sued on *under that statute.* If, however, actions are brought, under the ordinary law, upon renewed promissory notes given to Loan Fund Societies, the absence of a stamp (with the Loan Fund Act dispenses with) will be practically fatal to the claim.[109] (sic.)

Loan funds, by registering under the loan fund acts had taken advantage of the tax exemption which did not require the stamping of promissory notes, but by doing so they were prevented from suing for debts outside of the loan fund act – suing for debt required a stamp on the promissory note. In the opinion of one of the judges in the Enniskillen case there was nothing stopping a loan fund from trying to recover a debt in court as the judgement did not necessarily invalidate the debt; only the judgement meant that the loan fund could not recover debts under the petty sessions act.[110] As the 1843 loan fund act specially made reference to loan recovery in the petty session courts, this meant that loan funds could not adequately and economically enforce debts. Although recourse to higher courts could have been possible, this would have increased the transaction costs associated with debt recovery. Given the low value of loan fund loans it is quite possible that the increased transaction costs would have been greater than the size of the loan.

2.4.1 The 1897 report

In 1896 an inquiry took place into the 'proceedings of all existing loan societies established in Ireland under the authority' of the LFB.[111] The commission of inquiry

[107] Essentially IOUs, except the loan funds were required to use special promissory notes with an LFB stamp; an example is seen in plates 2.1 and 2.2.
[108] The legal means for enforcing debts was outline in chapter 1. The main feature of the loan fund legislation was an exemption from stamp duty. This also included an exemption of stamps on promissory notes. But such an exemption effectively excluded loan funds suing for debts issued that contravened the 1843 loan fund act.
[109] *Fifty-ninth annual report of the Loan Fund Board of Ireland*, p. 7 [C.8725], H.C. 1898, xx, 351.
[110] The treasurer of the Enniskillen loan fund society v Green, [1898] 2 Ir. R. 103, pp 116-117.
[111] *Report on charitable loan societies, 1897,* paragraph 1, p. 3

was given a broad remit and the resulting report was based on inquiries 'into the proceedings of the 104 loan societies' registered with the LFB at the time.[112]

The 1897 report on loan fund activity is an interesting document regarding the performance of the loan funds. It is also a useful document in that it is arguably devoid of bias. The commission to investigate the loan funds was comprised of two independent civil servants and the inspector of the LFB. The inquiry was held in public, and as such there were reports in local newspapers. The inquiry was given a wide remit and the resulting report was an indictment of the LFB system as it was then constituted. It must be borne in mind that the system had not experienced any major reform since the 1843 Act, with the only significant change in legislation affecting loan funds being one that increased the price of stationery and documents purchased from the LFB.[113]

The 1897 report into the proceedings of the charitable loan societies in Ireland[114] was the first such direct enquiry into loan fund activity since the establishment of the LFB in 1836. Although there was a committee investigating loan fund activity in the 1850s, its main aim was to inquire into the proceedings of the funds of the Reproductive Loan Funds (RLFs). Confusion surrounding the demarcation between the RLFs and loan funds associated with the LFB led to the activities of the LFB being included in the inquiry.[115] In contrast, the 1897 inquiry was the first, and essentially the sole inquiry, that directly focused on the loan funds associated with the LFB. The 1897 report is a survey of what can happen to microfinance institutions that are under-regulated and where needy borrowers are exploited; in effect what can happen when predatory moneylenders are given rights and privileges for exacting repayments.

A question that was not satisfactorily answered by Hollis and Sweetman was how the loan funds continued to operate in the post-famine period. Given that the 1843 act reduced the rate of discount which loan funds could charge and that the interest payable on deposits was also reduced, it would be interesting to see how the loan funds were able to compete in the post-famine period under such legislative restraints. Were the surviving loan funds able to develop strategies to cope with the

[112] Ibid, paragraph 2, p. 3.
[113] Loan Societies (Ireland) Act, 1843, Amendment Act, 1872 (35 & 36 Vict.).
[114] *Report on charitable loan societies, 1897.*
[115] This inquiry was cited in chapter I: *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, H.C. 1854-55 (259), vii, 321.

reduction in income, or did they have a comparative advantage in information creation?

From the 1897 report we see a number of ways in which the loan funds overcame such legislative restrictions. One of the main strategies was simply to ignore the legislative restrictions and to charge a higher rate of discount than what was permitted by the 1843 act. It must be noted that this was actually done with the consent of the LFB, as it gave misinformed advice to loan societies. As previously stated, the 1843 act reduced the rate of discount from 6 pence in the pound to 4 pence in the pound.[116] But the LFB issued a circular to all societies in 1845 informing them that the 1843 act permitted them to issue monthly loans 'at a rate of *discount* not exceeding 1 ½ d per pound per month, or 7 ½ d in the pound on the sum issued for a period of five months.'[117]

Given that the 1843 act aimed to reduce the discount from 6d in the pound to 4d in the pound, it does not seem to have been its intention to actually raise the rate of discount to 7 ½ d in the pound as was advised by the LFB.[118] In terms of annualised discount rates,[119] the 1897 report stated that:

> We are confirmed in this opinion by a consideration of the fact that the rate of discount 6d in the pound, or £12 8s 3d per cent per annum, was made illegal after 31st March 1844, by section 29 of the Act of 1843, and that section 27 of that Act restricted the rate of discount to a sum not exceeding 4d in the pound for 20 weeks, or £8 5s 6d per cent. A rate of *discount* of 7 ½ d in the pound on a loan repayable by monthly instalments, for a period of five months, is £13 11s 7d per cent per annum.[120]

The 1897 report stated that the LFB had confused the terms interest and discount, as the 1843 act had stated that 1 ½ d in the pound per month was chargeable as interest, and 4d in the pound per week for 20 weeks was charged as discount. The LFB, however, misinterpreted 1 ½ d in the pound per month to be discount, and not interest, and thus allowed loan funds to charge higher rates of discount. The 1897 report also gave an insightful table showing what rates of discount were being charged by various societies and it is reproduced in table 2.6.

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[116] It reduced the rate of discount from 2.5% to 1.67%.
[117] *Report on charitable loan societies, 1897*, paragraphs 84-85, p. 15.
[118] The rate of discount and the rate of interest are two distinct ways of charging for the use of money. Loans issued with a discount rate imply that the interest was discounted from the principal before the loan was issued, and the full amount of the principal would be repaid in the future, i.e. *p-d* is the loan, and *p* is repaid. Loans issued with an interest rate meant that the principal would be issued, and the principal would be repaid with interest, i.e. *p* is the loan, *p+ i* is then repaid.
Appendix B from the report outlined how the discount was calculated.
[119] The methodology used in calculating these rates has been included in an appendix to this chapter.
[120] *Report on charitable loan societies, 1897*, paragraph 85, p. 15.

Table 2.6: Rates of discount on monthly loans in 1895

Rate of discount	Discount rate (%)	Effective annualised interest rate (%)	Number of societies
7 ½ d in the £	3.13	1.35	55
7d in the £	2.92	1.25	6
6 d in the £	2.50	1.07	20
5d in the £	2.08	0.89	2
4 d in the £	1.67	0.71	4

Note: There are 240d in the £.
The annualised interest rate has been calculated by applying the following formula:[121]
i=(d/(1-d))*100, and annualised by multiplying i by 5 (number of months in the loan term) and dividing by 12 (number of months in the year).
The monthly interest of 1.5d in the £, was equal to 0.62%, annualised to 0.26%

Source: *Report on charitable loan societies, 1897,* paragraphs 84-85, p. 15.

The 1897 report stated that there was an increase in the number of societies that availed themselves of the permission to charge the higher rate of discount on monthly loans, with only twenty loan funds using the 'legal rate of 4d in the £.'[122] The fact that loan funds were able to exploit the misinterpretation of the 1843 act meant that, contrary to the view held by Hollis and Sweetman, loan funds did not actually experience severe interest rate restrictions. Increases in discount may also explain the growth in the average loan sizes shown in section 2.2.[123]

In the LFB reports from 1860 to 1915 there is a breakdown of the amount of loans and the amount of monthly loans, so it is possible to see what percentage of loans were issued as monthly loans. This enables us to determine if the number of monthly loans increased over time and therefore to see if loan funds issued monthly loans to avail of the higher discount rates. The reports stated the amount issued in loans and the amount issued in monthly loans, but unfortunately there is no such distinction given in the information on the actual number of loans, so it is not possible to make a comparison between the average sizes of loans issued monthly and weekly loan terms.

[121] Samuel A. Broverman, *Mathematics of investment and credit* (Toronto, 2004), p. 32.
[122] *Report on charitable loan societies, 1897,* paragraph 88, p. 15.
[123] For example if someone needed £5, he/she would actually have to borrow more than £5. As most loan funds usually gave loans for integer sums, he/she would have to borrow £6 to actually get £5 because of the discount charge. Therefore higher discount rates could be an explanatory factor in the increase in the amount of loans issued.

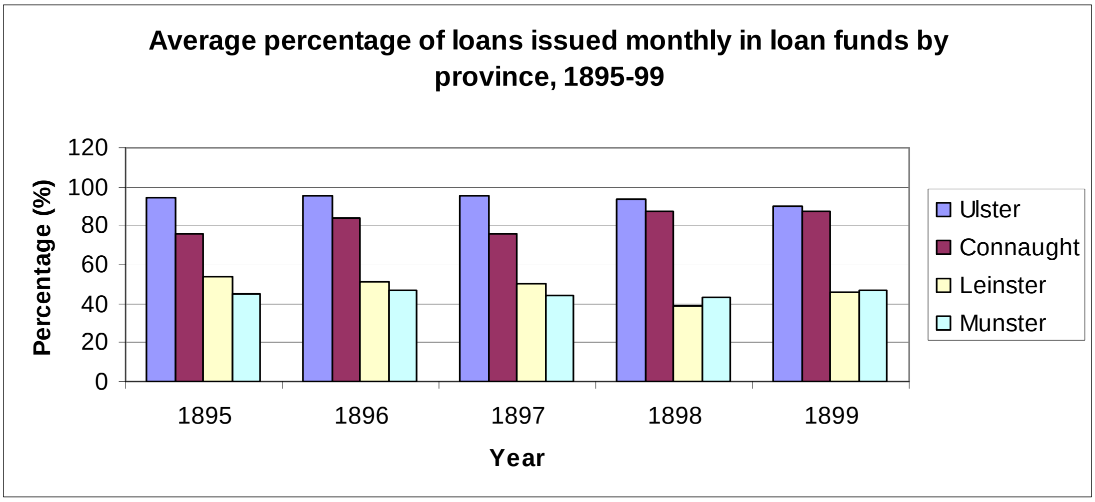
Table 2.7: Number of loan fund societies issuing monthly loans, and the percentage of monthly loans, 1861-1911

Years	Number of societies	Number of societies where all loans were monthly [a]	Number of societies where all loans were weekly [a]	Mean percentage of loans issued monthly (Mean of all societies)	Median percentage of loans issued monthly (median of all societies)
1861	105	11	42	42.58	45.30
1871	81	8	32	44.80	46.20
1880	78	10	25	50.46	55.62
1895	104	52	17	75.02	99.87
1896	104	55	17	83.16	100
1897	98	50	17	73.81	100
1898	82	31	15	67.50	91.27
1899	75	21	13	65.49	85.16
1901[b]	52	15	12	65.03	84.13
1911[c]	50	19	7	74.94	95.28
Percentage change 1880-1895	33.33	400.00	-32	48.67	79.56
Percentage change 1895-1899	-28	-58	-23.52	-12.71	-15.76

Note :
a - loans issued weekly and loans issued monthly refer to the frequency of repayment. For monthly loans, loans were repaid in monthly instalments and for weekly loans the instalments were weekly.
b – the number of loan funds have been adjusted to reflect the fact that a number of loan funds are inactive. In 1901 there were 96 loan funds in the reports, but only 52 were active.
c – the number of loan funds have been adjusted to reflect the fact that a number of loan funds were inactive. In 1911 there were 80 loan funds in the reports, but only 50 of them were active.
Sources: Loan Fund Board reports, various years

As is seen in table 2.7 roughly 50 per cent of all loan funds were issuing only monthly loans in 1895 and 1896, with a smaller proportion of societies not issuing monthly loans. The remaining societies issued a mixture of monthly and weekly loans. Given that a large number of societies were issuing monthly loans as shown in table 2.7, coupled with the fact that a large number of societies were charging discount over the rate legally permitted by the 1843 loan fund act, as shown in table 2.6, it is not surprising that the LFB system was decimated at the turn of the century when the law was enforced. Although advantageous for a borrower in terms of reducing the opportunity cost of weekly repayments, the switch to issuing monthly loans also undermined some of the informational advantages of the loan funds. Weekly repayments would have enabled loan funds to monitor borrower performance more closely, but monthly loan repayment periods meant that loan funds lost three weeks' monitoring. The 1897 report gives us another perspective of this switch to monthly loans which supports the argument that information advantages were eroded. The 1897 report stated that several loan fund clerks held several clerkships simultaneously in various loan funds, particularly in Ulster. The report stated that clerks took advantage of monthly loans so that they could perform their plural tasks.[124] Figure 2.31 gives us a breakdown of the provincial distribution of monthly loans and from figure 2.31 it can be seen that the highest percentage of monthly loans were issued in Connaught and Ulster.

Figure 2.31

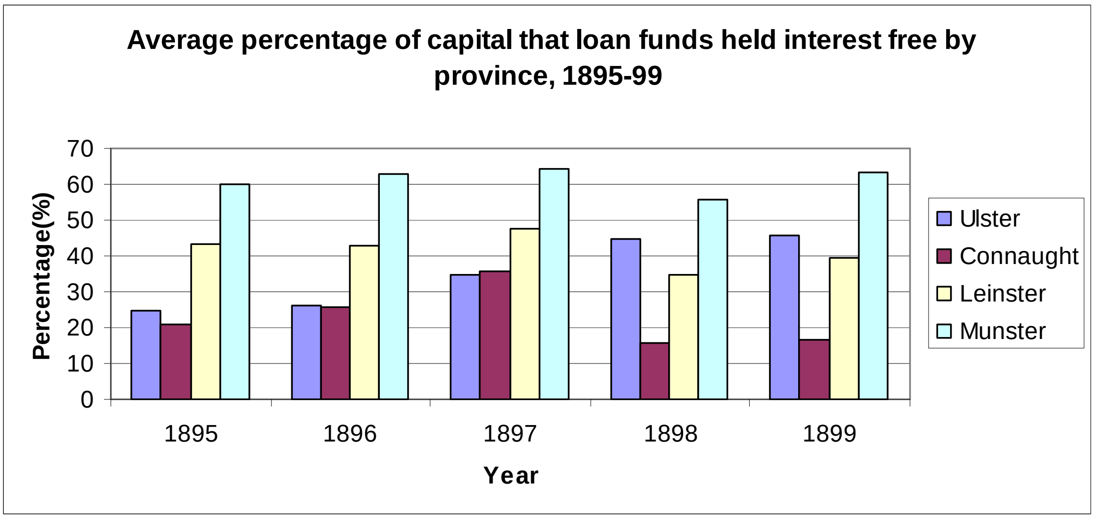


Source: Loan Fund Board reports, various years.

In contrast figure 2.32 shows the provincial distribution of interest-free capital, and here it is seen that in 1895 Munster and Leinster had the highest proportion of interest-free capital.

[124] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 & 7, vic. Cap 91.* paragraph 159-161, pp 23-24 [C.8381], H.C. 1897, xxiii, 383.

Figure 2.32



Source: Loan Fund Board reports, various years.

If we examine figures 2.31 and 2.32 there seems to be an inverse relationship between the amount of monthly loans and the percentage of interest free-capital. Or to rephrase, that the number of monthly loans was determined by the percentage of interest paying capital.

Theoretically, loan funds ought to have had information advantages over any microcredit competitors. They were supposed to have confined areas of operation, thus increasing information on potential borrowers, and also a screening process which would provide information on borrowers. The loan fund screening process, as was outlined by Charles Piesse,[125] involved the borrower applying for a loan and stating the purpose for which a loan was required. Following the application the committee was supposed to meet to discuss whether or not applications for loans should be sanctioned. But, from evidence from the 1897 report, this screening process does not seem to have been practised by many of the loan funds. The report stated that:

> In very few instances indeed have we found that the committees conducted the affairs of the societies. Occasionally it occurred that one or two members attended on the office day, but no *quorum* of the committee was formed, and in some cases not even one member of the committee attended regularly on the office day, with the result that the whole management of the Society was left in the hands of the clerks, and loans were issued to borrowers without the necessary approval of the committee on the borrowers' application forms.[126]

[125] This was referred to in chapter 1: Charles Piesse, *Sketch of loan fund system in Ireland* (Dublin, 1841).
[126] *Report on charitable loan societies, 1897*, paragraph 15, p. 7.

This is an indication of management failure of the loan funds, but it is a failure which is not unexpected. The loan fund positions were voluntary, and as such there was not supposed to be any monetary reward given for time spent on loan fund activities. It would be easy to foresee manager apathy creeping in to an activity which was being performed monotonously over a number of years.[127]

The 1897 report was also critical of the management of loan funds. Managers were apathetic towards the day-to-day management of loan funds, although daily does not seem to be an appropriate term as loan funds were open weekly, and the management of the societies was left to clerks and treasurers. Clerks and treasurers in many instances were each other's surety, and as such there was no check on the activities of either. The failure of management, and the power of clerks, meant that loan screening processes were undermined and loans were given indiscriminately and not based on either the borrower's ability to repay or on an inquiry into the nature of the loan request.

A new development which also eroded the information advantages that loan funds ought to have possessed was the establishment of new loan fund societies within the boundaries of existing societies. The overlapping of loan fund boundaries meant that borrowers were able to access loans simultaneously from more than one society.[128] Although arguably beneficial to borrowers who could productively utilise multiple loans, the practice undoubtedly increased the risk of lending from a loan society's perspective and placed borrowers in debt. It was stated in the 1897 report that:

> The district is usually defined by townlands and parishes within a certain radius from the office of the Society. In the majority of cases this radius is five miles, in others it varies from six to ten statute miles, but the districts in which the several Societies are authorised to operate are not at present separate from one another, their boundaries overlapping so frequently that there are only 17 districts in Ireland which do not overlap any other.[129]

Loan screening was undermined by the fact that there was evidence of cross-securitisation, whereby borrowers would simultaneously act as a surety for one another's sureties. Although mutually beneficial to borrowers, again it increased the risk to loan funds, as guarantors for loans were already indebted to the society and there was no diversification of risk.

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[127] This was also the argument made in chapter I.
[128] *Report on charitable loan societies, 189*, paragraph 12, p. 7.
[129] Ibid, paragraph 10, p. 7.

Two features of the LFB system that the 1897 report was critical of were the practice of renewals and the excessive use of fines. Both these features suggest that the loan fund system was in many instances an institutionalised example of debt peonage. Renewals of loans were repeatedly given to borrowers, which in effect meant that many borrowers were perpetually in debt. The 1897 report gave an example of the renewal system:

> To illustrate the oppressive nature of the renewal system, it is necessary to show how the charges for renewals accumulated. In the first place, there is the discount at 7 ½ d or 6 d in the pound. The 7 ½d rate is 3s ½ d on a £5 loan for twenty weeks, but as the promissory note instead of being allowed to run for twenty weeks was renewed, say, at the twelfth week, the cost to the borrower is in such a case 3s 1 ½ d for twelve weeks, or 13s 7d for a year on £5 which is taken as the usual average amount of a loan. In addition the fine generally charged was 3d in the pound at each renewal – say, 1s 1d a year, or 5s 5d on £5 – making the total 19s a year. So far the charges are direct profit to the Loan Fund, but the borrower was also charged 5d for forms and default notices at each renewal, making the total 20s 10d on £5, or £20 16s 5d per cent per annum. In very many cases the borrower was, in addition, charged 2s for costs of a summons, which would much increase the above rate.[130]

The fifty-ninth report of the LFB stated that renewals were systemic, and in many cases had been a persistent practice of the individual loan funds since they were established.[131]

Fines it seems were used extensively, and were in many cases used as a substitute form of income for loan funds. Fines should have been limited to 5 pence in the pound and following the failure to repay after two weeks, legal procedures would be instigated to recover any outstanding debt. But some societies instigated a policy of perpetual fines, making no effort to recover the initial principal. Table 2.8 shows the discount, fines and gross income[132] of loan funds from 1843 to 1911. These variables are also shown as a percentage of loans issued. Fines were a constant feature of the LFB system, but the incidence of fines grew over time, peaking in 1895. Fines fell as a percentage of income after 1895, with the proportion of income derived from discount rising from 1901 onwards.

[130] *Report on charitable loan societies, 1897*, paragraph 136, p. 21.
[131] *Fifty-ninth annual report of the Loan Fund Board of Ireland*, p.5. [C. 8725], H.C. 1898, xx, 351.
[132] LFB reports used the term 'gross profit', but this term encompassed all income-generating functions that a loan fund had, including discount, fines and charges for applications and forms.

Table 2.8: Discount, fines and gross income in loan funds, 1843 to 1911

Year	Discount	Fines	Gross income	Discount as a % of loans	Fines as a % of loans	Gross profit as a % of loans	Discount as a % of gross income	Fines as a % of gross income
	£	£	£	%	%	%	%	%
1843	40,592	12,228	56,215	2.46	0.74	3.41	72.21	21.75
1851	14,825	3,513	20,755	2.08	0.49	2.91	71.43	16.93
1861	17,591	5,646	24,948	2.13	0.68	3.02	70.51	22.63
1871	11,197	3,350	15,659	2.06	0.62	2.89	71.51	21.39
1880	10,044	4,315	15,397	2.34	1.01	3.59	65.24	28.03
1895	15,860	7,017	24,260	2.69	1.19	4.12	65.38	28.93
1901	4,864	2,409	7,625	2.25	1.11	3.52	63.80	31.60
1911	5,358		6,680	2.75		3.43	80.21	

Sources: Loan Fund Board reports

The high incidence of loan renewals and fines makes it hard to defend many loan funds from the accusation of debt peonage. Furthermore, in many societies the officers of the society were also resident magistrates or clerks of the courts. They were also the magistrate in cases where their loan fund was the applicant and they themselves had issued the summonses. This would seem to indicate a conflict of interest on the part of the magistrates. The 1897 report stated that 'it seems to us objectionable that a Justice of the Peace should act as a Loan Fund Clerk. The two offices would appear to be incompatible, and this view has been taken by the [Loan Fund] Board in their circulars.'[133] The 1897 report was also critical of how summonses were issued. Summonses were not issued in the legal manner whereby the court would issue the summons to the borrower and his surety, but instead the loan fund hired its own summons server and charged the defaulting borrower for the summons. It was the conclusion of the 1897 report that the summonses had been issued illegally and also that the cost of summonses had been illegally collected from borrowers.[134] The evidence in the report stated that there was a large number of summonses in the north, which coincidently was where the growth in the number of

[133] *Report on charitable loan societies, 1897*, paragraph 164, p. 24.
[134] Ibid, paragraph 117, p. 18.

loan funds was located. Of the 55 loan funds registered in Ulster in 1895, there was none in Belfast or county Down and only 3 in Londonderry.[135] This suggests that industrialisation is not an explanatory factor.

2.4.2 The Loan Fund Board: regulatory failure and regulatory capture

Regulatory failure and regulatory capture were two separate but related problems with the LFB. In this section it will be argued that regulatory failure was caused by the institutional structure of the LFB, which was mainly due to the fact that it lacked powers to be an effective regulatory agency. Secondly, it will be argued that due to the way in which the LFB was financed it was susceptible to regulatory capture.

The regulatory powers of the LFB were left unchanged from the acts in the pre-famine period, and its initial powers proved inadequate quite early in its existence to perform its tasks. The LFB had continually pleaded for further legislation in many of its post-famine annual reports to rectify the problems with the LFB system, as the system in the post-famine period was faced with different conditions to those that prevailed when the original legislation was passed. An example of this can be seen in the following statement from 1863:

> In preceding reports, the Board have expressed their opinion that some improvement in the present machinery of the local management of Loan Funds, and in the existing legislative control over the Institution, was required, with a view to the more adequate protection of the savings of the industrious poor, and the promotion of the main objects of the Institution, and are still of opinion the necessity for such improvement still exists.[136]

The above citation came in 1863, a number of years after the 1855 inquiry into loan funds had recommended legislative reform, but no reforms were forthcoming. Reform was absent practically for the remainder of the LFB's existence. Although legislation was passed relating to loan funds in the early twentieth century, discussed below, it only addressed the legal issues surrounding the recovery of debt. In the sixty-ninth report of the LFB for 1906, it was stated that:

> …the recent loan fund legislation hereinbefore mentioned cannot be regarded as adequate. The grievance of which they complain is of longstanding. They are supposed to control the operations of societies throughout Ireland holding certificates from them

[135] *Copy of the fifty-eight annual report of the Loan Fund Board of Ireland*, (243) H.C. 1896, xxiv, 363.
[136] *Twenty-fifth annual report of the Commissioners of the Loan Fund Board of Ireland*, p. 5. [3169], H.C. 1863, xxviii, 493.

> under 6 & 7 Vic. C 91, but their statutory powers are quite inadequate to enable them to do this, except in a general way.[137]

The initial acts gave the LFB some statutory powers, but these powers were inadequate to regulate loan fund societies. For example, the LFB had drawn up model rules for loan fund societies, and the 1897 report drew up new model rules, but the LFB did not have the power to compel loan funds to adopt such rules.

The LFB regularly issued communiqués to loan funds, something which was referred to in the 1897 report, but it seems that these were either followed or ignored depending on the preferences of the individual loan societies. For example, when the LFB authorised a rate of discount above the legal rate this advice was followed. By contrast, when it advised societies against issuing renewals, or to reduce the interest rate on debentures, these circulars were ignored. A number of concerns were raised about the activities of loan funds in the north of Ireland in particular. Swift-MacNeill, an Irish nationalist M.P. representing county Donegal,[138] raised the issue of the number of loan funds operating in licensed premises,[139] and asked whether this was a factor in the increasing charges of intoxication in Fermanagh. Swift-MacNeill asked:

> ... [had] it come under his [Chief Secretary's] notice that it is notorious to the police and local magistrates that loan funds under present working are the occasion of much loss of time to borrowers and bailsmen, and an unusual amount of intoxication, resulting in prosecutions at petty sessions…[140]

The Chief Secretary, Gerald Balfour, replied that the LFB was aware of the case of a loan fund's office being held in close proximity to a licensed premise, but that the LFB inspector had reported that a different door was used so that borrowers did not have to enter the pub.[141] When Arthur O'Connor, an Irish Nationalist M.P. representing east Donegal,[142] asked in June 1896 whether or not the practice of loan renewals was legal, the Chief Secretary replied that it was illegal and that the LFB had issued a circular in 1893 informing societies of such illegality.[143] Arthur O'Connor

[137] *Sixty-ninth Annual Report of the Loan Fund Board of Ireland for 1906*, p.3. [Cd. 3463], H.C. 1907, xix, 407.
[138] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 236.
[139] Premises licensed to sell alcohol.
[140] *Hansard 4*, xli, (11 June 1896), pp 841-842.
[141] Ibid, p. 842.
[142] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 270.
[143] *Hansard 4*, xli (11 June 1896), p. 842.

followed up with a question regarding the overlapping boundaries that the LFB had permitted.[144] Balfour responded, saying that:

> To guard against simultaneous indebtedness by the same persons to different loan funds in the same neighbourhood, the Board, some years ago, issued instructions to managers requiring them to have their lists of borrowers and sureties compared three or four times yearly.[145]

What followed Balfour's answer is worth reproducing, as it gives an indication as to what the role of the LFB was within the government.

> Mr Arthur O'Connor inquired how it was the Loan Fund Board had permitted such a state of things to arise.
> Mr Gerald Balfour [Chief Secretary for Ireland] said he was making inquiries as to whether the instructions had really been carried out.
> Mr Arthur O'Connor asked if it was not the duty of the Loan Fund Board to see that their instructions were carried out.
> Mr Gerald Balfour thought that it was.[146]

Making recommendations was all that the LFB could do, as it did not possess powers to enforce any of its recommendations, and the collapse post-1896 was not due to any changes in the regulatory atmosphere.

The LFB's ultimate sanction as regulator was to gazette[147] and order the dissolution of loan funds. From 1847 to 1896 the LFB had ordered the dissolution of 47 loan funds. Of this number 64 per cent of dissolutions came in the period 1847 to 1860, whereas 36 per cent of the dissolutions were from 1860 to 1896.[148] In the same period 250 societies voluntarily ceased their operations, 'in many cases, as shown by the Board's reports, owing to defalcations by officials'.[149] Given that the LFB annually inspected the loan societies, and 250 societies closed owing in many cases to defalcation in the same period, this would suggest that perhaps 47 dissolutions is too small a number and not reflective of the scale of suspect practices in the LFB system. Evidence given to committee to inquire into Irish industries in 1885 alleged that the LFB did not actually do anything, with one of the witnesses advocating that it should be converted into a government-run investment bank.[150]

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[144] Ibid, p. 842.
[145] Ibid, p. 842.
[146] Ibid, p. 844.
[147] Put a notice in a public journal.
[148] Calculated from appendix B in *Report on charitable loan societies, 1897.*
[149] *Report on charitable loan societies, 1897*, paragraph 169, p. 25.
[150] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix.* , questions 2415-2423, p. 120. H. C. 1884-85 (288), ix, 1.

The main problem arose from how the LFB was funded. Unlike contemporary government departments, the LFB did not receive a parliamentary grant. Instead the LFB received its income from a monopoly it was granted on the sale of documents and stationery related to loan fund activity. As was discussed in chapter 1, the issue of financing the LFB was not included in the initial loan fund acts that created the LFB, and it was only in the 1843 act that reference was made to its finances. In the 1898 report of the LFB reference was made to the financial arrangements of the LFB:

> The Board next beg to direct attention to the condition of the annual income at their disposal for purposes of administration. This income is derived from two sources – (1) the sale to loan societies of certain forms requisite for the making of loans; (2) the interest of sums accumulated (after meeting current expenditure) in the past from such sales, and invested by the Board.[151]

The arrangements outlined in the 1843 act were that the LFB would receive 1d for each promissory note sold to a society. Or to rephrase, that the LFB's income was dependent on loan funds making loans. The LFB was also to receive 2s for every debenture form sold, which meant that the LFB's income was dependent on the number of debenture holders. This structure, introduced before the famine, was for a regulatory agency to regulate an industry on which it was dependent for its income. The LFB was therefore given an incentive to encourage loan funds to lend more, or to accept more debenture holders, as the more loans the loan funds made the greater the income of the LFB. This was before the LFB system was truncated by the famine. The result of the famine era was to reduce the number of loans issued by loan funds, and as a by-product reduce the income of the LFB. In its reports from the 1860s to 1872 the LFB continually highlighted the fact that it was under-funded. But when the 1843 loan fund act was amended the only significant change was an increase in the price of LFB stationery.[152] The amendment did not address, or even question, the fact that the LFB was dependent on the sector it was regulating for its income. In effect it was creating an ideal situation for regulatory capture.

A model of regulatory capture was outlined by Laffont and Tirole. In their model they explained how it was possible for interest groups to capture the regulatory apparatus of an industry.[153] Laffont and Tirole used a two-tiered agency structure, with Congress being the principal, the agent to Congress being the supervisory body

[151] *Sixtieth annul report of the Loan Fund Board of Ireland*, p. 3. [C.8920], H.C. 1898, xx, 375.
[152] Loan Societies (Ireland) Act, 1843, Amendment Act, 1872 (35 & 36 Vict.).
[153] Jean-Jacques Laffont and Jean Tirole, 'The politics of government decision-making: A theory of regulatory capture' in *The Quarterly Journal of Economics*, cvi, 4 (November 1991), pp 1089-1127.

in the first tier; the supervisory body is the principal and the regulated firms are agents in the second tier. This structure is applicable to the Irish LFB system, with Parliament replacing Congress, the supervisory body being the LFB, and the regulated firms being the individual loan funds.

The LFB system differs from this model in that parliament was dismissive of the LFB and did not want to fund it.[154] Also, in the Laffont and Tirole model, they assumed that the supervisory body would receive its income from the principal in the first tier; but the opposite was the case under the LFB system with the LFB receiving its income from the agents in the second tier. From their model, Laffont and Tirole believed that 'Congress optimally offers the agency a constant income equal to its reservation income… [therefore the] agency has no incentive to misreport the signal.'[155] Laffont and Tirole outlined how collusion could occur in their model, stating that 'collusion occurs when the agency has an incentive to hide information from Congress…collusion can arise only if the retention of information benefits the firm.'[156] Although it is difficult to prove that there was any explicit collusion taking place between the LFB and the loan funds, the income of the LFB was structured in a way that would give an incentive for implicit collusion. But whether collusion was explicit or implicit, the loan funds were hurt by their own actions. The persistence of renewals, the excessive use of fines, and the over-charging of discount would not have been feasible in the long run. This is in line with Laffont and Tirole who observed that an 'interest group may be hurt by its own power'.[157]

One of the problems with the loan funds, as was stated above, was that of overlapping boundaries. The LFB had to sanction any new loan fund that wished to register under the 1843 act, so it is hard to see how the Board could not have been aware that the boundaries of societies were overlapping. But the actions of the LFB in allowing overlapping societies to establish falls into the model of regulatory capture. Given what we know of how the LFB's incentives were structured, it is not hard to imagine a cash-strapped regulatory agency attempting to encourage the establishment of new loan funds. In *Thom's Directory,* over a number of years, the following notice was printed:

[154] Evidence of this is seen in section 2.3.c.
[155] Jean-Jacques Laffont and Jean Tirole, 'The politics of government decision-making: A theory of regulatory capture' in *The Quarterly Journal of Economics*, cvi, 4 (November 1991), p. 1098.
[156] Ibid, pp 1102-1103.
[157] Ibid, p. 1091.

> There are no Loan Fund Societies in the counties of Armagh, Clare, Down, Dublin, Galway, Kerry, Louth, Mayo and Monaghan, but the Loan Fund Board will gladly co-operate with local gentlemen who desire to have the benefits of the public loan fund system extended to their districts.[158]

This notice was reprinted several times until 1900 when the LFB ceased to openly encourage the establishment of new loan funds on the island. In its fifty-eighth report, for 1896, the LFB acknowledged the fact that it had failed to establish loan funds in the counties where there were no loan fund societies, but it still believed that loan funds should be established in those counties.[159] When the LFB was lobbying for a parliamentary grant in 1912, a witness associated with the LFB gave evidence to a committee suggesting that the LFB intended to use any grant to hire a loan fund 'organiser' to establish new loan funds. The LFB's application for a parliamentary grant was rejected on the basis of this proposal, and it subsequently disowned itself from having any knowledge of the proposal.[160]

Evidence from the 1897 report suggests that the people applying to establish new loan funds were individuals from outside the locality of the loan fund, suggesting that these were people who would not be expected to establish a loan fund for the sake of helping the industrious poor. The 1897 report stated that:

> In many cases the Committee is appointed from a list of non-resident Debenture holders who manifest no interest in the efficient working of the Societies or the welfare of the poor of the locality, and in these cases no attempt would appear to have been made to obtain the co-operation of the clergy and local representative gentlemen as members of committees.[161]

The importance of debenture holders in the loan fund set up was that they were supposed to monitor the actions of the loan fund in a way akin to the role of depositors in credit co-ops as theoretically outlined by Banerjee, Besley and Guinnane.[162] But if debenture holders were non-resident, then the monitoring power of debenture holders is lost.

The regulatory capture of the LFB had adverse affects on both depositors and borrowers from loan funds. In terms of borrowers, in many cases they were subjected

158 *Thom's Directory*, 1889, p. 718.
159 *Copy of the fifty-eight annual report of the Loan Fund Board of Ireland*, p. 3. (243) H.C. 1896, xxiv, 363.
160 *Seventy-fifth Annual Report of the Loan Fund Board of Ireland for 1912*, pp 3-4. [Cd. 6835], H.C. 1913, xxxviii, 933.
161 *Report on charitable loan societies, 1897*, paragraph 18, p. 8.
162 Abhijit V. Banerjee, Timothy Besley, Timothy W. Guinnane, 'Thy neighbours keeper: The design of a credit cooperation with theory and a test' in *The Quarterly Journal of Economics*, cix, no. 2 (May, 1994), pp 491-515.

to excessive fines and were perpetually in debt. This in effect enabled debt peonage to exist. The existence of regulatory capture it seems may have altered depositor incentives.[163] The LFB stamp[164] and the LFB's association with Dublin Castle gave a misleading signal to savers. Savers, or rather investors, believed that the loan funds had a form of government guarantee. The significance of a Dublin Castle address should not be underrated as Dublin Castle, the administrative centre of the Irish government, represented the state in the eyes of many. The LFB even received a mention in R. Barry O'Brien's, *Dublin Castle and the Irish people*. O'Brien stated that:

> The Board inspects the affairs of a number of local voluntary loan societies who report their proceedings periodically to parliament. The Board itself makes an annual report to parliament. It is appointed by the Lord Lieutenant, and the members are unpaid.[165]

But the British government was adamant that the LFB was not a government department.[166] It seems to have been an anachronistic relic of the pre-famine political structure. It must also be noted that the 1897 committee report stated that the loan funds did not encourage thrift and made no effort to mobilise microsavings,[167] evidence that is in conflict with the views of Hollis and Sweetman regarding the role of loan funds as financial intermediaries in the pre-famine period.[168]

2.4.3 The political economy of loan fund reform 1896-1914

As was seen in section 2.4.1, in the late 1890s following the legal decision regarding the rights of loan funds suing for debt, and the publication of the 1897 committee report, the number of loan funds, and activities associated with them, decreased dramatically. The period 1896 to 1906 saw an increase in the number of references to

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[163] Arguably it was depositors/investors who created the problems.
[164] Evidence of this is seen from the promissory notes of the Culduff loan fund: see plates 2.1 and 2.2.
[165] R. Barry O' Brien, *Dublin Castle and the Irish people* (2nd ed., London, 1912), p. 277.
[166] See arguments in section 1(c) below.
[167] *Report on charitable loan societies, 1897*, paragraph 52, p. 11.
[168] Hollis and Sweetman referred to the success of the loan funds in competing against the banks in the market for small and mid-sized deposits, and believed that this caused joint stock banks to lobby for reform of the loan fund acts in the 1840s, and in another article Hollis and Sweetman stressed the importance of local depositors in the loan funds. But Hollis and Sweetman seem to have overlooked the developments from the 1880s to the 1890s in the loan funds: see Aidan Hollis and Arthur Sweetman, 'Complementarity, competition and institutional development: the Irish loan funds through three centuries', *University of Calgary Department of Economics Discussion Paper*, 97-06 (March 1997) and Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 377.

the loan fund system in parliament,[169] with the product of this legislative interest being two acts of parliament intended to reform the loan fund system.[170]

In order to have an appreciation of what was happening to the LFB system during this time, it is necessary to take the existing political system into account. Hollis and Sweetman believed that the LFB system could not obtain legislative influence at parliament based on a cost benefit analysis. This is partially true, but it does not reflect the fact that attempts were made to introduce legislation to reform the existing loan fund acts, nor does it take account of the fact that these efforts were either obstructed by Irish nationalist politicians or sacrificed for other Irish legislative efforts. The argument outlined by Hollis and Sweetman also does not factor contemporary developments within the TSB movement that would have limited the scope for reform of the LFB system.

During the period 1896 to 1906 a number of large-scale legislative efforts were introduced specifically for Ireland. In particular during the debates on both the local government act in 1898 and the 1903 land act, a loan fund bill was introduced to parliament but had to be withdrawn due to time constraints.[171] The government had prioritised the Irish legislation that could be enacted by the Imperial Parliament. Another important point was that of Irish politics, in particular the division between Unionist and Nationalist political parties. During the period 1893 to 1905 a Conservative-Unionist government was in power that advocated a policy of constructive unionism. Examples of this policy were reforms such as local government, land reforms, and the establishment of an Irish Department of Agriculture. In contrast, the Irish Nationalist (Home Rule) Party's aim was to introduce a form of legislative independence for Ireland. From the evidence in the parliamentary debates it seems as though the loan fund cause was taken up by the Irish Parliamentary party and used to attack the British parliament. The underlying

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[169] There were eight bills relating to loan fund activity: *Bill to make provision with respect to certain promissory notes made to charitable loan societies in Ireland* , H.C. 1898, (176), i, 251; *A bill to make provision with respect to promissory notes made to charitable loan societies in Ireland*, H.C. 1899 (113), i, 195; *A bill to amend the Charitable Loan Societies (Ireland) Act*, 1843, H.C. 1900 (105), I, 235; *Bill to amend the Charitable Loan Societies (Ireland) Act*, 1843, H.C. 1903 (303), I, 353; *Bill to amend the Charitable Loan Societies (Ireland) Act, 1900,* H. C. 1904, (162), I, 241; *Bill to amend the Charitable Loan Societies (Ireland) Act, 1843,* H.C. 1905, (101), I, 233; *Bill to amend the Charitable Loan Societies (Ireland) Act, 1900*, H.C. 1906, (221), I, 413*; Bill to amend the Charitable Loan Societies (Ireland) Act, 1900,* H.C. 1906, (318), I, 417.

[170] Charitable Loan Societies (Ireland) Act, 1900 (63 & 64 Vict.) c. 25 and Charitable Loan Societies (Ireland) Act, 1906 (6 Edw. 7), c. 23.

[171] *Hansard 4,* lx (5 July 1898), p. 1118; and *Hansard 4,* cxxv (16 July 1903) 841, pp 841-842.

argument was that if Ireland had legislative independence the problems with the loan fund societies would be quickly resolved. The questions in parliament came from prominent Irish Nationalists, such as Swift-MacNeill, and John Dillon who was the leader of the Nationalist party at the time.[172] The Unionist government on the other hand wished to dissociate itself from the loan funds and the LFB. So it is therefore important to take the political context into consideration when analysing the loan fund debates.[173]

In the calls for reform of the LFB system, there were two issues that parliamentarians deemed important. One was the loss to debenture holders and the second was the need to reform the LFB. Yet the legislation dealing with the loan funds only addressed the problems associated with losses to debentures owing to the fact that promissory notes could not be redeemed. An interesting question was asked by Captain Donelan, a home ruler representing east Cork.[174] He asked:

> Whether he [the Chief Secretary] is aware that, owing to serious defalcation and frauds on the part of the late senior clerk of the Edgeworthstown loan Fund Society, the Loan Fund Board in Dublin dissolved that society about a year ago; whether the books of the society were regularly inspected by the loan fund inspector, who failed to perceive irregularities in the accounts, and expressed no disapproval of the system of management; and whether, having regard to the fact that, owing to the dissolution of the society and the difficulty of collecting outstanding debts by a receiver who now desires to be relieved of his duties, the debenture holders are likely to be heavy losers, any relief or compensation will be given to them for the loss of securities through defalcations and frauds which the inspector of the Loan Fund Board, a body constituted by statute, and whose officers are Government officials, failed from negligence or other cause, to detect for a long period of time?[175]

The important point raised was, given that there was a legally appointed inspector and regulator, and given that fraud had resulted in any case, was the government liable to compensate any losses resulting from the loan fund system? Government responsibility and liability was categorically denied by the Chief Secretary who, in 1899, stated that:

> I must point out that neither the officers of the Loan Fund Board nor of the local societies working in connection with that board are, in any sense of the word, civil servants of the Crown, and that government exercises no control whatever over the proceedings of the Board or of the local bodies.[176]

[172] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 97.
[173] Evidence of this is seen in the following citations, whereby the government dissociated itself from the LFB.
[174] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 100.
[175] *Hansard* 4, xli (22 February 1897), p. 862.
[176] Ibid, p. 862.

This answer was the one which subsequent Chief Secretaries and government representatives used:[177] the LFB was not a government department and therefore the government was not liable for any losses resulting from fraud or bad management in LFB loan funds. This government attitude may be one of the reasons why there was no attempt to reform the LFB in either the 1900 or 1906 loan fund acts.[178] If the government had introduced legislation to reform the LFB, it might have given the impression that the LFB was a government department. But there was no clarification as to what the LFB was if it was not a government department. It was established by statute, located in Dublin castle, its members appointed by the Lord Lieutenant which effectively meant that the Chief Secretary appointed them, but the government would not acknowledge it as a government department.

In 1838, when giving evidence to the committee on banking in Ireland, George Matthews, secretary of the LFB, was asked, 'YOU are in the employment of the Government?' (capitals sic). He answered the question in the affirmative by stating 'I am.'[179] The following extract from the evidence of George Matthews to the 1838 banking enquiry supports the view that the LFB was a government body:

> Q: What situation do you hold?
> A: I am Secretary of the Loan Fund Board in Dublin Castle.
> Q: Explain what are the duties of that Board?
> A: The Board was formed in 1836, under an Act of Parliament, to control and regulate the accounts of loan fund societies in Ireland.
> Q: By that you mean Charitable loans, by societies which issue small sums on security to the poor, receiving back payment by instalments?
> A: By weekly instalments; I do.[180]

So, when, if ever, did the LFB stop being a government body? It continued to submit annual reports to parliament; the only noticeable difference was its source of income, which came from the sale of stationery as opposed to central funding. When the LFB was dissolved in 1915 its role was transferred to the Department of Agriculture, so too were its clerks, and its secretary was granted a special retiring

[177] Similar denunciations were by various government officials. See Walter Long, *Hansard* 4, cxliii (29 March, 1905), p. 1533, Mr Byre, *Hansard 4*, clviii (12 June 1906), pp 823-824, and Mr Birrell, *Hansard* 4, clxxxiii (10 February 1908), pp 1378-1379.
[178] Charitable Loan Societies (Ireland) Act, 1900 (63 & 64 Vict.) c. 25 and Charitable Loan Societies (Ireland) Act, 1906 (6 Edw. 7), c. 23.
[179] *Select Committee on Joint Stock Banks Report, Minutes of Evidence, Appendix, Index*, question 608, p. 42, H.C. 1837-38, (626), vii, 1.
[180] Ibid, questions 608-610.

allowance by the Treasury.[181] Such actions would seem to suggest, to an onlooker, that the LFB was in fact a government department.

In parliament attention was drawn to the case of Enniskillen Loan Society v Green, where the defendant had paid £44 on a £10 loan.[182] This case made it difficult for loan funds that had not adhered to the law as outlined in the 1843 act to recover loans. The aim of the proposed legislation was to enable loan funds to recover the original principal that was lent, namely any sum under £10. Edward McHugh, a nationalist in the anti-Parnellite faction representing Armagh,[183] asked the Chief Secretary for Ireland whether the proposed new legislation would improve the management of loan funds, legalise renewals and protect debenture holders.[184] James Patrick Farrell, a nationalist M.P. representing county Cavan,[185] referring to the case of the Edgeworthstown loan fund where a treasurer had committed suicide after being found defalcating, asked: 'may those investors who were robbed by the defalcations now hope for any redress from the government?'[186]

A plausible explanation for the governments refusal to acknowledge the LFB as a government department was due to the contemporary problems associated with TSBs in England and the danger of setting a parliamentary precedent.[187] In 1886 the Cardiff TSB collapsed due to internal fraud. [188] The effects of this reverberated around the TSB system and from 1887 to 1892 over 100 TSBs closed.[189] Legally TSBs and loan funds were very similar institutions. Both were managed by trustees who appointed clerks for the daily running of the business, and both suffered from moral hazard problems as managers were unwilling or unable to monitor the actions of clerks. The TSBs ostensibly had government protection for their deposits.[190] In similar respects the loan funds were perceived to have similar government protection, as their accounts were sent annually to the LFB for inspection and an LFB-appointed

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[181] *Seventy-eight annual report of the Loan Fund Board of Ireland for 1915*, p. 3. [Cd. 8385] H.C. 1916, xii, 539.
[182] *Hansard 4*, liii (17 February 1898), p. 901; this case was discussed above.
[183] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 232.
[184] *Hansard 4*, liv (8 March, 1898), p. 975.
[185] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 116.
[186] *Hansard 4*, lv (25 March, 1898), 906.
[187] Savings in the loan funds were trivial in comparison to the savings in the English TSBs.
[188] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), pp 249-251.
[189] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 262.
[190] This is discussed in chapter 3.

inspector visited their societies annually. Effectively if the government recognised any liability in the case of the loan funds, it would have been equally open to charges of liability in the case of the TSBs. Hence this could be the reason why the government disassociated itself from the LFB.

Two acts were passed, in 1900 and 1906, that aimed to steady the decline of the LFB system. The main aim of the legislation was to enable loan funds to recover debts that were made illegal under court rulings in the 1890s. When the 1900 act[191] was first introduced it was welcomed by the LFB 'as already bringing satisfactory results'.[192] But the LFB was disappointed that its powers were not strengthened and stated that:

> It is manifest that the lapse of a long series of years without efficient general Loan Fund legislation tends to perpetuate abuses which the Board are powerless to check except by the radical and unsatisfactory act of withdrawing the Certificate of each offending Loan Fund Society.[193]

The 1900 act quickly ran into difficulties due to the backlog of cases pending. This was coupled by a verdict in a petty sessions case that deemed that it was only possible to sue under the act for a period of 6 months from the introduction of the act.[194] The LFB stated that:

> In these circumstances much confusion and imminent risk to the holders of Loan Fund Debentures in many districts have been caused by a decision of the King's Bench Division in the case of Atthill v Woods (New Ir Jurist 5 Dec. 1902) to the effect that the Charitable Loan Societies (Ireland) Act, 1900, must be construed – as regards limitation of time for instituting legal proceedings – by the 10th Section of the Petty Sessions (Ireland) Act, and that Summonses purporting to be issued under 63 and 64 Vic., c. 25 could have been properly issued *only* within six months immediately following the date of that Statute.[195]

The LFB took it upon itself to appeal the decision in the high court, but the appeal failed[196] and the LFB system was once again placed in disarray. Not only were the activities of loan funds grinding to a halt, but the LFB had wasted a lot of its financial resources on the appeal case and was facing bankruptcy.

Bills were introduced to parliament in 1903 and 1904, but due to parliamentary time constraints and political wrangling they had to be withdrawn. One of the

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[191] Charitable loan societies (Ireland) Act, 1900 (63 & 64 Vict.).
[192] *Sixty-third annual report of the Loan Fund Board of Ireland*, p.3. [Cd. 555] H.C. 1901, xvii, 367.
[193] Ibid, p. 3.
[194] Atthil vs Woods, *Sixty-fifth annual report of the Loan Fund Board of Ireland*, p. 4.[[Cd.1512] H.C. 1903, xviii, 397.
[195] *Sixty-fifth annual report of the Loan Fund Board of Ireland*, p. 4. [Cd.1512] H.C. 1903, xviii, 397.
[196] *Sixty-sixth annual report of the Loan Fund Board of Ireland*, p. 3. [cd. 1993], H.C. 1904, xvii, 421.

stumbling blocks had been attempts by Irish members of parliament to introduce amendments to the bill that would have meant the government would guarantee loan fund debentures.[197] In its report for 1904 the LFB once again pleaded for legislative assistance, for both itself and debenture holders, stating that:

> The hardship thus caused to the owners of the money is severe; and a further result is, that the lending-power of the Societies concerned is crippled, and in very many instances entirely suspended. The Board, therefore, urge that their recommendations for the amendment of this Act should be pressed forward as soon as possible. Unfortunately, owing to pressure of business in parliament, and to other causes, the Bills that were introduced in 1903 and 1904 by the Attorney-General for Ireland, for the amendment of the Charitable Loan Societies (Ireland) Act, 1900, had to be withdrawn.[198]

The LFB's complaints were taken up by Irish Nationalists in parliament. Charles Hare Hemphill, a National Liberal M.P. representing Tyrone,[199] complained about how Irish legislation was treated by parliament, one of his gripes being the treatment of loan fund legislation. He stated that:

> But there were other three Bills relating to Ireland, all very important. One of these was the Loans Fund Amendment bill. That was a most important measure, affecting the very humblest and poorest class of the community. Unquestionably, from the evidence of the various officers throughout the Ireland, considerable loss has been sustained by the very poorest class in the community. An act was passed by the present government three or four years ago for the purpose of removing the evils caused by a previous faulty Act. Numbers of poor people in Ireland put their money into debentures in this Loan Fund and it turned out that there was no money to pay the interest on these debentures, and the whole of their savings had been lost. Then a bill was introduced for the purpose of remedying this grievance. And what was the fate of that Bill? It was one of the measures which the Prime Minister assured the House was to be dropped – a Bill affecting the comfort and prosperity of the class on whom the peace and happiness of Ireland depended.[200]

Timothy Michael Healy, a National Liberal who represented county Louth,[201] was another Irish M.P. who used the loan fund bill to attack the government. He stated that:

> The Prime Minister suggested that he would drop the Irish Charitable Loans Bill. He admitted there was some opposition to it. But what was the Irish Loans Fund? It was a body managed by Dublin Castle, whose inspectors were appointed by Dublin Castle, and Dublin Castle invited honest people to invest their money in debentures to be lent out a reasonable interest on the faith of the security of British audit and management. The result was something like £200,000 or £300,000 had gone, and the British government calmly announced that they would not even pass legislation to enable it to be collected. This money was largely the money of pensioners, ex-soldiers, politicians, clergymen. He

[197] *Hansard 4*, cxxxviii (25 July 1904), p. 1049.
[198] *Sixty-seventh annual report of the Loan Fund Board of Ireland*, p. 3. [Cd. 2419], H.C. 1905, xxii,339.
[199] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 167.
[200] *Hansard* 4, cxxxix (2 August 1904), pp 576-577.
[201] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol ii, 1885-1918* (Sussex, 1978), p. 165.

> believed that there were a few clergymen on both sides, and year after year this government-managed business had failed to meet not only its interest but its principal. The total deficit did not amount to more than about £250,000, and yet the government not only declined to meet that but refused the machinery of collection. The Prime Minister absolutely shone on occasions like this, and it required a very subtle mind to appreciate his distinctions.[202]

The statements of both of the Irish M.P.s are interesting, but given the evidence from LFB reports and the 1897 report, seem to be factually incorrect. The loan funds were financial intermediaries, but the number of savers in them was minimal, as was shown in a previous chapter, and the average saving was quite large relative to agricultural labourer wage levels. The description of the debenture holders by Healy, as being ex-soldiers, politicians and clergymen, is a novel piece of information, and may explain why Irish politicians were so eager to introduce legislation to recover debentures.[203]

Another Bill was introduced in 1905, but again it was opposed by Irish members of Parliament.[204] From the debates in the House of Commons it is apparent that the issue of compensation to debenture holders was still critical. It was not until 1906 that a bill was passed which enabled loan funds to recover sums lent.[205] Interestingly, it was a Unionist M.P. who introduced a clause in the 1906 act which limited the amount of outstanding debt that a loan fund was able to sue for.[206] Given that the first case regarding the loan funds was in 1896, the publication of the report of abuses in the LFB system was in 1897, and effective legislation was only introduced in 1906, it is not therefore surprising that the loan fund system collapsed in the manner in which it did.

The 1906 act failed to address the issue of the LFB.[207] The act contained seven sections and all of them were in reference to the recovery of promissory notes. Essentially the 1900 and 1906 acts were amendments to the 1843 loan fund act to remedy the defects in relation to loan recovery. As such neither act made any allowance for the financial difficulties of the LFB. The continued decrease in loan fund activity, which the amendments were supposed to remedy, also meant a decrease in the income of the LFB, while its expenditure effectively remained constant. In the

[202] *Hansard 4*, cxxxix (2 August 1904), pp 583-584.
[203] Technically the legislation was aimed at recovering promissory notes, i.e. enforcing debts. But if debts were not enforced, debenture holders would lose their money.
[204] *Hansard 4*, cli (7 August 1905), p. 312.
[205] Charitable Loan Societies (Ireland) Act, 1906 (6 Edw. 7.) c. 23
[206] *Hansard*, clviii, 158 (15 June 1906), pp 1293-1294.
[207] There was no reference to the Loan Fund Board in the act.

debates on the LFB loan fund system few references were made to the LFB's finances. One of the few references to the LFB came in 1905 when Swift-MacNeill asked if the LFB's monopoly on the sale of notes would be abolished and replaced with a public subsidy. But his suggestion was dismissed.[208] The LFB lobbied for an annual parliamentary grant of £500 to fund its activities, but its actions came to nought. The LFB petitioned the Lord Lieutenant in an attempt to secure some funding, but a report into the merits of an annual grant to the LFB adamantly refused to sanction the payment.[209]

2.4.4 The 1914 report; the end of the LFB

The 1914 report on agricultural credit included a subsection devoted to the 'Loan Fund Board system in Ireland.' It gave an overview of the history of the loan fund system, its sources were mainly the previous parliamentary reports related to the LFB system, and it gave an overview of the situation that faced the LFB system circa 1912 when evidence for the report was taken.

It must be stressed that the 1914 report was not entirely dismissive of the idea of lending to small borrowers, as it argued that there was a potential for small loans to provide a useful service, citing the example of a woman who bought a cow with a loan from a loan fund and who made her repayments with the proceeds of milk sales.[210] Although praising the usefulness of such loans, the report was critical of loan fund loan terms. The report believed that the loan terms were unsuited to agricultural needs, especially in comparison to the financial institutions that were within the remit of its report. The 1914 report was critical of the loan funds in the way that they operated a strict 20-week loan term, with repayments either made weekly or monthly, depending on the society in question. The 1914 report concluded that these loan terms were unsuitable to agricultural borrowers.[211] If a borrower missed an instalment he or she would receive a fine. Joanna Ledgerwood, while commentating on modern-day microfinance programmes, has stressed the importance of loan terms for both borrowers and the microfinance institution:

[208] *Hansard 4*, cxliii (29 March, 1905), p. 1533.
[209] *Seventy-fifth annual report of the Loan Fund Board of Ireland*, p. 3. [Cd 6835], H.C. 1913, xxxviii, 933.
[210] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 241, p. 101. [Cd. 7375], H.C. 1914, xiii.1.
[211] Ibid, paragraph 244, p. 102.

> The loan term is one of the most important variables in microfinance. It refers to the period of time during which the entire loan must be repaid. The loan term affects the repayment schedule, the revenue to the MFI [Microfinance institution], the financing costs for the client, and the ultimate suitability of the use of the loan. The closer an organisation matches loan terms to its client's needs, the easier it is to "carry" the loan and the more likely the payments will be made on time and in full.[212]

In comparison to the loan funds, joint stock banks had loan terms of 3 months and loans were renewable at 3-month intervals. The loan funds had 20-week loan terms, but repayments had to be made weekly or monthly if loans were issued as monthly loans. The joint stock bank loan did not have to be repaid until the stated 3-month period had elapsed. Newly established Raiffeisen co-ops in the 1890s and 1900s also had flexible loan terms.[213] The existence of such favourable loan terms from rival institutions would have had demand-side effects on the loan fund system, and perhaps may be one of the explanations for the decline in the number of loans issued after 1896. The screening of borrowers still seemed to be poor and inquiries were seldom made about what the loan was required for.[214] There was evidence of a loan being granted to a woman so that she could make a deposit in the Post Office Savings Bank.[215] Although perhaps a reflection of the level of financial illiteracy in Ireland, the fact that such a loan was sanctioned by a loan fund shows that the loan fund in question had inadequate screening procedures.

The 1914 report gave an indication as to who the borrowers from the various loan fund societies were, something that was not included in previous parliamentary reports. Of the borrowers in 1912, 61.45 per cent were farmers, 18.94 per cent were labourers, and 2.92 per cent were shopkeepers.[216] The high incidence of farmers using the loan funds in 1912 is perhaps a reflection of the demographic changes in Irish society, with the decrease of the number of labourers.[217] The 1914 report indicated

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[212] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington DC, 1998), p. 134.
[213] Raiffeisen co-ops are discussed in chapter 6.
[214] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 253, p. 106. [Cd. 7375], H.C. 1914, xiii.1.
[215] Ibid, paragraph 247, p. 103.
[216] Appendix 20, *Report of the Departmental Committee on Agricultural Credit in Ireland*, [Cd. 7375], H.C. 1914, xiii.1.
[217] Although it is questionable whether there was a decrease in the number of labourers, or if the labourers began calling themselves small farmers; for example see David Fitzpatrick, 'The Disappearance of the Irish agricultural labourer' in *Irish Economic and Social History* , vii (1980); The counterpoint to what Fitzpatrick called the 'disappearance' of the Irish labourer is seen in the work of Curtis: Catriona Lisa Curtis, 'The agricultural labourer and the state in independent Ireland, 1922-76' (PhD thesis, NUI Maynooth Department of history, 2007).

that the farmers using the loan funds were small farmers, as larger farmers had greater access to borrowing from the joint stock banks.

The report emphasised the limitations of the LFB loan funds, highlighting the effects of the frauds and scandals on the loan funds. The 1914 report stressed the importance of the 1897 report on the loan fund system, as it believed that the report shocked the public confidence in the LFB system. The report also flagged the problems that had arisen due to the legal position of loan funds owing to their issuance of loans contrary to the loan fund acts. The 1914 report found that many of the charges of abuses and irregularities that were made against loan funds in the previous parliamentary reports, both 1855 and 1897, were still in existence. The report was critical of the rules governing the actions of loan funds, as it found that no two loan funds had the same rules. The LFB had model rules, but application of these rules was optional. The 1914 report highlighted the lack of inspection and supervision of societies by their management, which effectively meant that there was little or no security for depositors and debenture holders of a society.

The 1914 report recommended that the LFB be discontinued and that its activities be transferred to the DATI. It also recommended that the loan fund loan ceiling of £10 be removed and be replaced by a £50 limit, and that the existing loan funds be transformed into credit co-operatives. Of these recommendations, only the dissolution of the LFB was implemented. The loan fund system languished and declined until the last remaining society was wound up in 1975.[218]

2.5 Evaluating the LFB loan funds as microfinance institutions

Modern microfinance programmes are evaluated on three principles: outreach, sustainability and impact. Outreach measures the extent to which the microfinance services reach the poorest segment of the population. Sustainability determines whether or not the activities of a microfinance institution can be financially self-sustainable in the long run. Impact is an assessment of the extent to which the

[218] The last reference to the loan fund societies is in the *Annual report of the Minister for Agriculture and Fisheries 1975*, A.1/55, prl 5514, p.126. But in the latter reports from the Department of Agriculture no details are given of actual loan fund activity.

microfinance service improves the material and physical condition of borrowers and alleviates poverty.[219]

Two notable drawbacks in an attempt to evaluate the three principles in an historic case study of Ireland are the lack of information on individual borrowers and the lack of micro-level census data before 1901. In an historical context the three criteria can be gauged, but of the three impact is the most difficult to evaluate. In modern microfinance programmes, impact assessment is very costly to undertake. It would involve the collection of data on two groups, using one group as a control, over time collecting information on numerous variables to see whether or not a microfinance programme worked after controlling for the influence of other variables. This is difficult, if not impossible, in an historical context due to data limitations. Instead some proxies will have to be used. A proxy variable for outreach is the geographic distribution of a microfinance institution, i.e. are they located in the areas with the highest clusters of poverty? A proxy for impact would be the ratio of the loan sizes to national income per capita, but such a variable for national income does not exist for Ireland in the nineteenth century.[220] Instead calculations will be based on the average annual wage of agricultural labourers.[221] Sustainability is easier to gauge based on the information that was presented in annual accounts. The focus here will be on assessing the outreach of the loan funds.

A crude measure of outreach would be how active were the loan funds in the congested districts, the regions which required government assistance in an attempt to implement a ‘big push’ in the late nineteenth and early twentieth centuries. Before implementing any major work the Congested Districts Board (CDB) commissioned a number of reports on the conditions in each of the 84 congested districts. These reports were to be used as baselines with which to compare the performance of the CDB over time; hence they were referred to as baseline reports.[222] The reports were undertaken by different inspectors, but they were given a template of questions to

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[219] The criteria are discussed in both Manfred Zeller & Richard L Meyer (eds) *The triangle of microfinance: financial sustainability, outreach, and impact* (London, 2002), and Joanna Ledgerwood, *Microfinance handbooks: an institutional and financial perspective* (Washington DC, 1999).

[220] National accounts are a twentieth century phenomenon, with Keynes and Kuznets the pioneers of the art. There are calculations for historical national income, mainly those done by Angus Maddison. But Ireland was not included in his work, so therefore there are no historical national income estimates for Ireland. Kevin O’Rourke has made some estimates of national income based on monetary statistics, but he has not published his results.

[221] See section 2.2.

[222] CDB baseline, TCD, OL Microfilms, 395.

adhere to. They were given 32 standardised questions, and the depth of reporting varied with each inspector. Questions 22 and 24 were specifically related to credit. Question 22 asked whether or not the district had access to a loan fund or a joint stock bank, and question 24 inquired about the prevalence of credit within the district. Given that these reports took place within the timeframe of 1894 to 1897, they do provide some information of loan fund activity prior to the loan fund report of 1897.[223] So, to measure the level of outreach of the LFB loan funds versus the joint stock banks in the congested districts we see that only 14.28 per cent of the districts had access to a loan fund, whereas 75 per cent of the regions had access to joint stock banks. In real numbers 12 districts had access to LFB loan funds, but it must be borne in mind that there were not actually 12 LFB loan funds in the districts. Instead borrowers were travelling beyond districts to access loan funds. In terms of the perceived theoretical information advantages, these practices would have undermined any such advantage, which is in line with what has been argued in section 2.3. Some of the answers for question 22 written by the inspectors give an indication of the attitudes towards the loan funds.

Mr Gahan in his report on the district of Gartan gave the following account of the Letterkenny loan fund:

> There is a loan fund in Letterkenny which extends its operations as far as Templedouglas Electoral Division. Mr Porter Boyd of Ballymacool House, is, I believe the Chairman of the Fund. The interest charged is 1s 11d on every £5 borrowed, for twenty weeks, and 2d for the stamp. The loan must be paid back in 5s weekly instalments. If a week is missed a fine of 5d is imposed; if a month a fine of 10d. If not paid back till the end of the twenty the interest charged would be within a fraction of five per cent per annum, but as the payments are made weekly the actual individual interest charged is almost ten per cent per annum. As each 5s in it is lent out again, so that the same 5 s may have borne interest at the same rate nineteen different times before the original loan is paid off. In spite of this comparatively high rate of interest, the Loan Fund is a great convenience to the people, who avail themselves a good deal of it. One of the principal drawbacks is that they have to bring in two securities for every loan, with customary "treats," means an additional 5s from the man's pocket.[224]

Gahan also reported the operations of the same loan fund in Brocknagh, but his report on the loan fund is identical to the above citation.[225] Mr Micks was more critical of the loan funds in his account of The Rosses, stating that 'the district is fortunate in not having any loan funds within or near its limits.'[226] Micks also stated that 'very few small loans are made by the Bank [Northern Banking Company] to the

[223] The latest report was 1 February 1897.
[224] Baseline report no. 6, Gartan, Mr. Gahan, 14 October 1892, p. 6.
[225] Baseline report no. 7, Brocknagh, Mr. Gahan, 11 June 1892, pp 9-10.
[226] Baseline report no. 12, The Rosses, Mr Micks, 27 May 1892, p. 7.

occupiers of land in the neighbourhood.'[227] Mr Gahan gave the following account of the loan fund in Lough Eask:

> There is a loan fund in Donegal, and one in Pettigo. In the Donegal Fund, 7 ½ d is charged on every pound borrowed, and in addition there are 5 ½ d of various charges. A £1 loan costs a 1s to borrower; £2 loan, 1s 8d; £3 loan, 2s 3 ½ d,; and so on; £5 (the usual amount) costs 3s 7d. The loan has to be repaid in £1 (for £5) instalments every four weeks, so the whole amount is repaid in twenty weeks; if instalments not up to date, 1d in the pound fine is imposed. The interest to each individual is about 18 per cent; 450 have already borrowed from that in Donegal.[228]

This account appears to follow the pattern of increased monthly loans outlined in section 2.3. Mr Gahan stated that in Ballyshannon 'the general opinion seems to be that the effect morally of the loan fund is not good.'[229] The report by Mr Gahan on Grange stated that:

> There is a loan fund at Drumcliff and another in Bundoran. The very general opinion seems to be that the loan funds do a great deal of harm in the districts in which they are placed, and so far as I could gather about 50 per cent of the farmer in the district have borrowed from them. The borrowing is a very costly process, for not only has the borrower to pay the interest on the loan, but he must also bring in and pay two securities, and if his loan is not paid to date he is fined. The interest charged is very high and it is difficult to see where the profits, which must be very great, go to.[230]

The spatial pattern of loan fund references is consistent with LFB reports, as the references are most prevalent in Leitrim and Donegal. The reports are useful - most of the reports predate the 1897 report, and seem to corroborate its findings.

Another feature that is evident from the CDB baseline reports is the prevalence of shop credit in the congested regions. Assuming loan funds only made loans for productive investments, then such a prevalence of shop credit would not have been an important factor. But this assumption may not be entirely accurate, as the evidence from Knockmourne suggests patterns of activity not in tune with agricultural investment patterns. Also the fact that local shops sold fertilisers on credit[231] would indicate that there may have been a cross-over between productive and consumption credit by shops. So given that the shopkeepers were providing services that the loan funds would have provided, i.e. productive credit, coupled with services that loan funds also provided, i.e. consumption credit, this may suggest that there was actually no need for loan funds in the congested regions. The shops offered more favourable

[227] Ibid.
[228] Baseline report no. 19, Lough Eask, Mr Gahan, 2 November 1892, p. 6.
[229] Baseline report no. 20, Ballyshannon, Mr Gahan, 6 October 1894, p. 5.
[230] Baseline report no. 25, Grange, Mr Gahan, 12 December 1895, p. 8.
[231] The shopkeepers sold fertilisers, but the problem was with the quality of the fertiliser. The co-ops claimed that the fertilisers were adulterated.

repayment periods and interest payments, as recorded by the CDB inspectors, were not excessive. In fact, adjusting for opportunity cost and additional monetary costs, from a borrower's perspective loan fund loans would have been more expensive than a loan from a local shopkeeper. Liam Kennedy has shown that there was an increase in the number of shopkeepers in the late nineteenth century which would have helped to push down the price of credit and explain the low cost of credit reflected in the CDB baseline reports.[232] The shopkeepers would also have had greater information on borrowers than loan funds could have possessed, especially as the LFB loan funds were extending beyond their districts, thereby meaning that shopkeepers were more effective lenders. Given that the loan funds, although ostensibly financial intermediaries, did not mobilise savings, it would seem logical that the shopkeepers could perform their role as credit providers.

Another feature of loan fund distribution which indicates low levels of outreach is the absence of LFB loan funds, which claimed to trace their lineage from Dean Swift's Dublin loan fund, in many of the major urban centres particularly Dublin city and Belfast city. There it seems the role of LFB loan funds were performed by mutual friendly societies.[233] But there were also numerous shopkeepers, pawnbrokers and moneylenders operating in the urban centres that could have provided the loan fund services. The paternalistic LFB loan funds were absent from the centres of Irish poverty, both urban and rural, which indicates a failure on their part as providers of institutional microfinance. But because they were paternalistic societies they would have been constrained by the availability of paternalistic agents. Given that there are temporal limits,[234] the amount of time that a paternalistic agent devotes to a certain charitable activity is dependent on his/her resources and preferences. Since there was more than one form of charity vying for paternalistic support, and because paternalistic support was limited, it is not surprising that the distribution of loan funds was not as prevalent in certain areas. The dearth of loan funds, or a surplus, may actually be an indicator of the level of paternalism within a given region or proof of

[232] Liam Kennedy, 'Traders in the Irish Rural Economy, 1880-1914' in *The Economic History Review*, xxxii, no. 2 (May, 1979), pp 201-210.

[233] These are mutual societies where to be either a borrower or a depositor required membership. These are discussed in chapter 5. In contrast membership in loan fund societies was confined to the investors, i.e. debenture holders of £20 and over.

[234] This is assuming you can not buy yourself time. You can admittedly buy someone else's time, but then there is a budget constraint as to how much of their time you can buy. But money cannot replicate the benevolent qualitative characteristics of the paternalistic agent. So the purchase of someone else's time is in effect an inferior good.

the existence of an alternative. Cynically it could also be argued that elites in urban areas had less to gain by offering paternalistic services, as opposed to the rural elites who may have used loan funds as vehicles for purposes other than monetary distribution.

2.6 Conclusion

In conclusion, the LFB system declined during the post-famine period, it experienced a ‘bubble’ from 1885 to 1895, and effectively collapsed after 1896. The Irish loan funds were ostensibly restricted by legislation from making loans over £10 and from charging a rate of discount greater than 4 d in the pound, roughly a 0.70 per cent annualised discount rate, but still managed to expand during the bubble period. The speculation occurred without consideration for the welfare of borrowers from the loan funds. As the abuses were rife, it cannot be assumed that it occurred in the minority of loan funds. In fact, it is more accurate to state that the minority of loan funds were those that adhered to the original principles designed to assist low income borrowers.

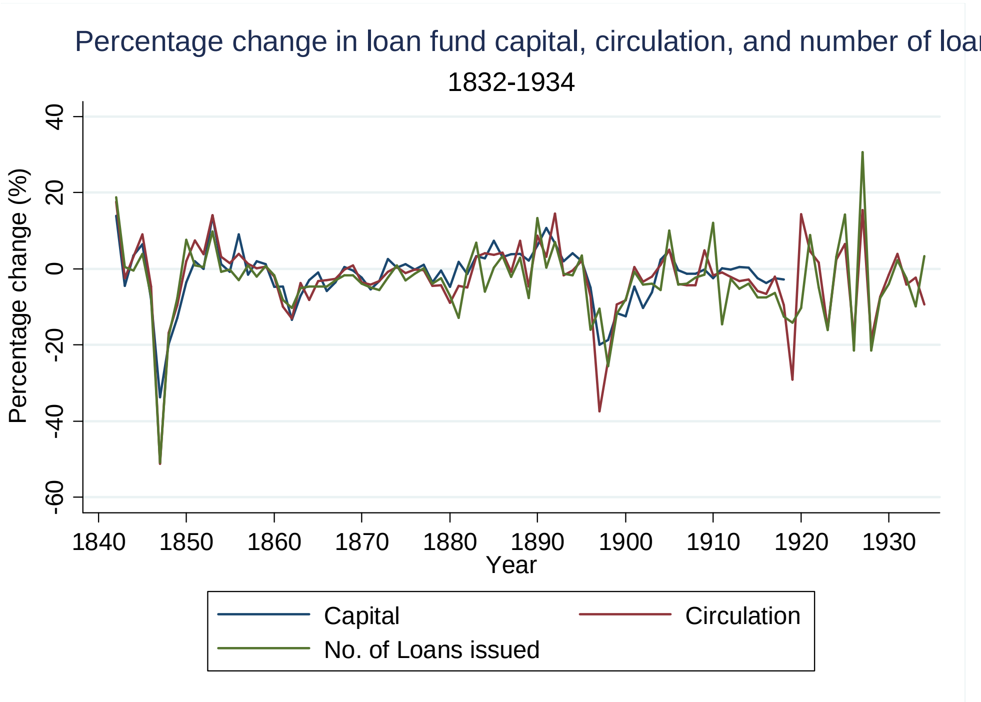
Table 2.9: Inter-decadal percentage change in population and loan fund variables, 1841-1911

Decennial period	Population	Population (Rural)	Number of loan funds	Capital	Circulation	Number of loans
1841-51	-19.85	-24.24	-54.10	-49.73	-50.55	-53.55
1851-61	-11.49	-12.29	-14.63	15.23	16.10	-4.68
1861-71	-6.67	-9.82	-22.85	-35.11	-34.40	-36.78
1871-81	-4.37	-6.90	-2.46	-5.18	-24.53	-32.14
1881-91	-9.08	-12.13	26.58	49.95	25.71	9.99
1891-1901	-5.22	-11.40	-36	-47.21	-57.94	-51.48
1901-11	-1.54	-5.16	-20.31	-14.52	-9.86	-18.76

Sources: Loan Fund Board reports, *Thom’s Directory*, and census of Ireland

Table 2.9 shows the inter-decadal percentage change in population and some loan fund variables. As can be seen, both population growth and loan fund variables experienced negative changes from 1851 to 1881. Although population continued to decrease, there was an increase in loan fund activity from 1881 to 1891, but this increase was not continued into the following decadal period. The importance of population change should not be overlooked, as the loan fund zenith in the early nineteenth century coincided with Irish population at its peak. The major structural changes in Irish demography saw the decline in a portion of the population most likely to have actually used the loan funds, these being labourers and cottiers. As was shown in chapter 1, there was a consolidation in land holdings in the post-famine era which, assuming that cash flows from farming were sufficient, was something that would have reduced demand for credit from the loan funds. Given the continuing trends in Irish demography, it is not surprising that the loan funds were an institution in decline. What is surprising is that they were able to survive for so long. The bubble in the late 1880s and early 1890s is anomalous, as the variables outlined in section 2.2 have shown.

Figure 2.33



Note: The period 1921-1934 only includes information from loan funds in the Free State

Sources: Annual reports of the Loan Fund Board, *Thom's Directory*, and *Commission of inquiry into banking, currency and credit, memoranda and minutes of evidence*, volume ii, 1938, R. 63/2, xxxi, p.1081. For the years 1918 to 1934 the Commission only contained information on circulation and not capital.

Figure 2.33, which shows the percentage change in loan fund circulation, capital and number of loans issued from 1844 to 1918, indicates some of the major events which influenced subsequent developments in the LFB system. Of prime importance was the famine in the 1840s which truncated the loan fund system. This was followed by the recession in the early 1860s and the effect of the land war in the late 1870s and early 1880s. The second largest event, based on percentage change, was the decline in 1896. The drop in both capital and circulation in 1896 is second in magnitude only to the effects of the famine. The LFB system did not recover from the events of the 1890s.

An issue which has not been fully addressed in the current loan fund literature[235] is why the loan funds were most active in Ulster. It has been shown in this chapter that Ulster had the largest loan fund representation on the island. So it is necessary to explain how this dominance came into place. Or rather, why was it that Ulster, possibly the wealthiest province, needed and facilitated the loan fund system, and why were these loan funds less prevalent in the areas of the greatest congestion and poverty?

There are two possible explanations for the greater concentration of loan fund activity in Ulster, one that explores supply side factors and another that explores demand side factors. On the supply side the most likely reason for the prevalence of loan funds in Ulster and to a lesser extent Leinster and Munster was due to the nature of their constitutions. The loan funds required both capital and people to voluntarily run the institutions. The initial capital which the loan funds required was usually provided at the behest of local charities but the amounts given were trivial and not enough to establish a thriving loan fund. The loan funds required deposits as well as bequests in order to adequately operate. But the loan funds also required local expertise to run the loan funds on a voluntary basis. This voluntary labour was in effect a subsidy, as the labour was expected to be given for free to the cause of the loan funds which was the provision of financial services to the poor. Not every locale in Ireland had access to both the finances and the personnel to operate loan funds on such a large scale. In this regard it could be possible to surmise that due to Ulster's position as the location of the majority of the industry of the island it is possible that the inhabitants had greater amounts of surplus capital which they could distribute to

[235] Hollis and Sweetman have written several articles on the Irish loan funds.

the loan funds. And they possibly had a greater array of skilled personnel at their disposal than any of the other provinces.

This assessment is hypothetical as it does not take into account the abuses which took place in the system between 1885 and 1895, but it could be argued that the assessment that successful loan fund operations required both capital and personnel is an accurate one. Clearly the absence of either meant that the loan funds could not be administered. What this leads us to question is why the loan funds were so uncommon in the poorest regions. It may be due to the smaller number of land owners, i.e. landlords, in the west as compared to elsewhere on the island.[236] Given that the loan funds required some paternalistic supporters to act as trustees, as managers, to donate time, and/or to provide capital, such a dearth of numbers may give an indication as to why there were so few loan funds.

Another explanation stems from the fact that counties in Connaught and Munster did have loan funds active there in the 1830s and 1840s under the auspices of the Reproductive Loan Funds (RLF). The societies associated with the RLF were all wound up in the late 1840s and their capital was placed in the trusteeship of the UK Treasury. This would have precluded the replacement of individual loan funds via the transferral of capital between trustees as seems to have occurred under the LFB system. The lack of intra-trustee transferrals would also have been coupled with how the RLFs were wound up. They were accused of being fraudulent and exploitive, something that may have precluded their revival.

The decline of LFB loan funds may have been a reflection of the prevailing social attitudes, particularly those of elitist social reformers. The late Victorian period is associated with the social reform based on the ideas of Samuel Smiles and people of similar ilk. Numerous actions in the late nineteenth century can see traces of Smilesian thought, but none more so that the pursuit of thrift. In Smiles' work on thrift, he praised its values, mainly saving and frugal living. But he was also critical of debt, and especially loan societies, as is shown in the following passage from *Thrift*:

> Not many years since, Parliament passed a law facilitating the establishment of small Loan Societies, for the purpose of helping small tradesmen and poor people generally to raise money in an emergency. The law was at once pounced upon by the numerous race of Graballs, as a means of putting money in their purse. They gave the working classes facilities for running into debt, and for mortgaging their future industry. A few men, desirous of making money, would form themselves into a Loan Club, and offer sums of money ostensibly at five per cent. interest, repayable in weekly instalments. The

[236] This is discussed in greater detail in chapter 7: see *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61.

> labouring people eagerly availed themselves of the facility for getting into debt. One wanted money for "a spree," another wanted money for a suit of clothes, a third for an eight-day clock, and so on; and instead of saving the money beforehand, they preferred getting the money from the Club, keeping themselves in difficulties and poverty until the debt was paid off. Such a practice is worse than living from hand to mouth: it is living upon one's own vitals. It is easy to understand how the partners in the Loan Club make money. Suppose that they advance ten pounds for three months at five per cent. It is repayable in weekly instalments at ten shillings a week – the repayments commencing the very first week after the advance has been made. But though ten shillings are repaid weekly until the debt is wiped off, interest at five per cent is charged upon the whole amount until the last instalment is paid off. So that, though the nominal interest is five per cent, it goes on increasing until, during the last week, it reaches the enormous rate of one hundred per cent! This is what is called, "eating the calf in the cow's belly."[237]

Smiles was also continually critical of both middle and working classes going into debt. Debt was frowned upon in Smilesian thought, as is illustrated from the following passage from *Self-help*:

> Every man ought to contrive to live within his means. This practice is of the very essence of honesty. For if a man do not manage honestly to live within his own means, he must necessarily be living dishonestly upon the means of somebody else. Those who are careless about personal expenditure, and consider merely their own gratification, without regard for the comfort of others, generally find out the real uses of money when it is too late. Though by nature generous, these thriftless persons are often driven in the end to do very shabby things. They waste their money as they do their time; draw bills upon the future; anticipate their earnings; and are thus under the necessity of dragging after them a load of debts and obligations which seriously affect their action as free and independent men…Orderly men of moderate means have always something left in their pockets to help others; whereas your prodigal and careless fellows who spend all never find an opportunity for helping anybody. It is poor economy, however, to be a scrub. Narrowmindedness in living and in dealing is generally short-sighted, and leads to failure. The penny soul, it is said, never came to two-pence…The proverb says that "an empty bag cannot stand upright;" neither can a man who is in debt. It is also difficult for a man who is in debt to be truthful; hence it is said that lying rides on debt's back. The debtor has to frame excuses to his creditor for postponing payment of the money he owes him; and probably also to contrive falsehoods. It is easy enough for a man who will exercise a healthy resolution, to avoid incurring the first obligation; but the facility with which that has been incurred often becomes a temptation to a second; and very soon the unfortunate borrower becomes so entangled that no late exertion of industry can set him free.[238]

So how does Smilesian thought relate to the Irish loan funds? Given their continual decline, it is not implausible that this was caused by a decrease in paternalistic patronage of the institutions. Such patronage, i.e. free management and expertise, would have been difficult if not impossible to replace. Without it new start-ups would not have been possible; without it established societies could not have continued. We have evidence that few landlords or members of the clergy were involved with the loan funds circa 1896. This, coupled with comments cited from the

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[237] Samuel Smiles, *Thrift* (London, 1875), pp 263-264.
[238] Samuel Smiles, *Self-help* (1859, reprint Oxford 2002), pp 247-248.

CDB inspectors, suggest that changing social attitudes, although difficult to measure, may have some explanatory value.

On the demand side the 'Ulster Custom', whereby tenants received compensation for investments, does not seem to be a plausible explanation for the regional variation, the reason being that the 'Ulster Custom' by definition applied to long-term investments, or capital improvements. As loan fund loans were short-term investments, there is no intrinsic argument to suggest that the absence of the 'Ulster Custom' would have hindered the demand for loans elsewhere in the country. Furthermore, Donnelly, in his study of nineteenth century Cork, has suggested that the distrainment of livestock by landlords was a rarity and only resorted to in extreme circumstances and that smallholder farmers did not have disincentives to invest.[239]

Across Ireland there was a divide between small and large farming. Roughly speaking, in both Connaught and Ulster, farm sizes were on average smaller than those in Leinster and Munster. Smaller farm sizes would suggest a greater demand for credit from loan fund institutions. In the pre-famine period Connaught was also under-represented in terms of LFB loan funds, but these were substituted with loan funds from the RLF which used capital imported from a charitable institution in London. The poor financial performance of the RLF and its reputation of corruption and fraud meant that similar sources of capital in the form of charitable bequests would have been less likely in the post-famine period. Therefore, as Connaught had a shortage of the supply side factors necessary to establish loan funds, this may suggest why there was a shortage of loan funds relative to Ulster.

In conclusion, the decline of the loan funds was not inevitable, but because of the absence of purposeful reform and increased competition their place within the Irish financial structure was eroded. The main difficulty that the LFB loan funds faced was that they were a niche banking institution and whose specialisation was the one most affected by the famine in the 1840s. Ernesto Schargrodsky and Federico Sturzenegger, writing about the Argentine crisis of 2001, observed that:

[239] James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975), pp 103 and 64-65.

> If a bank concentrates in a particular line of business, lower demand or lower productivity will make many of its clients insolvent. If a bank concentrates in a particular region, any local negative shock will also imply a lower rate of repayment.[240]

They found that many of the banks which collapsed were too specialised in their services and that the ones which survived had greater portfolio diversification. This is also the case with the Irish financial structure in the nineteenth century. The joint stock banks had greater diversity in their portfolios than had the loan funds and as such they were able to continually advance and develop, whereas the loan funds were to remain stagnant as their niche was gradually encroached upon by different forms of competition.

The random cases taken from available source material on loan funds seems to indicate that they may have been more eventful institutions than represented on the pages of the LFB reports and in the overview in section 2.2. Evidence of political wrangling and religious discrimination ought to make the subject of loan funds more enticing to Irish historians in the future.

[240] Ernesto Schargrodsky and Federico Sturzenegger, 'Banking regulations and competition with product differentiation' in *Journal of Development Economics*, lxiii (2000), p. 95.

3 Joint stock banking in Ireland, 1820-1914

3.1 Introduction

Joint stock banking in Ireland is an example of successful institutional imitation. Irish joint stock banks established in the 1820s were modelled on the principles of 'Scotch banking'. At the beginning of the nineteenth century the Bank of Ireland, formed in 1783, was the only joint stock bank operating in Ireland. It operated on a unit banking model, banking where a bank's activities are conducted in one location. The banks that were established in the 1820s and 30s operated a branch banking model, which is the inverse to unit banking, where a bank opens bank offices in different regions and banking business is divided among each branch. By 1914 there were nine joint stock banking companies with 860 bank branches,[1] including the Bank of Ireland which had abandoned its unit banking policy in response to increased competition. The following chapter is an account of the historical and structural development of joint stock banking in Ireland in the nineteenth century.

The literature on joint stock banking in Ireland to date has focused on the early development of the system,[2] developments of individual banks,[3] or of banking in Ulster.[4] Many of these histories were commissioned by the banks themselves.[5] There has been interest in the joint stock banking failures, namely the Agricultural and Commercial Bank of Ireland, the Tipperary Joint Stock Bank, and the Munster Bank.[6] More recent literature has focused on the role of the banks in the Irish economy,[7] capital markets,[8] and assessing the significance of unlimited liability on the structural

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[1] *Thom's Directory*, 1915, p. 815.
[2] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973).
[3] F. G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948); Kenneth Milne, *A history of the Royal Bank of Ireland Limited* (Dublin, 1964); Noel Simpson, *The Belfast bank, 1827-1970* (Belfast, 1975); F. S. L. Lyons (ed.), *Bicentenary essays, Bank of Ireland 1783-1983* (Dublin, 1983).
[4] Philip Ollerenshaw, *Banking in nineteenth century Ireland: the Belfast banks, 1825-1914* (Manchester, 1987).
[5] This was the case with Hall, Milne and Simpson.
[6] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), pp 173-188; James O'Shea, *Prince of swindlers: John Sadlier M.P. 1813-1856* (Dublin, 1999); Cormac Ó Gráda, 'Moral hazard and quasi-central banking: Should the Munster Bank have been saved?' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 316-341.
[7] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994).
[8] C. R. Hickson and J. D. Turner, 'The Rise and Decline of the Irish Stock Market, 1865-1913' in *European Review of Economic History*, ix (2005), pp 3-33; C. R. Hickson and J. D. Turner, 'Pre- and Post-Famine Indices of Irish Equity Prices' in *European Review of Economic History*, xii (2008), pp 3-38.

development of joint stock banking.[9] This chapter will contribute to the existing literature by analysing joint stock banking over the entire nineteenth century, and by focusing on the developments of all banking institutions. The chapter will analyse the joint stock banks in terms of their impact on the microfinance institutions discussed elsewhere in this thesis. The joint stock banks were an important financial institution and their structural development is a key to understanding the developments of other institutions. The joint stock banks, unlike other financial institutions discussed in this thesis, had a wider significance outside of microfinance and as such this will be discussed. This work will make a significant contribution to the existing literature by mapping the geographic distribution of the banks.

The focus of this chapter will be on the structural development of the Irish banking sector in the nineteenth century and will show how formal constraints hindered the development of Irish joint stock banking. The gradual removal of formal constraints led to the establishment of a number of banks in the 1820s and 30s. But new constraints were imposed on the system in the 1840s which influenced the structural development of joint stock banking, and placed sizeable barriers of entry to new competition. An important aspect of the early developments of joint stock banking is the story of the Agricultural and Commercial Bank of Ireland (A&C). The A&C is important in the context of this thesis as it was the only for-profit microfinance institution in the pre-famine period. The A&C was established in 1834 but was a short-lived venture. The chapter will analyse its history to see if it can shed light on the other forms of microfinance in the early nineteenth century.

The chapter will outline developments in joint stock banking in post-famine Ireland. It will be argued in this chapter that the gradual expansion of branch banking enabled the joint stock banks to create information regarding borrowers. Information was created by the collection of deposits and the collection of information regarding the surrounding economic environment. As the Irish banking system was an imitation of the Scottish banking system, this chapter will include a comparative study of Irish and Scottish banking in the late nineteenth century. The aim of the comparative study is to see if Irish banking converged to Scottish banking.

[9] This is mainly the work of Hickson and Turner; for example see: C. R. Hickson and J. D. Turner, 'Free banking and the stability of early joint-stock banking' in *Cambridge Journal of Economics*, xxviii,no.6 (2004) pp903-919.; C. McCann, C. R. Hickson and J. D. Turner, 'Much Ado About Nothing: The Introduction of Limited Liability and the Market for Nineteenth-Century Irish Bank Stock' in *Explorations in Economic History*, xlii (2005), pp 459-76.

This chapter will conclude by assessing joint stock banks as a form of institutional imitation and in this context challenge arguments raised by Tim Guinnane in his assessment of the institutional imitation of German Raiffeisen banks. Guinnane asserted that informal constraints, namely cultural differences, precluded the imitation of a financial institution in Ireland. But the existence of an *ex-ante* institutional imitation challenges this view. Also the chapter will assess the role of the Irish banks in the economic development of Ireland and whether they could have acted as a substitute for private investment as argued by Gerschenkron.[10] This Gerschenkron-esque view was expressed in the latter stages of the nineteenth century and has been embraced by Irish economic historians, most notably Joseph Lee.[11]

3.2.1 The early development and liberalisation of joint stock banking in Ireland

The early developments in Irish joint stock banking began in the eighteenth century. Goldsmith observed that:

> Very few financial institutions – be they central banks, commercial banks, savings or mortgage banks, investment trusts or insurance companies – go back beyond the early nineteenth century, and those that do are of very small size until well into the nineteenth century, not only by present standards but in comparison to contemporary values of wealth and income.[12]

This is true for Ireland, with the Bank of Ireland being the only major financial institution that predates the nineteenth century. Attempts were made to establish a national bank in the 1720s, but these were opposed.[13] The Bank of Ireland was established by a Royal Charter in 1781-82,[14] and began business in 1783. Its initial share capital was £600,000. This was to be raised voluntarily from subscribers in Ireland or abroad, and it was fully paid-up;[15] the share capital was increased by successive amendments to its charter. The Bank of Ireland's charter stated that its

[10] Gerschenkron's views on banks were based on his analysis of the contribution of banks to economic development in Germany and Russia in the late nineteenth century; see Alexander Gerschenkron, *Economic backwardness in historical perspective: a book of essays* (Harvard, 1962), pp 5-30.
[11] Joseph Lee seems to have been heavily influenced by Gerschenkron. He questioned why Ireland did not have any investment banks; for example see: Joseph Lee, 'Capital in the Irish economy' in L. M. Cullen (ed.) *The formation of the Irish economy* (Cork, 1976), p. 60.; and Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 20.
[12] Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 43.
[13] Chapter 1 of this thesis made references to pamphlets advocating the establishment of national banks also see; F. G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948), pp 14-29.
[14] An act for establishing a Bank, by the Name of the Governors and Company of the Bank of Ireland, 1781-82 (21 & 22 Geo 3), c. 16 [I].
[15] Ibid, section i.

objective was to advance the 'publick credit in this Kingdom and to the extension of its trade and commerce if a bank with publick security'.[16]

The banking industry in Ireland and Great Britain in the eighteenth century and in the UK in the nineteenth century was subject to substantial regulation.[17] The regulation of the banking industry influenced its structural development. In the eighteenth century there were restrictions on banking structure. Ó Gráda noted that:

> Several banking failures in the mid 1750s, however, convinced Parliament that "the publick credit of the Kingdom…suffered from Bankers trading as merchants", and amending legislation prohibited merchants engaged in foreign trade from issuing notes. Banks were also prohibited from having more than six partners.[18]

The restriction on banks having more than six partners constrained the development of banking in Ireland as it narrowed the capital base of a bank to the capital of its partners, and made such banks cautious in regards to credit policy. The Bank of Ireland was the only bank operating in Ireland that was permitted to have more than six partners from 1783 until 1820.[19] Modelled on the Bank of England, the Bank of Ireland, chartered by the Irish parliament in 1783, was given a monopoly on joint stock banking in Ireland and given a geographic monopoly on note issuing within a 65-mile radius of its headquarters in Dublin. With only one bank operating on a joint stock basis it is unsurprising that the Bank of Ireland took advantage of its monopoly status and did not pursue overly expansionist policies. This monopoly status also influenced the bank's *modus operandi* as it did not attempt any branch expansion. There is nothing to indicate that the bank's charter prohibited it from operating a branch system. Section two of the Bank of Ireland's charter stated that the funds raised by the bank 'shall be applied towards any purposes for the beginning or better carrying on the business of the said bank and also towards the erecting a proper building and convenient accommodations for the same'.[20] This suggests that the bank could undertake branch expansion if it could justify it in the name of 'better carrying on the business of banking'. According to Hall, the Bank of Ireland 'consistently refused to extend its operations outside Dublin'.[21] This was despite the frequent

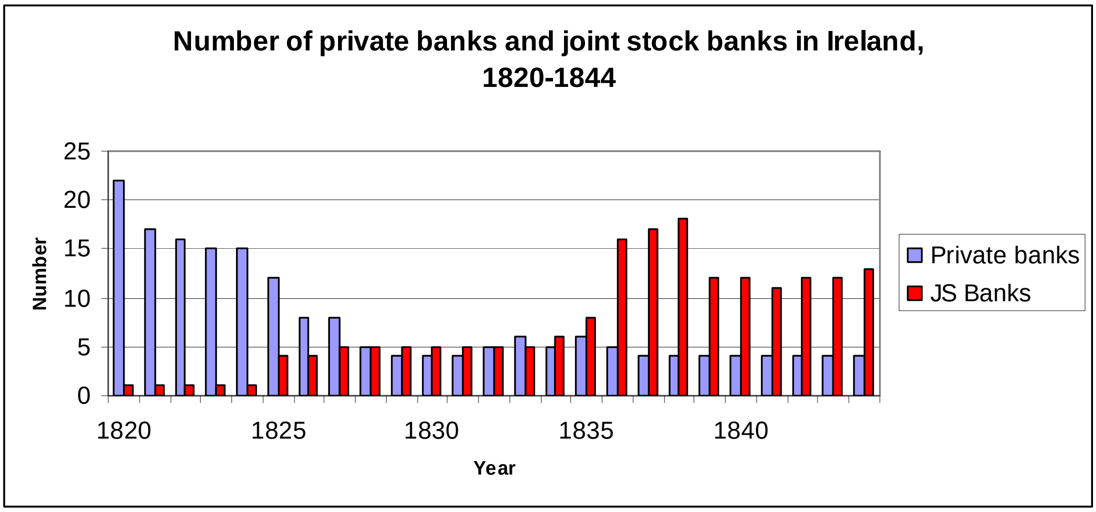
[16] Ibid, preamble.
[17] Great Britain and Ireland were separate polities in the eighteenth century and were united in the nineteenth century; An Act for the Union of Great Britain and Ireland, 1800 (39 & 40 Geo. 3), c. 67.
[18] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 51.
[19]An act for establishing a Bank, by the Name of the Governors and Company of the Bank of Ireland, 1781-82 (21 &22 Geo 3), c. 16 [I], section 14.
[20] Ibid, section 2.
[21] F.G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948), p. 172.

requests from ‘prominent citizens’ in Belfast and Cork for the Bank to open branches.[22] If we look at the other chartered institutions in the British Isles we can see that the Scottish chartered banks chose to operate branch systems, whereas the Bank of England purposely chose not to follow a branch banking system.[23]

A private bank is financed by the capital of its partners, and shares in the bank are not traded publicly. By contrast, a joint stock bank is financed through the sale of shares, and these shares are publicly traded. In the eighteenth and early nineteenth centuries there were a number of private note issuing banks operating in Ireland. A restriction on gold payments in 1797, an emergency piece of legislation in response to the Revolutionary wars, saw the growth in bank note circulation in many parts of Ireland. Many of the new notes in circulation did not have any specie backing, and economic distress following the end of the Napoleonic wars led to a banking crisis in Ireland. The economically induced banking distress in the late 1810s and early 1820s saw the end of private banking as the dominant form of banking in Ireland. The 1820s was to see the emergence of a new form of banking structure on the island. Figure 3.1 shows the number of private banks and joint stock banks in Ireland from 1820 to 1844. As can be seen there was a significant decrease in the number of private banks operating in this period. These were essentially displaced by the joint stock banks which operated branch networks.

[22] Ibid.
[23] Ibid, p. 172.

Figure 3.1



Note: The Bank of Ireland has been included in the number of joint stock banks.

Source: *Accounts of the number of private and joint stock banks registered in Ireland in each year from 1820 to 1844, both inclusive; and of all the joint stock banks existing in Ireland on the 1st day of January 1840, distinguishing those banks that issued, and those that did not issue notes*, 1844 H.C. (232), xxxii, 445.

The early nineteenth century saw the deregulation of the banking sector in Ireland. The initial stages of deregulation saw the removal of the restriction on the number of eligible partners permitted to establish a bank. The renewal of the Charter of the Bank of Ireland in 1821 allowed 'any number of partners, united or to be united in societies or partnerships' to form note issuing banks 'at any place in Ireland exceeding the Distance of Fifty Miles from Dublin'.[24] The act stated that 'no other privileges' were to be granted until 1838;[25] an exception was made for the right to 'sue or be sued in the name of the public officer' but only if 'Parliament hereafter think fit to grant such a Power'.[26] This led to some legal difficulties regarding the right to 'sue or be sued in name of the public officer',[27] as this meant that there was no legal recognition of incorporation of joint stock banks. There were also constraints from an earlier act of parliament relating to banking.[28] The 1756 act prohibited merchants and traders being shareholders, and stated a requirement for each shareholder to sign bank notes.[29] The requirement for signatures on bank notes would have been particularly burdensome

[24] Bank of Ireland Act, 1821 (1 & 2 Geo. 4), c. 72, section 6.
[25] Ibid, section 7.
[26] Ibid, section 7.
[27] F.G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948), pp 134-135.
[28] Business of bankers, 1756 (29 Geo. 2), c. 16 [I].
[29] Charles W. Munn, 'The coming of joint-stock banking in Scotland and Ireland, c. 1820-1845' in T. M. Devine and David Dickson (eds.), *Ireland and Scotland, 1600-1850* (Edinburgh, 1983), p. 208.

for note-issuing joint stock banks. These legal constraints hindered the development of new joint stock banks.

The Relief of Bankers (Ireland) Act 1824[30] and the Bankers (Ireland) Act 1825[31] saw the development of joint stock banking in Ireland. This paved the way for the creation of banks with partnerships limited only by the number of shares in the banks. The joint stock banks were able to raise capital through the sale of shares, on a partially paid up basis, and enabled banks to rely on more diverse sources of capital. The 1825 Bankers (Ireland) Act led to the establishment of a number of new joint stock banks in Ireland, shown in table 3.1, which were to operate for the remainder of the nineteenth century. A particularly interesting feature of the 1825 Act was that it allowed capital to be raised from the sale of shares in Britain as well as Ireland.[32] This enabled banks to raise funds in both Ireland and Britain. Two of the largest joint stock banks, the Provincial and the National, actually had their headquarters in London. The system of joint stock banking in Ireland was relatively stable, with the A & C bank, discussed below, being the only joint stock bank in Ireland to fail during the period 1824 to 1845.

Table 3.1: Joint stock banks established in Ireland between 1783 and 1840

Joint Stock Bank	Year of establishment	Branches in 1826	Branches in 1836
Bank of Ireland	1783	7	19
Hibernian Joint Stock Bank	1824	-	-
Northern Banking Company	1824	12	10
Provincial Bank of Ireland	1825	9	33
Belfast Banking Company	1827	-	10
Agricultural and Commercial Bank of Ireland	1834	-	27
National Bank of Ireland	1835	-	20
Limerick National Bank of Ireland	1835	-	3
Royal Bank of Ireland	1836	-	-
Ulster Bank	1836	-	-
The Tipperary joint stock company	1836	-	-

Note: The return included the Carrick-on-Suir National Bank of Ireland and the Clonmel National Bank of Ireland as joint stock banks. These have been omitted from table 3.1 as they were most likely branches of the National Bank of Ireland.

Sources: *Banks (Ireland) Accounts, of the number of banks consisting of more than six partners; and, of the number of private bankers registered, 1820-1825*, 1826, H.C. (228), xxiii, 289; *Return of joint*

30 Relief of Bankers (Ireland) Act, 1824 (5 Geo. 4), c. 73.

31 Bankers (Ireland) Act, 1825 (6 Geo. 4), c. 42.

32 Ibid, section 5.

stock banks in Ireland, with the dates when established respectively; and of the names of the several towns and places where such banks and their branches have been established; with the number of partners in each Copartnership, 1836, H.C. (219), xxxvii, 371; *Accounts of the number of private and joint stock banks registered in Ireland in each year from 1820 to 1844, both inclusive; and of all the joint stock banks existing in Ireland on the 1st day of January 1840, distinguishing those banks that issued, and those that did not issue notes*, 1844 H.C. (232), xxxii, 445.

The 1825 Bankers (Ireland) Act eliminated the Bank of Ireland's monopoly on joint stock banking, but it did not eradicate the Bank of Ireland's geographic monopoly. The joint stock banks had to choose between operating in Dublin and note issuing; they could not do both.[33] Only two joint stock banks chose to operate in Dublin - the Royal Bank and the Hibernian Joint Stock Bank. The other banks operated elsewhere.

The emergence of a number of joint stock banks at a similar time created competition in the banking sector. The Provincial bank led the way in many areas. Its *modus operandi* was based on the Scottish banking model. Barrow stated that 'the Provincial's system was almost identical with that of the Scottish banks'.[34] It was the pioneer of branch banking in Ireland,[35] the introduction of cash credit backed by personal security and the payment of interest on deposits.[36] Its policies were imitated by other joint stock banks. The increased level of competition also forced the Bank of Ireland to abandon unit banking and adopt a branch banking strategy, and the Bank of Ireland opened its first branches in 1825.[37] In the period 1825 to 1844 the Bank of Ireland opened 23 branches.[38] It also recorded receiving 28 requests to open branches in various towns in Ireland, and of these requests 9 were agreed to by the Bank's directors.[39]

The increase in competition did not encourage the Bank of Ireland to implement a policy of paying interest on deposits. The Bank of Ireland, which was the largest commercial bank, did not give any interest on deposits and it was not until '1864 [that] the system of accepting deposits at interest was put into operation'.[40] It is possible that the Bank of Ireland did not pay interest on deposits as deposit

[33] Bankers (Ireland) Act, 1825 (6 Geo. 4), c. 42, section 2.
[34] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 79.
[35] Ibid, p. 81.
[36] Ibid, p. 79.
[37] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), p. 177.
[38] *Return of the number of applications made to the Bank of Ireland for the establishment of a branch; also the number that have been established, &c*, H.C. 1844, (350), xxxii, 265.
[39] Ibid.
[40] F.G. Hall, *The Bank of Ireland, 1783- 1946* (Dublin, 1948), p. 243.

mobilisation was not part of its initial business model.[41] It may have been the case that individuals, or businesses, who deposited with the bank of Ireland also borrowed from it: this would account for the absence of interest on deposits. But the evidence suggests that the majority of Bank of Ireland assets were in fact public securities, and not loans,[42] so compensating balances[43] may not have been occurring to any great extent. There was also a general policy amongst all banks of not paying interest on current accounts, so perhaps the Bank of Ireland mainly operated current accounts in this period.

The other joint stock banks were more inclined to offer their customers interest on their deposits. Barrow observed that 'the purpose [for interest on deposits] was to attract idle money back into the banking system where it would be employed at a higher rate of interest to the benefit of all concerned'.[44] The newly established joint stock banks did not have the same prestige and tradition as the Bank of Ireland because they were not chartered banking institutions and as such it was also likely that interest on deposits was required as security to attract depositors. Many of the banks offered similar interest rates on deposits. Barrow stated that in the early nineteenth century the Provincial Bank of Ireland offered 2 per cent in its branches in the south of Ireland, and 3 per cent in Ulster. This was due to the fact that the Ulster banks (the Belfast bank, the Northern Bank and the Ulster Bank) offered 3 per cent.[45] The fact that the Provincial bank would raise rates when entering Ulster suggests that there was stronger competition in the north. But there is evidence to suggest that there may have been tacit collusion in the north,[46] and there is evidence that implicit collusion did take place in terms of rates. The area where the joint stock banks competed with each other was in branches. As a result of such competition, Ó Gráda noted that:

> The total number of bank branches or agencies rose from 14 in 1825 to 54 in 1834 and to 173 in 1845, and by the latter date nearly all towns with a population of over 5,000, and several smaller towns too had their own bank. The banks mopped up money that had

[41] The bank's charter suggests that it was primarily intended to be a payments bank and to deal in bullion; An act for establishing a Bank, by the Name of the Governors and Company of the Bank of Ireland, 1781-82 (21 & 22 Geo 3), c. 16 [I], sections 6 and 9.
[42] The distribution of Bank of Ireland Assets from 1817-1845 shows that public securities were the predominant asset in the Bank of Ireland, the proportion of public securities began to decrease from the 1820s onwards; See Appendix 6 in G.L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 222.
[43] Balances left in a bank to compensate for a loan or services.
[44] G.L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 80.
[45] Ibid, p. 80.
[46] Section 3.5 below shows that there were collusive agreements in place.

> previously been hoarded: in 1825-40 the Bank of Ireland received an average of £40,000 annually in gold guineas, though guineas had scarcely circulated in most of the island since the 1790s…There is circumstantial evidence that the Bank of Ireland was over-cautious in its branch policy in these years. The only Irish towns of 10,000 people or more without a bank branch in 1830 – Dundalk, Drogheda, and Carlow – were within the Bank's fifty-mile zone, while a decade later the Bank had opened branches in only three towns in the 5,000-10,000 range – Youghal, Tullamore and New Ross. The demand for banking services would therefore probably have been less fully met in the absence of competition from the other banks. [47]

The deregulation of the banking sector between 1821 and 1844 shaped the structure of the banking sector in Ireland. Subsequent regulation by the Bank Charter Act 1844 and the Bankers Ireland Act 1845 encouraged the spread of branch banking. Both acts restricted the note issue of banks in Ireland. The Bank Charter Act, although applicable primarily to England and Wales, restricted note issue to banks operating 'in any part of the United Kingdom' at the time of the passing of the Act.[48] Therefore, no new banks, or banks that had closed but had not been wound up, were allowed issue notes following the act. This immediately affected three joint stock banks in Ireland: two that operated in Dublin, the Royal and the Hibernian, as they were the only non-note issuing joint stock banks, and the Tipperary Bank which was the only bank in Ireland that voluntarily gave up its right to issue notes. It was also to affect any banks that might form after the passing of the act. The Bankers Ireland Act passed the following year removed the Bank of Ireland's geographic monopoly, but did not allow the Royal and the Hibernian to issue notes.[49]

The 1844 bank act placed significant restrictions on note issues of the pre-existing note-issuing banks. The banks were given a limited circulation,[50] with the limit based on their average note circulation from the previous twelve months.[51] Banks were allowed issue notes above this, but to do so they had to hold an equivalent amount of specie to cover the excess issue. Any bank that issued an excessive amount of notes, not backed by specie, could be fined the equivalent amount of the excess issue.[52] The effect of the 1844 bank act was to make excess note issues expensive from a bank's perspective. Note issues in Ireland remained within the limit for the remainder of the nineteenth century.[53]

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[47] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 140.
[48] Bank Charter Act, 1844 (7 & 8 Vict.), c. 32, sections 10 and 12.
[49] Bankers (Ireland) Act, 1845 (8 & 9 Vict.), c. 37, sections 1, 12 & 13.
[50] Ibid, section 14.
[51] Ibid, section 8.
[52] Ibid.
[53] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 182.

The 1844 act can be seen as a structural break in the development of joint stock banking as it shifted the focus of banks: it gave greater importance to deposit mobilisation and financial intermediation. In the earlier years of joint stock bank development many of the banks had not focused on savings mobilisation. Note issuing was no longer the main feature of banking in Ireland and, as Barrow noted, 'with the growth of cheque-operated accounts the issue of notes was no longer an essential feature of banking'.[54]

Branch banking is costly,[55] but the cost of branch banking could be partially absorbed by the fact that many banks could use their own note issues instead of holding money. Gaskin attempted to estimate the profitability of bank notes to Scottish banks, stating that:

> …the note issuing activities of the banks may be presumed to add to their earning assets and the question at issue is whether or not the income which they derive from these assets is outweighed by the costs which the banks incur in operating the issues.[56]

Gaskin argued that the profits derived from note issues came from the revenue of additional assets that could be held instead of holding money (i.e. gold), minus the cost of issuing notes. The cost of issuing notes included the cost of printing, the amount of cash on call to redeem the notes, licence and stamp duty, and sorting costs (costs of clearing notes).[57] Under the 1845 act, a licence was required for every location that issued notes.[58] Notes were subject to stamp duty, but the 1845 stamp duty act stated that bank notes could be re-issued 'from time to time after payment thereof, as often as he shall think fit, without being liable to pay any further Duty in respect thereof'.[59] The 1845 bank act did not state that gold had to be held to cover note issues, 'but its contractual obligation to pay gold for its notes on demand remained'.[60] It appears as though the banks practised a policy of fractional reserves. This can be seen from the amount of gold that the various banks held to cover their note issues. For example, the average circulation of the Irish banks in the four weeks ending 3 January 1846 was £7,404,366, and the banks held 33.62 per cent of this

[54] Ibid, p. 134.
[55] Estimates of the cost of a branch network in the late nineteenth century are shown below.
[56] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 99.
[57] Ibid, pp 100-103.
[58] Bankers (Ireland) Act, 1845 (8 & 9 Vict.), c. 37, section 8.
[59] Stamp Duties (Ireland) Act, 1842 (5 & 6 Vict.), c. 82, section 31.
[60] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 183.

amount in gold/silver bullion.[61] Irish banks were also obliged to pay notes on demand at the branch of issue under the 1828 bank notes act,[62] and this obligation remained in place until 1920.[63] It is difficult to estimate the profit derived from note issuing, but it may have offset some of the costs of branch banking. This placed non-issuing banks at a slight disadvantage.

There was no immediate expansion of branch banking following the Bank Charter Act and the Bankers Ireland Act. This can be attributed to the effects of the famine and the more general commercial depression of the late 1840s. Barrow's summation of the development of the Irish banking sector from 1845 until the end of the nineteenth century is as follows:

> Looking ahead over the rest of the century, the total of bank deposits fell sharply in 1847, then rose, with some fluctuations, over the next thirty years, passing £10 million in 1852, £20 million in 1866 and £30 million in 1874. After steadying out for the next twenty years it resumed its upward trend in the late nineties and passed the £40 million mark in 1899. During the same period total circulation varied little, being seldom above the 1845 level and normally well below it. Even if a large portion of the deposits were short-term investments their steady increase in volume must have included a considerable element of current money supply. It was here rather than in the issue of notes – restricted by the 1845 act – that the future development of Irish banking lay.[64]

The increased competition amongst the banks for available deposits saw the joint stock banks offering competitive interest rates on deposits. Even the lofty Bank of Ireland was not immune from the effects of competition. The Bank of Ireland asked for and was given the statutory right to lend on mortgage security in 1860 and introduced interest payments on deposits in 1864. Ollerenshaw observed that:

> With the abolition of free issue in 1845, the importance of deposits as a source of profit had increased. For this reason all banks, whether note issuers or not, were keenly aware of the need to maximise deposits. It follows that, as branch systems expanded, the competition for deposits became fiercer. In general, any bank felt most threatened when a rival moved into or near those areas where its own branch deposits were highest.[65]

3.2.2 'Scotch banking principles'

In the early nineteenth century, Scotland had the most developed banking network in the United Kingdom. It was the Scottish model that many Irish banks copied, either

[61] The policy of each bank varied: Appendix 11, Ibid, p. 228.
[62] An Act for making Promissory Notes payable, issued by Banks, Banking Companies, or Bankers, in Ireland, at the Places where they are issued, 1828 (9 Geo. 4), c. 81.
[63] Bank Notes (Ireland) Act, 1920 (10 & 11 Geo. 5), c. 24.
[64] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), pp 187-188.
[65] Philip Ollerenshaw, *Banking in nineteenth century Ireland: The Belfast banks*, 1825-1914 (Manchester, 1987), p. 134.

intentionally or not.[66] The Provincial Bank of Ireland, the pioneer of branch banking and deposit accumulation, was based on Scottish banking.[67] Notably the Provincial bank recruited its managers from Scotland.[68] The Ulster banks were also based on 'the Scotch principle'.[69]

In the late 1820s there were two separate parliamentary inquiries into the circulation of promissory notes in Ireland and Scotland,[70] an inquiry from the House of Commons and one from the House of Lords, and they provide useful information about Scottish and Irish banking at this time. The aim of both select committees was to find evidence if the laws then applied in England regarding promissory notes and notes of small denomination should be applied to Scotland and Ireland. In England the smallest note was £5, whereas in Scotland and Ireland smaller notes were in circulation. There was a fear that in the case of panics, if a bank issued notes of small denominations it would be subject to a run; hence the view that if banks issued larger notes they would be sturdier. This is a view that can be traced to the work of Adam Smith.[71]

The evidence from Scotland suggests that it had a stable banking system. There were a number of instances in the eighteenth century, such as rebellions in 1715 and 1745, and the same commercial crises which affected the English banking system in 1797, 1810 and 1815 where the Scottish system emerged relatively unscathed. These events may have caused panic, but in fact they had no adverse effect on the Scottish banking system.[72] The Lords' Committee was very complimentary in its comments on Scottish banking. It stated that:

> [Scotch banking] exhibited a stability, which the committee believe to be unexampled in the history of Banking; they supported themselves, from 1797 to 1812, without any protection from the restriction by which the Bank of England and that of Ireland were relieved from cash payments; that there was little demand for gold during the late

[66] Charles W. Munn, 'The coming of joint-stock banking in Scotland and Ireland, c. 1820-1845' in T. M. Devine and David Dickson (eds.), *Ireland and Scotland, 1600-1850* (Edinburgh, 1983), pp 210-211.
[67] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 75.
[68] Ibid, p. 81.
[69] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix*, question 3469, p. 174. (351), H.C. 1875, ix, 1.
[70] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, H.C. 1826, (402), iii, 257 and *Report from the Lords committees appointed a select committee to inquire into the state of circulation of promissory notes under the value of 5 in Scotland and Ireland, and to report to the House*, H.L. 1826-7, (245), vi, 377.
[71] For example see book II, chapter ii: Adam Smith, *An inquiry into the nature and causes of the wealth of nations* (5th edition, 1789, reprint Oxford, 1998).
[72] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, p. 11, H.C. 1826, (402), iii, 257.

> embarrassments in circulation, and that, in the whole period of their establishment, there are not more than two or three instances of bankruptcy.[73]

The Irish system on the other hand did not get the same vote of approval from either committee, and it was recommended that the restriction be placed on Irish notes under £5.[74]

The benefit of using both reports is that they compared the development of banking in Ireland and Scotland, and highlighted the Scottish advances in banking. Scottish joint stock banking had a head start of 100 years, and the Irish system was severely underdeveloped in comparison. The Bank of Scotland was chartered in 1695 and was given a monopoly for 21 years, but unlike in Ireland this monopoly was not renewed.[75] In 1727 the Royal Bank of Scotland was given a charter of incorporation.[76] In 1826, when the report was written, there were three chartered banks,[77] the above two mentioned and the British Linen Company, and there were 29 other banks in business in Scotland.[78] One of the principal benefits of a chartered bank is that it offered limited liability to the shareholders, whilst the shareholders in non-chartered joint stock banks were subject to unlimited liability for any debts beyond their share value.[79] The majority of the Scottish banks also operated on the principle of branch banking, and the Bank of Scotland, the first chartered bank, had 16 branches at the time of the report.[80] Private joint stock banking was not as prominent in Scotland at this time. In 1820 there was only one joint stock bank and by 1845 there were 13.[81]

The business of the Scottish banks was summarised by the report of the House of Commons select committee. It stated that:

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[73] *Report from the Lords committees appointed a select committee to inquire into the state of circulation of promissory notes under the value of 5 in Scotland and Ireland, and to report to the House*, pp 3-4, H.L. 1826-7, (245), vi, 377.
[74] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, p. 17, H.C. 1826, (402), iii, 257.
[75] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, p. 3, H.C. 1826, (402), iii, 257.
[76] Ibid, p. 3.
[77] A chartered bank is a financial institution that is authorised to engage in banking by a charter granted by a national legislature.
[78] Ibid, p. 5.
[79] *Report from the Lords committees appointed a select committee to inquire into the state of circulation of promissory notes under the value of 5 in Scotland and Ireland, and to report to the House*, p. 5., H.L. 1826-7, (245), vi, 377.
[80] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, p. 5, H.C. 1826, (402), iii, 257.
[81] Charles W. Munn, 'The coming of joint-stock banking in Scotland and Ireland, c. 1820-1845' in T. M. Devine and David Dickson (eds.), *Ireland and Scotland, 1600-1850* (Edinburgh, 1983), p. 205.

> Speaking generally, the business of a Scotch Bank consists chiefly in the receipt and charge of sums deposited with the Bank, on which an interest is allowed, and in the issue of promissory notes upon the discount of bills, and upon advances of money made by the Bank upon what is called Cash Credit.[82]

It is important to define what exactly cash credit was. This is because it will be discussed in the following section as the A&C attempted to use Cash Credits. The report from the House of Commons select committee stated that:

> A Cash Credit is an undertaking on the part of a Bank to advance to an individual such sums of money as he may from time to time require, not exceeding in the whole a certain definite amount, the individual to whom the credit is given entering into a bond with securities, generally two in number, for the repayment on demand of the sums actually advanced, with interest upon each issue from the day on which it is made. Cash credits are rarely given for sums below one hundred pounds; they generally range from two to five hundred pounds, sometimes reaching one thousand pounds, and occasionally a larger sum.[83]

Essentially a cash credit as defined above is an overdraft on a bank account, or a line of credit where terms of borrowing are specified but it is up to the borrower to determine when the funds will be used. The system of cash credits was highly valued by the witnesses of the committee. The House of Commons select committee's report stated that:

> [the witness were] unwilling to incur the risk of deranging from any cause whatever, a system admirably calculated, in their opinion, to economize the use of capital, to excite and cherish a spirit of useful enterprise, and even to promote the moral habits of the people, by the direct inducements which it holds out to the maintenance of a character for industry, integrity, and prudence (sic).[84]

The House of Lords inquiry into promissory notes followed the Commons inquiry and it gave a slightly different account of the Cash Credit system. The Lords' committee showed that the Cash Credits lent small sums of credit and that it also made small loans to the middle and industrious classes. The Lords' committee stated that:

> There is also one part of their system, which is stated by all the witnesses (and in the opinion of the committee very justly stated) to have had the best effects upon the people of *Scotland*, and particularly upon the middling and poorer classes of society, in producing and encouraging habits of frugality and industry. The practice referred to is that of Cash Credits. Any person who applies to a bank for a Cash Credit is called upon to produce two or more competent securities, who are jointly bound, and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his securities, he is allowed to open a credit, and to draw upon the bank for the whole of this account he pays in such sums as he may not have occasion to use; and interest is charged or credited upon the daily balance, as the case may be. From the facility which

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[82] *Report from the Select Committee on Promissory Notes in Scotland and Ireland*, p. 5, H.C. 1826, (402), iii, 257.
[83] Ibid, p. 6.
[84] Ibid, p. 12.

> these Cash Credits give to all the small transactions of the country, and from the opportunities which they afford to persons, who being businesses with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived to the whole community.[85]

The House of Lords' committee also commented on how the Scottish banks accumulated savings, and that they 'belong chiefly to the labouring and industrious classes of the community'.[86]

The House of Lords' committee when reporting on joint stock banking in Ireland stated that 'there is no experience of any such system as that of Cash Credits in Scotland'.[87] The Lords' committee was doubtful of the prospects of joint stock banking in Ireland, particularly as a number of shocks in the early 1800s meant 'that its Banking establishments are now confined to the chartered Bank of Ireland'.[88] The Lords' committee also doubted whether the Scottish system could be transferable to Ireland.[89]

History has proved the Lords' committee to be wrong, and the years following witnessed a growth in Irish joint stock banking. The spread in branch banking coincided with a wider use of Scottish banking, or Cash Credit, by the joint stock banks. This can be seen in the evidence of R. R. Madden, secretary of the LFB, given to the select committee on loan funds in 1855.[90] It seems possible to conclude that, given that the Irish joint stock banks had adopted the Scottish banking model, they would have eventually emulated the Cash Credit system. This would have had implications for any other financial institution which was then operating in the financial sector.

3.3 The Agricultural and Commercial Bank of Ireland

The A&C was established in 1834, suspended payments in 1836 and closed in 1840.[91] It was a controversial attempt to bring banking to the masses in Ireland. Thomas Mooney was a baker and flour factor by trade[92] before entering the world of banking.

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85 *Report from the Lords committees appointed a select committee to inquire into the state of circulation of promissory notes under the value of 5 in Scotland and Ireland, and to report to the House*, p. 4, H.L. 1826-7, (245), vi, 377.
86 Ibid, p. 4.
87 Ibid, p. 5.
88 Ibid, p. 5.
89 Ibid, p. 6.
90 *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, paragraph 167, p. 10, H.C. 1854-55, (259), vii, 321.
91 Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 142.
92 G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), p. 174.

He founded the A&C and its successor, the Provident Bank of Ireland. He also established an assurance company before emigrating to the US.[93] Ó Gráda stated that Mooney was considered a 'poor entrepreneur or, worse, a charlatan by the banking establishment'.[94] Mooney believed that a National Bank would be of great service to Ireland as it would increase investment within the country. Ultimately, Mooney's project failed, but it is worth analysing the A&C Bank. Many earlier banking historians have not been complimentary towards Thomas Mooney or the A&C Bank. Barrow is the only banking historian who has tried to clear Mooney's name. Barrow has gone so far as to say that:

> It may be an exaggeration to say that if he had succeeded in what he tried to do in the 1830s there would have been no famine in Ireland in the 1840s, but it is not in my view a very great exaggeration.[95]

The following sections are an account of some key elements of the A&C Bank of Ireland.

3.3.1 Origin and principles of the Agricultural and Commercial Bank

The A&C was an institution similar to the loan fund societies, discussed in chapter 1, in so far as it aimed to provide credit and savings services to the 'humbler classes of society'. The A&C was an ambitious idea that was an imitation of the banking model of the 'equally ill-starred'[96] Northern and Central Bank of England,[97] a bank located in Manchester that had experienced contemporaneous success in England. The banking model of the Northern and Central Bank of England was of issuing numerous shares of small value, and of aggressive branch banking.

The A&C bank differed from the loan fund societies in its ownership and management structures. The A&C bank was a joint stock company and raised capital through the sale of shares. The prospectus of the A&C, issued in 1834, outlined how shares were to be sold solely in Ireland.[98] The share capital of the bank was to be

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[93] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), pp 158-160.
[94] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 142.
[95] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), p. 173.
[96] Charles W. Munn, 'The coming of joint-stock banking in Scotland and Ireland, c. 1820-1845' in T. M. Devine and David Dickson (eds.), *Ireland and Scotland, 1600-1850* (Edinburgh, 1983), p. 212.
[97] Anon., *The origin and principles of the agricultural and commercial bank of Ireland* (Dublin, 1835), p. 12.
[98] 'Prospectus of the National Commercial Bank of Ireland' in *The Freemans Journal* (21 June, 1834), section 3.

£1,000,000, subscribed in a million shares of £5, with only £1 paid up, unless further calls were made.[99] The bank subsequently sold shares in England and Scotland, at £25 per share, paid in instalments of £5, with the intention of raising a further £250,000 in capital.[100] In comparison with other banking institutions the number of shares and the share values differed. For example, the Ulster Banking company opened in 1836 and its capital was £1,000,000 in one hundred thousand shares of £10 each, and twenty five per cent paid up.[101] It appears as though the A&C was under-capitalised. Evidence of this can be seen from the fact that an attempt was made to sell shares in England, something not in the original prospectus. Also, there was an attempt to receive funding from an Assurance company in England, but this was resisted by Thomas Mooney because, alleged by *The Bankers' Magazine*, he was attempting to establish his own insurance company and did not want to invite competition.[102] Table 3.2 shows the number of registered partners in each joint stock bank in 1836. As can be seen the A&C had a larger number of registered partners than the other joint stock banks.

Table 3.2: Number of registered partners in Irish joint-stock banks, c. 1836

Joint-Stock bank	Number of partners
Hibernian Joint Stock Bank	225
Northern Banking Company	208
Provincial Bank of Ireland	644
Belfast Banking company	292
The Agricultural and Commercial Bank of Ireland	2,170
National Bank of Ireland	250
Limerick National Bank of Ireland	523
Ulster Banking company	117

Source: *Return of joint stock banks in Ireland, with the dates when established respectively; and of the names of the several towns and places where such banks and their branches have been established; with the number of partners in each Copartnership*, 1836, H.C. (219), xxxvii, 371.

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[99] Ibid.

[100] *Warren, Rich. B., Pigot, David R., Cases with the opinions of the attorney general of England Edward Pennefeather, K.C., R. B. Warren, K.C., and D.R. Pigot, K.C., shewing the defective state of the law regulating joint stock banks as it now stands, and the total want of protection afforded to shareholders against the mismanagement or misconduct of directors, as exemplified by the facts stated in respect to the Agricultural and Commercial Bank of Ireland* (London, 1837), p. 2.

[101] *Ulster Banking Company, established, April 12, 1836 at Belfast*. [Names and addresses of the proprietors] (Belfast, 1836).

[102] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine: second article*, iii, (July, 1845), p. 206.

The A&C commenced business in 1834. In the announcement of establishment of the A&C it was stated that:

> Desirous as we are to commend the banking institutions, now at work in the country, still, after due examination, we must aver, that they do not afford the advantages to the humbler classes of society, which the agricultural and commercial bank is calculated to confer upon so vast and useful a portion of our population.[103]

The Irish joint stock banking system was still in its infancy and there had not been much branch expansion throughout the island. The first branch of the A&C bank opened in Nenagh, Co. Tipperary, in 1834, a place which previously had been 'overlooked by the Provincial Bank and the Bank of Ireland'.[104] This was followed quite soon by a branch in Ennis, Co. Clare. Here too there had not previously been any joint stock bank presence. It was stated that:

> The enthusiasm of the inhabitants of Ennis on the opening of what they emphatically termed their own Bank, was unbounded, it being the first Bank ever established in that county. Now, however, there is a second Bank in that town, viz. – the "Provincial Bank," which opened there three months after the agricultural bank, so that the town of Ennis and the County Clare generally, will now be much benefited by the presence in the capital of the County of two Branch Banks.[105]

The A&C quickly expanded its branch network, and by 1835 it had 18 branches.[106] It seems to have peaked with 46 branches.[107] Barrow shows the highest number of branches for the A&C to have been 44 in 1836, with the number declining to 20 before the bank was closed in 1840.[108] Table 3.1 showed the number of branches of the A&C to have been 27 on 13 April 1836,[109] and Barrow has a figure of 44 for October of the same year.[110] This suggests a rapid expansion on the part of the A&C. Table 3.1 showed that the Provincial bank had 33 branches in 1836, but this network had been built up in a piecemeal fashion. Daniel O'Connell's National Bank was the closest competitor of the A&C, discussed below, and it was only in 1850 that

[103] Anon. Agricultural and Commercial bank of Ireland [Announcement of this establishment] (n.p., n.d.).
[104] Anon, *The origin and principles of the agricultural and commercial bank of Ireland* (Dublin, 1835), (*N.L.I.*, P 641 [1]), p. 19.
[105] Ibid, p. 19.
[106] Anon., Conditions of the Deed of settlement of the Agricultural and Commercial Bank of Ireland, (n.p., n.d(1835?).), p. 7.
[107] There is no date given of when it reached 46 branches, see: W. T. W., 'The strange story of an Irish Bank' in *Irish Banking magazine*, xiv, (September, 1932), p. 52.
[108] Appendix 4 in G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 220 and p. 154.
[109] *Return of joint stock banks in Ireland, with the dates when established respectively; and of the names of the several towns and places where such banks and their branches have been established; with the number of partners in each Copartnership*, 1836, H.C. (219), xxxvii, 371
[110] Appendix 4 in G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 220.

it surpassed this number of branches.[111] It had taken the National Bank 15 years to achieve what the A&C had done in three years. Notably, this rapid branch expansion is seen as a contributory factor in the failure of the A&C bank.

The A&C bank was an interesting financial experiment as it attempted to deliver financial services to the 'industrious classes'. One area of financial service that was provided, and which was novel, was the sale of small shares to encourage corporate ownership amongst the middle and lower classes. The A&C also had a share issue of provident shares. These were distinct from the normal share capital and were to be protected in the case of the bank being wound up.[112] The provident shares were to be made up of £50,000, 'over and above the paid up capital of one million, [and] may be subscribed for in weekly and monthly instalments.'[113] The aim of the provident shares was to encourage the ownership of shares in the middle and working classes.

The A& C bank, of all the joint stock banks, was the only one that intentionally targeted the lower socio-economic groups. It provided savings and loans services, the unification of services provided by TSBs and loan funds. As outlined in chapter 1, it was not until the 1836 Loan Fund Act that loan funds were legally enabled to provide savings services. TSBs, discussed in chapter 4, were savings institutions that legally were not able to lend on a commercial basis, lending solely to the government. The A&C aimed to combine the roles of both TSB and loan fund in the one institution. Evidence of this comes from a published pamphlet entitled *The origin and principles of the Agricultural and Commercial Bank of Ireland* where it was stated that:

> To the individual who is familiar with the detail of the "Savings Bank" and "Loan Fund" as prevailing in some parts of England and Scotland, little may be said to recommend this institution. *He* will see that this bank *unites* in itself the properties of the "Savings Bank" and the "Loan Fund".[114]

The rules and regulations[115] for the A&C for savings and loans were a combination of the rules for TSBs, savings banks discussed in chapter 4, and those

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[111] *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 18, H.C. 1914, [Cd. 7375], xiii, 1.
[112] 'Prospectus of the National Commercial Bank of Ireland' in *The Freemans Journal* (21 June, 1834), section 28.
[113] Anon., *The origin and principles of the agricultural and commercial bank of Ireland* (Dublin, 1835), p. 29.
[114] Ibid, p. 30.
[115] 'Rules and regulations, &c., were adopted for the guidance and government of the "Provident Deposit" and "Provident Loan" of the Agricultural and Commercial Bank of Ireland' in Anon., *The origin and principles of the agricultural and commercial bank of Ireland* (Dublin, 1835), pp 1-11.

practised by loan funds. For savings the A&C bank competitively matched the rate of interest given by the TSBs; the rate offered was 3.33 per cent per annum.[116] It also had similar limits on the amount of interest bearing deposits, but the cut-off point for interest payment was higher at £700, and the minimum deposit lower at 1s, and the max deposit higher at £100.[117] The payment of interest began on a lower minimum deposit than in the TSBs, that being 15s.[118] Similarly, the A&C accepted deposits from charities, to a limit of £300, and deposits of all the funds of Friendly societies.[119] The procedure for saving was intended to be similar with depositors being provided with deposit books. But in the case of the A&C, money was not invested with the Commissioners for the Reduction of the National Debt. Instead the money was either re-lent, used to buy government securities,[120] or used to buy property.[121] The lending procedures of the A&C were twofold. The A&C, like the other joint stock banks, discounted notes and bills. The A&C discounted bills for varying amounts. Table 3.3 shows the bills discounted by the A&C bank from its establishment until 1835.

Table 3.3: Bills discounted by the A &C bank since its establishment until 1835

Amount	Bills	Persons	Amount (£)	Average (£)*
From £2 to £10	2,388	1,380	16,376	6.86
From £10 to £30	1,548	945	23,320	15.06
From £20 to £50	2,109	245	23,320	11.06
From £50 upwards	969	585	96,369	99.45

* These values have been decimalised.

Source: Anon., *The origin and principles of the Agricultural and Commercial Bank of Ireland* (Dublin, 1835).

The A&C bank also used the same lending scheme that was utilised by the loan funds, discussed in chapter 1. This was Scottish Credit, or Cash Credit, where money was

116 £3 6s 8d per centum per annum, Ibid, p. 3.
117 Ibid, p. 15.
118 Ibid, p. 3.
119 Ibid, p. 4.
120 'Rules and regulations, &c., were adopted for the guidance and government of the "Provident Deposit" and "Provident Loan" of the Agricultural and Commercial Bank of Ireland' in Anon., *The origin and principles of the Agricultural and Commercial bank of Ireland* (Dublin, 1835), p. 1.
121 'Prospectus of the National Commercial Bank of Ireland' in *The Freemans Journal* (21 June, 1834), section 30.

lent on personal credit and it was an innovation in Irish joint stock banking. The procedures were the same as with the loan funds. Borrowers were required to provide two solvent sureties to act as guarantors for the loans, and provide a reference from a notable person. The loans were for 20-week periods, repayable in weekly instalments of 1s per £1 lent. The interest payable was 6 per cent, and the maximum loan was £9.[122]

The interest rate cited above appears to be lower than the interest rate that was quoted for the loan funds in the same period, this being 12 per cent. It is important to outline some differences which indicate that there may have been confusion in what interest was actually charged, as each institution seems to have had a different understanding of it. The loan fund rate of interest was calculated from the rate of discount of 6d per £1 or 2.5 per cent, whereas the interest rate cited for the A&C bank was a 6 per cent discount rate. To illustrate this point we shall use an example that was given in *The origin and principles of the Agricultural and Commercial Bank of Ireland*.[123] The example stated that if a labourer was to borrow £5, then 6 per cent of the principal would be discounted, so that the borrower actually received £4 17s 6d.[124&125] If on the other hand a borrower borrowed from a loan fund the discount would have been 1s 10d, implying a discount rate of 2.5 per cent, and the borrower would receive £4 18s 10d. Both loans would then be required to be repaid in 20 weeks, in instalments of 3s. This implies that there was a (marginally) higher discount rate in the A&C bank.

The A&C bank was an ambitious institution that attempted to provide financial and microfinancial services within the one institution. It was innovative and pre-empted developments in Irish joint stock banking that came later in the nineteenth century and the early twentieth century. Lending on 'Scotch credit' in Ireland was

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122 'Rules and regulations, &c., were adopted for the guidance and government of the "Provident Deposit" and "Provident Loan" of the Agricultural and Commercial Bank of Ireland', in Anon., *The origin and principles of the Agricultural and Commercial bank of Ireland* (Dublin, 1835), pp 10-11.
123 Ibid, pp 37-38.
124 Ibid, p. 38.
125 I must add that when I calculated the discount at 6 per cent on a discount of £5 I found that the discount was actually 6s (14.4d in the £), so that borrower would receive £4 14s 0d.

reported only to have become prevalent in the 1850s,[126] and thrift accounts only became prevalent in the early 1900s.[127]

3.3.2 Failure

The *Bankers' Magazine* in 1845 cited four reasons for the recent failure of the A&C. These were 1. Incompetency of the directors; 2. The unfitness of the managers; 3. The inefficiency of the inspectors; 4. The want of any proper system of bookkeeping.[128] All four reasons were obvious defects. Firstly, the board of directors did not actually have any experience in banking or accounting. Secondly, managers were appointed based not on experience or qualification, but on share ownership. To be eligible to be a manager of a branch of the A&C, one only had to own 300 shares. The manager of the first branch in Nenagh was reported to have been a farmer.[129] There were also incidents where managers increased their salaries and gave themselves unsecured loans,[130] which was a blatant abuse of their positions. Thirdly, the inefficiency of the inspectors is evident in that they did not actually do any inspection. The role of the inspector seems to have been more as a messenger, where he travelled to each branch and relayed information from the head office and requested the managers to sign the deed of settlement.[131] Accounts were not audited by the inspector, and thus no practical use was derived from this service. Finally, the bookkeeping practices of the A&C were deemed to have been highly irregular. The auditor of the A&C was an experienced accountant, and the *Bankers' Magazine* reported that:

> He had seen a good deal of bookkeeping, both in banks and mercantile houses, and he had never seen any but what he could make something of before; but he declared he could not make anything of the manner which the books had been kept there.[132]

These were clear faults in the *modus operandi* of the A&C. The *Bankers' Magazine* believed the branch management issue was probably the main defect of the A&C. It stated: 'we think it was *this* measure which ultimately destroyed the bank, for

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[126] *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, paragraph 167, p. 10, H.C. 1854-55, (259), vii, 321.
[127] Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland*, (Friday 15 November, 1929), p. 11.
[128] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine*, iii, (May, 1845), pp 280-285.
[129] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 70.
[130] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine*, iii, (May, 1845), p. 282.
[131] Ibid, p. 283.
[132] Ibid, p. 284.

notwithstanding all its inherent faults of constitution, it was just possible they *might* have been remedied by the appointment of skilful and energetic officers'.[133]

Table 3.4 shows the statement of account issued to the annual general meeting of shareholders of the A&C, issued just a month before its closure.

Table 3.4: Statement of account of the Agricultural and Commercial Bank of Ireland submitted to the shareholders on 17 October 1836:

	£ s d	£ s d
Liabilities		
Paid-up capital	375,029.75	
Notes in circulation	421,596.75	
Deposits and current accounts	366,182.2	
Total liabilities		1,162,808.7
Assets		
Bills on hand	902,457.1	
Government securities and other securities	20,607.3	
Property in Dublin and at the branches valued at	28,500	
Credit account	93,731.55	
Cash on hand	134,892.25	
Total assets		1,180,188.3
Surplus assets		17,379.6
Five per cent on the paid up capital for the half yearly amounts		9,375
		8,004.6
Reserve fund at last balance sheet was		5,741.8
Add this half-year		2,262.75
Total to credit of reserve fund		8,004.6

Note: All figures have been decimalised and rounded to the nearest shilling.

Source: W. T. W., 'The strange story of an Irish Bank' in *Irish Banking magazine*, xiv, (September, 1932), p. 53.

It appears as though the main problem in the bank's statement of accounts was the illiquidity of its assets, with 76 per cent of its assets being in the form of bills. In the event of a run on the bank, it would have been very difficult to liquidate these bills. This problem seems to have been brought about by poor management. If we

[133] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 69.

look at the ratio of note issues to capital on the liabilities side of the balance sheet, we can see that there was a ratio of 1.12. If we make a comparison with the Bank of Ireland, we can see that the Bank of Ireland had a ratio of 1.04,[134] something to suggest that the A&C had somewhat over-extended its' note issues. If we take into consideration the position of the Bank of Ireland as the largest note issuer on the island,[135] then the A&C's note issues seems more anomalous. In 1836 credit was getting tighter as money was flowing to the USA for investment.[136] Barrow noted that A&C 'was overly expanding its note issue in a time of financial pressure when other banks were actually restricting note issue'.[137] In the normal course of events if there was a crisis the first thing to be withdrawn from a bank would be deposits, but in the event of a run a bank's notes would also be required to be paid in specie. The illiquidity of the A&C's assets would have made it difficult to meet its commitments in the event of a general crisis or in the case of a run.

The argument that the A&C's failure was actually caused by a poor *modus operandi* has the support of an open letter, written by a shareholder in the A&C bank to the other shareholders. The letter questioned whether Ireland could learn from the problems of the A&C bank.

> Or whether in Ireland there is still wanting, that national steadiness of character; which is indispensably necessary in the safe and economical working of the banking system, without which we cannot expect our establishment to prosper, and guided by which, Scotland heretofore has obtained and still retains that high commercial character, partaking alike of the sanguine and steady temperaments, but free from those sudden and ruinous vicissitudes of public opinion, so incidental to the working of the system in both England and Ireland, and so injurious to public credit in both these countries? For my own part, I am of the opinion, that there are not wanting in Ireland those requisites, but the difficulty seems to be, in getting men who take an interest and consequently a pride in encouraging, supporting and managing such establishments; who have the ability, but want the inclination; who have the means ample and sufficient, but are devoid of that enterprising and industrious character, without which no banking establishment can hope ultimately to succeed.[138]

The letter seems to suggest that there was a belief that the attempt to introduce Scottish credit to Ireland on commercial lines, as opposed to loan fund philanthropy,

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[134] Calculated from appendices 1 and 10 in Barrow. The Bank of Ireland's capital was £3,000,000, and its note issue in September 1836 was £3,136,750: G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), pp199-201 & 226-227.

[135] The Bank of Ireland notes made up 60 per cent of bank note circulation in Ireland in September 1836: Appendix 10 in G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), pp 226-227.

[136] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), p. 181.

[137] Ibid, p. 181.

[138] Anonymous (signed 'a shareholder'), *The former management and future prospects of the Agricultural and Commercial Bank of Ireland considered, in a brief letter to its shareholders. "Non sum, quails eram."* (Dublin, 1837), pp 5-6.

was what caused the failure of the A&C. The problem raised by the letter to the shareholders was that there had been a rapid branch expansion without regard to branch location.[139] The branch location factor was somewhat influenced by contemporary legislation which placed restrictions on banking activities within the Bank of Ireland's geographic monopoly.

A key question remains to be addressed, did the A&C perpetrate an action of mass fraud on the Irish people? This view was taken by the *Bankers' Magazine* and subsequent historians. The *Bankers' Magazine* stated that:

> The history of Irish speculations affords abundant instances of misplaced confidence on one side, and of blind credulity on another; but, for an example of unmatched impudence and incompetency, successfully imposing on the confiding ignorance of a people, we may seek in vain for any that can stand a comparison with the "Agricultural and Commercial Bank of Ireland".[140]

The *Bankers' Magazine* believed that Thomas Mooney *et al.* had attempted to deceive the Irish public on a mass scale. There was an accusation that Thomas Mooney and John Chambers had misrepresented themselves as gentlemen of great wealth and created false confidence in the bank. The accusation arose because John Chambers was also the name of a director of the Bank of Ireland and was 'a gentleman whose *name* was of very great service to the company'.[141] It was said that Thomas Mooney 'also was generally *mistaken* for that of Mr Thomas Mooney, of Pill Lane, Dublin, a gentleman of large property, of very high standing in society, and a perfect man of business'.[142] The *Bankers' Magazine* accused Thomas Mooney *et al.* of creating a false impression by not giving their actual address on the prospectus, leading people to believe that they were the commonly known men of substance and thus giving false confidence to the shareholders and depositors. Thomas Mooney has had a rough time from economic historians as a result of this. An article in the *Irish Banking Magazine* claimed that Mooney, who was a baker by trade, was greedy and that he 'viewed with envious eyes the rising prosperity of the Irish Joint Stock Banks'.[143]

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[139] Ibid, p. 7.
[140] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 65.
[141] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 66.
[142] Ibid, p. 67.
[143] W. T. W., 'The strange story of an Irish Bank' in *Irish Banking magazine*, xiv, (September, 1932), p. 52.

As much as it would be helpful to use this incident as evidence of problems of information asymmetry in nineteenth century Ireland, this treatment does not seem to be historically accurate and Barrow has given Thomas Mooney's name some posthumous justice. Firstly, the accusations against Mooney were raised, during a Parliamentary inquiry, by individuals who had lost some money in the A&C collapse, and claimed that they had been misled by Thomas Mooney. Barrow has shown how their evidence was biased, perhaps embittered, and the evidence of three men has sullied the name of Thomas Mooney for over a century.[144] As for the claim that they falsely represented themselves on the prospectus, Barrow showed how their names were not even on the Prospectus. In fact the name cited on the prospectus was 'Messers. William Bailey, Wallace and Sons, Solicitors, No. 12, North Great George's Street, Dublin'.[145] Mooney's name first appeared on the list of committee members in 1834.[146] Therefore, Barrow is correct in deeming that Thomas Mooney be exonerated of the charge of mass fraud, given the evidence outlined above.

3.3.3 Could the joint stock banks have banked with the 'poor' in the pre-famine period?

The failure of the A&C bank asks questions whether Ireland was ready for such a banking institution or were such institutional structures not ready for the market. Ó Gráda stated that:

> Among the new joint stock banks, it was exceptional in that it attempted to extend banking to the lower-middle classes, both as investors and customers; perhaps its failure indicated, in part at least, that they were not ready for it.[147]

It was actually this observation that Hollis and Sweetman took exception to. They stated that Ó Gráda 'does not specify in what sense the poor were unprepared, so it is difficult to interpret this hypothesis.'[148] Hollis and Sweetman's belief is that the existence of the loan funds proves the Irish middle and lower classes were ready for banking services; but this misses a key point, i.e. that the proprietors of the A&C bank, as well as it users, were intended to be from the middle and lower classes. On

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[144] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), pp 175-176.
[145] 'Prospectus of the National Commercial Bank of Ireland' in *The Freemans Journal* (21 June, 1834).
[146] G. L. Barrow, 'Justice for Thomas Mooney' in *Dublin Historical Record*, xxiv, 1 (1970), p. 175.
[147] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 142.
[148] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 350.

the issue, Ó Gráda's statement may not be entirely accurate. The failure of the A&C bank was not necessarily due to whom it targeted but rather its *modus operandi* and poor monitoring arrangements. Ó Gráda was also aware of this.[149] Hollis and Sweetman attempted to repudiate Ó Gráda's observations with their research on loan funds in Ireland. They cited other examples that showed that the Irish peasantry did not appear to be monetised and stated that: 'the extensive lending activities of loan funds shows that a large proportion of the poor were financially active and able to use financial intermediation.'[150] The 'poor' did use financial services, but the authors seem to have overlooked the fact that the A&C bank was a more complex institution that attempted to turn the poor into shareholders. It offered more that simply credit services. It offered savings services, and also offered, and encouraged, share ownership among the lower classes. In chapter 1 of this thesis it was shown that the loan funds did not provide extensive savings services, nor was ownership encouraged. In fact ownership, or rather membership, of a loan fund was confined to those who provided the capital of the society.[151] The announcement of establishment of the A&C stated that:

> Every person who has the prudence to save out of his or her earnings, the trivial sum of one shilling, so as to put together the small amount of a single pound, is afforded the opportunity, by the benevolent and liberal arrangements of the agricultural and commercial bank, to become a proprietor of bank stock, and enjoy the proud feeling which the possession of property never fails to produce. (sic.)[152]

This was not something which loan funds attempted. Coincidently the A&C bank also aimed to solicit the support from philanthropic gentry,[153] but this support was not as forthcoming. Perhaps this may have been to do with the fact that these philanthropists were more actively involved in loan fund societies.

Hollis and Sweetman also hypothesised that serving the poor could have been a profitable venture for joint stock banks and their question was 'why the loan funds and not the banks?'[154] The following observation was made by Hollis and Sweetman: 'it appears that had the banks been able to duplicate the funds' lending and

[149] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 143.
[150] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 350.
[151] Loan Societies (Ireland) Act, 1836 (6 & 7 Will. 4), c. 55.
[152] Agricultural and Commercial bank of Ireland [Announcement of this establishment]. 1p.,(n.p., n.d.).
[153] Agricultural and Commercial bank of Ireland [Announcement of this establishment]. 1p.,(n.p., n.d.).
[154] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), pp 368-371.

administration, they would have been able to approximately double their profitability by making loans to the poor'.[155]

Hollis and Sweetman tested the hypothesis that banks could have provided microcredit services to the poor based on the assumption that banks invest in 3 types of assets: government bonds, corporate lending and lending to the poor.[156] But given that the A&C bank tried this, would it not be better to measure their real performance? And given that they used A&C activity as an example of adverse selection,[157] surely this would, *a priori*, give reason to conclude that the banks could not accommodate this market? The A&C was designed to provide banking services to the poor and utilised Scottish Credit, but this was something the other banks were not reported as doing. It was shown in chapter 1 that the average loan in the loan funds was around £3 in the 1840s. Also, in evidence to the committee on loan funds in 1855, R. R. Madden stated that the joint stock banks did not give loans of less than £10,[158] implying that Scottish credit, or Cash Credit, was not as prevalent. That the joint stock banks did eventually adopt Scottish credit, as they matured and expanded, would imply at the earliest stages of development that lending to the poor would not have been commercially viable.

The A&C failed because it underestimated the real cost of running a branch network, namely the cost of staff training and central monitoring. The reason why the other banks did not expand branch networks as rapidly was because each branch was given time to determine whether or not it would be profitable. Evidence that this was the practice adopted by banks comes from later in the nineteenth century when it was said that it was only possible to see if branch banks would pay off two years after being opened.[159] Not all branches were profitable, and if a branch or sub-branch was loss-making it would be closed.[160] Also, given that the A&C failed using this model of lending to the lower classes, would this not have sent a signal to the other joint stock banks and their shareholders that this model had a high risk attached to it? If we

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[155] Ibid, p. 370.
[156] Ibid, p. 369.
[157] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 293.
[158] *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, paragraph 166, p. 10, H.C. 1854-55, (259), vii, 321.
[159] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix*, question 2450, p. 139. (351), H.C. 1875, ix,1.
[160] Ibid, question 2994, p. 159; Also viewing the banking directories in *Thom's Directory* over time shows that there was experimentation with branch banks and in cases where they were unprofitable they were closed.

compare the A&C capital-deposit ratio with that of the Bank of Ireland, we can see no noticeable difference.[161] The A&C's main problem was its asset illiquidity based on the fact that it had concentrated on bill discounting. Government securities made up 1.75 per cent of the A&C's asset portfolio, whereas in the Bank of Ireland public securities made up 50 per cent of assets.[162] Public securities would not have provided as much income as lending on bills, but they were more liquid. The *Bankers' Magazine*, a publication that gave advice and warning to the banking community, stated that the failure of the A&C was:

> Attributed to a departure from the established rules which ought to govern the proceedings of all joint stock banking companies. We think the result will prove the soundness of the Joint Stock Bank *principle* by negative illustrations…It will be sufficient if we lay such a statement of facts before our readers as will enable them to see clearly how this result was occasioned by the neglect of sound banking principles, irrespective of fraud and dishonesty.[163]

Hollis and Sweetman did acknowledge the role of the A&C as a provider of microfinance services. They stated that:

> It is unclear what the loan recovery rates of a better managed bank might have been. Other banks seem to have had little interest in following in the Agricultural Bank's footsteps until, in the 1860s, with a growing network of established branches, banks began to make more small loans.[164]

If the joint stock banks had followed the example of the A&C in the 1830s, as Hollis and Sweetman are implying that they should have done in order to maximise profits, then perhaps this would have led to a collapse of the banking system. Such would hardly have been economically beneficial to the island, or profitable to shareholders. Hollis and Sweetman's argument overlooks the fact that the joint stock banks did not fully implement Scottish banking, or the loan fund's *modus operandi*, until the 1850s. This means that Hollis and Sweetman's hypothesis underestimated the cost of technological advance, namely the opening of bank branches, to the joint stock banks, and that if they had done as Hollis and Sweetman infer, there would not have been a doubling of profits.

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[161] The capital-deposit ratios were 1.02 for the A&C and 0.95 for the Bank of Ireland. Bank of Ireland capital-deposit ratio was calculated from Appendix 7, G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 223.

[162] Appendix 6, G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 222.

[163] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 65, and Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine*, iii, (July, 1845), p. 201.

[164] Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), p. 371.

The A&C was, unfortunately, no matter how one portrays it, a failure. Perhaps a model with better management and asset diversification might have been more successful, but such a model would have been costly and undermined the profitability argument which Hollis and Sweetman wished to put forward. The high cost of the A&C model, namely the large branch network, meant that the A&C needed higher returns on its assets, and the way it felt it could do this was by making riskier loans. But this policy undermined the liquidity of the bank, and this is why it failed.

The A&C experienced a run in 1836 and was forced to closed, as was stated above. Its main problem was that it was illiquid. It must be stated that it was not insolvent; this was shown by the fact that it was eventually able to repay its debts from its assets. Two short-lived banks emerged from the ruins of the A&C: the Southern Bank of Ireland and the Provident Bank of Ireland.[165] The Southern Bank was accused of being a 'swindling bubble', and does not appear to have taken off. Thomas Mooney was involved with the Provident Bank. The Provident Bank used a different business model to the A&C in that it was based on larger shares and debentures. It was based in Dublin and operated as a private bank. Barrow has suggested that it was Mooney's plan to convert the Provident into a joint stock bank once the Bank of Ireland's monopoly expired,[166] but nothing of the sort materialised. One of the main problems was that there was no interest in the bank, and there were no shares sold.[167]

There is one episode regarding the Provident Bank that is of immediate interest to this thesis as it involved an altercation between Thomas Mooney and the LFB. The Provident Bank was making loans under £10, and there happened to be a loan fund registered with the LFB called the Dublin Provident loan society. The LFB received a report of a loan fund operating as a joint stock bank and made subsequently inquiries. The secretary of the LFB, George Matthews, went to the offices of the Provident Bank, 4 College Green, and enquired where to find the Dublin Provident Loan Society. He was told by a clerk that "both were the same".[168] George Matthews, in evidence to the 1838 banking enquiry, stated that the Provident Bank had used its own bank notes to fund other loan societies in the country, including loan funds in Carlow,

[165] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 156.
[166] Ibid, p. 157.
[167] Ibid, p. 157.
[168] *Select Committee on Joint Stock Banks Report, Minutes of Evidence, Appendix, Index*, question 611, p. 42., H.C. 1837-38, (626), vii, 1.

Athy, Mullingar, Strabane etc.[169] It was also alleged that the notes used by the Provident also happened to be very similar to the notes of the Provincial Bank and were uncovered (i.e. no specie backing).[170] Inquiries made by Matthews suggested that the Provident Loan Society had copied another loan fund society's rules and used the names of its trustees.[171] Upon receiving legal advice, the LFB suspended the Provident Loan Society.[172]

Barrow has disputed Matthews' account and stated that Mooney had raised funds for the societies by issuing debentures,[173] which was legitimate funding methodology under loan fund legislation. This episode sheds new light on the 1843 loan fund act that was discussed in chapter 1, and it suggests that the legislation may have been an attempt to discourage loan funds in order to prevent similar Thomas Mooney type situations developing in the future.

3.3.4 The political economy of Irish banking in the 1830s

Before leaving the subject of the A&C bank, it is worth highlighting the political economy of joint stock banking in the early nineteenth century. The Irish monetary system was not immune to political pressures. The prime example of this was Daniel O'Connell's manipulation of the banking system, calling for runs on various banks,[174] prior to his personal involvement in banking. A conflict of interest precluded his advocacy of bank runs thereafter.

In 1834, prior to the opening of the A&C bank, Thomas Mooney wrote a letter to Daniel O'Connell to ask for his opinion on the idea of establishing a national bank. Daniel O'Connell's reply, dated 13 June 1834, stated that:

> The more banks in Ireland the better, provided they be founded on sound banking principles, and not merely got up by schemers or over-speculative persons. I have no doubt that the Irish National Bank will be successful.[175]

It is worth highlighting that Thomas Mooney's original idea had been for a national bank to be established, using Irish capital, and the name of the national bank

[169] Ibid, p. 44.
[170] Ibid, question 629, p. 44.
[171] Ibid, question 619, p. 43.
[172] Ibid, question 617, p. 43.
[173] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), p. 158.
[174] W. J. FitzPatrick, *Correspondence of Daniel O'Connell the liberator* (Vol. i, London, 1888), p. 233.
[175] Ibid, p. 442.

was ‘the National Commercial Bank of Ireland’,[176] but the name was changed to avoid confusion with O’Connell’s bank. The prospectus of the A&C was published before an announcement was made of Daniel O’Connell’s intentions appeared on 28 June, which stated a meeting would be held on 21 July.[177] The A&C believed that Daniel O’Connell was hostile to their operation as he later became involved in the formation of the National Bank of Ireland, a close competitor of the A&C bank. In a letter to P. V. Fitzpatrick, his brother-in-law, dated 8 July 1834, O’Connell gave an outline for the National Bank of Ireland. O’Connell wrote:

> …There has also been a bye-battle upon the subject of a new bank. This has been for a great while a subject of anxious speculation with me. I have sensibly felt the want of a counter check to the rascality of the Bank of Ireland and of the Provincial Bank. You know that they play into the hands of the Anti-Irish party. I want a mutual friend at the other side….My plan has been, and is, to get one million subscribed in London. Until that is done no operations are to take place in Ireland. The million here is to be in aid of Irish subscriptions. Whenever a sum large enough to establish a branch bank in any locality is subscribed the London managers will double the amount…. of course we will require the utmost circumspection and vigilance, and it is of course that if we succeed it will be my anxious study that you, your brother and brother-in-law, should participate in that success.[178]

Shortly after indicating his plans for the establishment of his own joint stock bank, O’Connell became hostile to the A&C. In a letter dated 22 July 1834, written to P. V. Fitzpatrick, he outlined why he objected to the A&C bank. O’Connell stated that:

> How can D. countenance the wild scheme of ‘the Agricultural’ Bank, especially in that wicked humbug that it can limit individual liability? It would be a gross deception on the public even if that were true, because it might throw 3 millions of notes in circulation after £25 per cent were paid up, and then, according to their notion, there would be no funds for payment of one single note.[179]

This would seem to justify the criticism in *The origins and principles of the Agricultural and Commercial bank of Ireland*, which believed O’Connell was critical of them because he was opening his own bank.[180] The *Bankers’ Magazine* stated that ‘a race of competition began with the *National Bank of Ireland*; the issues were

[176] ‘Prospectus of the National Commercial Bank of Ireland’ in *The Freemans Journal* (21 June, 1834).
[177] G. L. Barrow, ‘Justice for Thomas Mooney’ in *Dublin Historical Record*, xxiv, 1 (1970), p. 175.
[178] W. J. FitzPatrick, Correspondence of Daniel O’Connell the liberator (Vol. i, London, 1888), p. 449.
[179] Ibid, p. 456.
[180] Anon, *The origin and principles of the Agricultural and Commercial Bank of Ireland* (Dublin, 1835), p. 22.

unlimited and unchecked; the discounts were profuse; the advances without security, extraordinary for their *liberality*. Then the tide turned! (italics sic)'[181]

There was a commercial panic in 1836 and a number of banks experienced runs. They all applied to the Bank of Ireland, the *de facto* central bank, for assistance. Initially the Bank of Ireland provided assistance to all joint stock banks in need, but it did not continue the support of the A&C,[182] whereas the National received continued support from the Bank of Ireland. The *Bankers' Magazine* stated that 'when the pressure began to be severe, the bank applied to the Bank of Ireland for assistance. They asked for advances on the deposit of bills which they held under discount; but the Bank of Ireland directors refused to make advances on such security.'[183] The shareholder of the A&C who wrote the anonymous open letter to the other shareholders in the A&C felt aggrieved by this treatment. The writer believed that the National Bank received preferential treatment because of the influence of O'Connell. The letter alleged that:

> Accommodation [was] denied to 4,000 registered partners of the *Agricultural and Commercial Bank of Ireland*, upon adequate security; but given speedily to one individual, whose power was feared but not respected and whose political influence was bargained for to obtain the renewal of a chartered monopoly in the banking system.[184]

The shareholder hoped that the agreement between O'Connell and the Bank was mutually beneficial, but from O'Connell's letters it appears that there was no such deal, and if there was such a deal it was not kept on his part. When the Bank of Ireland's Charter was up for renewal in 1838,[185] O'Connell opposed it. Writing about the defeat of the Bank of Ireland bill on 16 August 1839, O'Connell stated that:

> There was never a more close Orange confederacy than that at the Bank of Ireland. It was impossible to get an honest special jury in political cases in Dublin by reason of the undue influence of the Bank directors….this was an attempt to crush Ireland in its

[181] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine and the Journal of the Money Market*, iii, (May, 1845), p. 70.
[182] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 145.
[183] Anonymous, 'The Agricultural Bank of Ireland' in *Bankers' Magazine: second article*, iii, (July, 1845), p. 206.
[184] Anonymous (signed 'a shareholder'), *The former management and future prospects of the Agricultural and Commercial Bank of Ireland considered, in a brief letter to its shareholders. "Non sum, quails eram."* (Dublin, 1837), p. 16.
[185] Section 8 of the 1821 Bank of Ireland act stated that the charter was renewed until 1838: Bank of Ireland Act, 1821 (1 & 2 Geo. 4), c. 72, section 8; There were three bills relating to the Bank of Ireland charter in 1839; *A bill to continue to the Governor and Company of the Bank of Ireland certain of the privileges now enjoyed by that corporation, subject to certain conditions.*, H.C. 1839, (485), I, 55; *A bill to continue an act of the last session of Parliament relating to the Bank of Ireland.*, H.C. 1839, (545), I, 77; *A bill [as amended by the committee] to continue to the Governor and Company of the Bank of Ireland certain of the privileges now enjoyed by that corporation, subject to certain conditions*, H.C. 1839, (557), I, 79.

> monetary system, and to continue a monopoly in the hands of unrelenting enemies of the religion and liberties of the people, but the reaction of Irish spirit has in this, as in so many other instances, overthrown the enemy.[186]

What would have happened if Daniel O'Connell had not decided to enter the banking market at the same time as the A&C? It would probably have meant less direct competition for the A&C, though it would not have improved management structures. But ultimately it is a question that is beyond the scope of this research.

3.4. Joint stock banks and information improvements, 1860-1914

The joint stock banking system was remarkably robust, with only 2 joint stock banks failing in the period 1850 to 1914. The first of these was the Tipperary joint stock bank (1836-1856) and its failure was due to the blatant and flamboyant fraud of its directors, the Sadliers.[187] The fraud perpetrated by the Sadliers involved incidents such as fabricating annual accounts to encourage the sale of shares in Britain, and insider trading - buying the shares of the bank in order to push up the share price despite knowing the bank was in serious debt.[188] John Sadlier had a number of commercial interests and had accumulated sizeable debts. His biographer, James O'Shea, believed that the bulk of his debts were derived from speculating at the stock exchange.[189] Sadlier's main line of credit was the Tipperary joint stock bank, and when the bank was closed in 1856 it was disclosed that of the bank's declared assets of £443,000, 65 per cent was in the form of John Sadlier's personal overdraft.[190] The Tipperary Bank had liabilities of £430,000 at its closure,[191] and the news of the suicide of John Sadlier led to a run on the bank, and on surrounding banks in Munster.[192]

The damage to the banking system was localised by the fact that the Tipperary Bank did not hold a large market share, and only had nine branches.[193] The reason for this was that, as was mentioned above, the Tipperary had voluntarily ceded note-issuing privileges when it was established. It had entered an agreement with the Bank

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[186] W. J. FitzPatrick, *Correspondence of Daniel O'Connell the liberator* (Vol. ii, London, 1888), pp 199- 200.
[187] James O'Shea, *Prince of swindlers: John Sadlier M.P. 1813-1856* (Dublin, 1999).
[188] Ibid, pp 394, 395 & 401.
[189] Ibid, p. 400.
[190] Ibid, p. 423.
[191] Ibid, p. 422.
[192] Ibid, p. 421.
[193] Ibid, p. 32.

of Ireland whereby the Tipperary Bank used Bank of Ireland notes,[194] effectively acting as a *de facto* branch network of the Bank of Ireland. After the passing of the 1845 bankers (Ireland) act, the Bank of Ireland determined the nature of this relationship and restricted the Tipperary Bank from establishing branches further afield. As a result the Tipperary's branches were mainly located in Munster and the affects of the fraud were contained. The failure of the Munster Bank in 1884-85 was less spectacular.[195] It folded mainly as a result of illiquidity as opposed to the insolvency of the Tipperary Bank, and was re-formed as the Munster and Leinster joint stock bank in 1885. Ó Gráda stated that the failure of the two banks cited above, and a commercial crisis in the 1860s, showed how the Irish financial system had developed whereby the Bank of Ireland emerged as a lender of last resort.[196] In the panic that surrounded the events the Bank of Ireland had been a source of liquidity for many of the joint stock banks, although arguably it did not do enough for the illiquid Munster Bank.[197]

In order to appreciate the stability of Irish joint banks, it is worth comparing it to the Portuguese experience. According to Jaime Reis, Portuguese banks suffered from 'quite a high mortality between 1860 and 1914 – of the 71 banks created only 23 still survived on the eve of the First World War'.[198] The high failure rate of Portuguese banks led to a loss of confidence in such institutions,[199] whereas Irish joint stock banks did not experience similar difficulties.

In the period 1860 to 1914, the joint stock banks continued to grow and expanded their branch network. This had implications for the LFB loan funds that were discussed in chapters 1 and 2, and the decrease in the number of LFB loan fund societies in the post-famine period was negatively correlated with the increase in the number of joint stock bank branches.

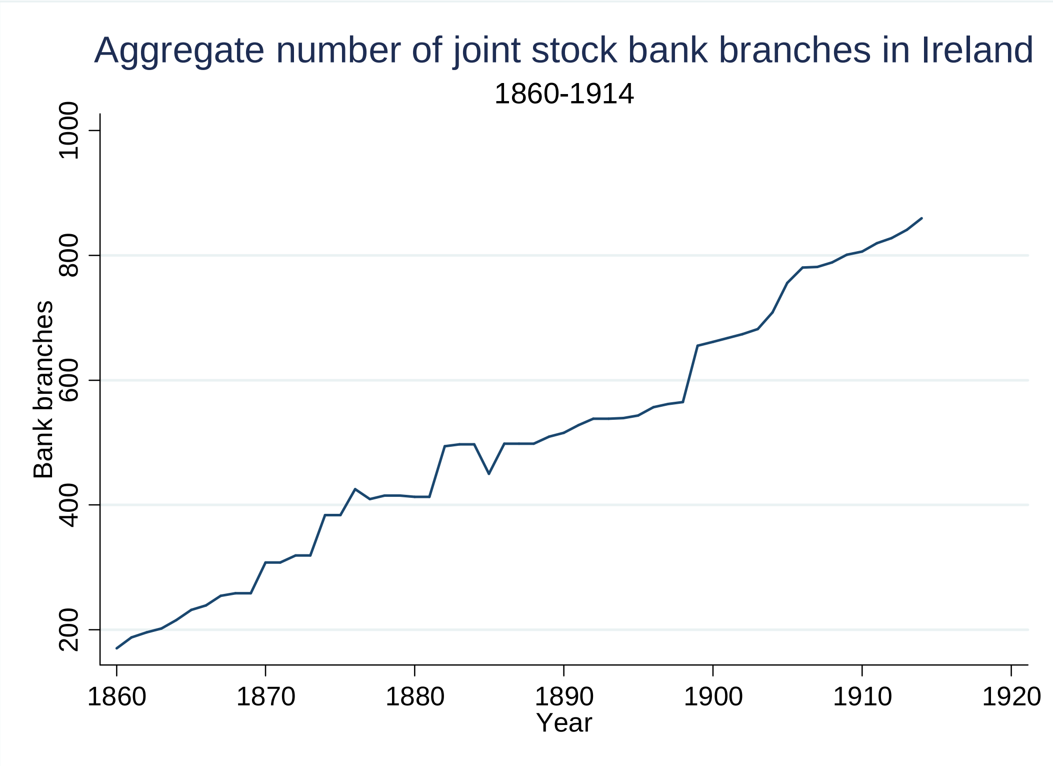
Hollis and Sweetman outlined an argument whereby information about borrowers, which the LFB loan funds created, was captured by the larger joint stock

[194] Ibid, p. 32.
[195] Cormac Ó Gráda, 'Moral hazard and quasi-central banking: Should the Munster Bank have been saved?' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 316-341.
[196] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), pp 363-364.
[197] Ibid, p. 364.
[198] Jaime Reis, 'Bank structures, Gerschenkron and Portugal (pre-1914)' in Douglas J. Forsyth and Daniel Verdier (eds), *The origin of National Financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 202.
[199] Ibid, p.198.

banks, and that this was one of the causes of the decline in the LFB system. They suggested that the LFB loan funds 'may have hastened the development of the banks by creating information – first, information about the risk associated with lending to the poor, and second information about the credit risk of individuals'.[200] But this argument is incomplete as it does not take into consideration actions taken by the joint stock banks themselves to create information, or the increasing availability of information on agricultural production which would have signalled the real level of risk associated with agricultural lending.[201]

Firstly, there was an expansion in the number of bank branches operating throughout the island over the course of the nineteenth century. This is shown in figure 3.2 which is an aggregate of all branches opened by the various joint stock banks operating in Ireland and figure 3.3 which shows the disaggregated number of branches operated by the various banks.

Figure 3.2

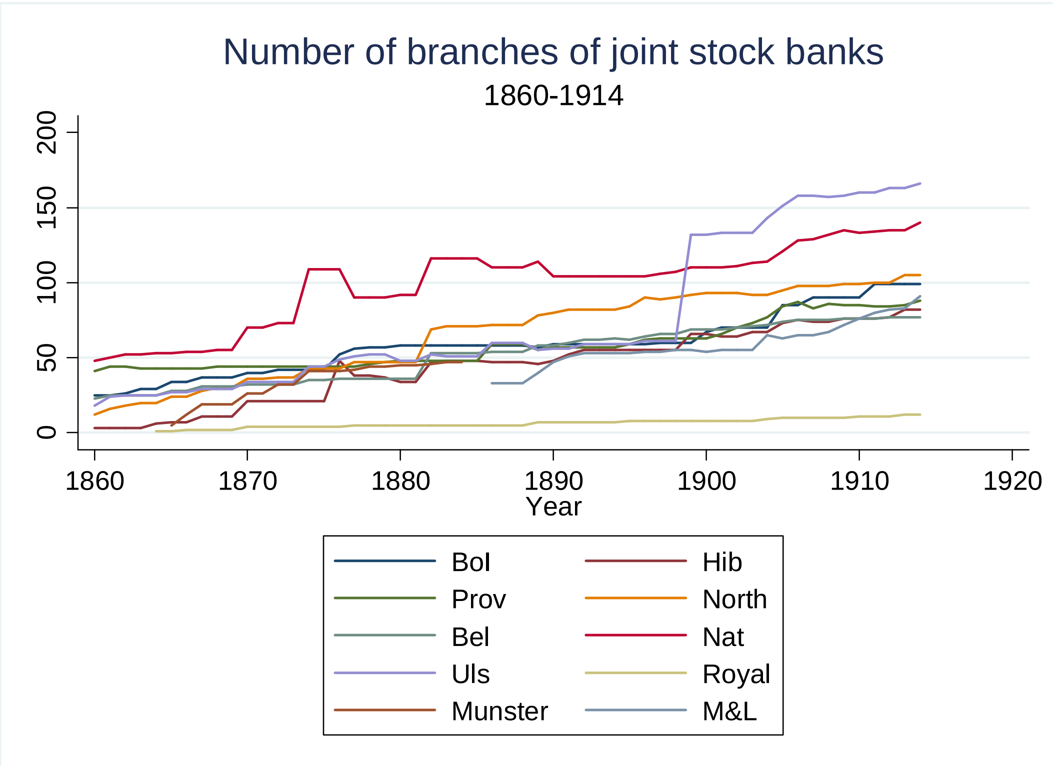


Source: *Thom's Directory*, various years.

[200] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 309.
[201] Most, if not all, loan funds were rurally based in the post-famine period. There was none active in Dublin city or Belfast city.

As is shown in figure 3.3 all of the Irish joint-stock banks implemented policies of branch banking, mainly as a reaction to competition from the other banking institutions, and also in response to restrictions on bank note issues. This growth in branch banking, as well as creating information for the banks, provided a more accessible service to many in rural Ireland. Branch banks were opened independently of any loan fund operation, and therefore would not have had access to information that loan funds theoretically created.

Figure 3.3



Source: *Thom's Directory*, various years.

It is important to highlight the fact that branch banking was universally practised by all banks. This meant that banking facilities were more accessible throughout the island. For example, if we look at the instructions that the Bank of Ireland issued to branch staff in 1849 we can see that decision-making processes were in many respects decentralised. It was stated that an agent could make discounts for a 'party known to him',[202] but that no arrears were to be permitted.[203] Current accounts

[202] John Chambers(?), 'Instructions to agents, sub-agents & clerks at Bank of Ireland branches', Dublin, 1849, (*N.L.I.*, p 686), rule xxvii, p. 11.
[203] Ibid, rule xix, p. 9.

could be set up, but it was not permissible to allow perpetual overdrafts.[204] Branch managers were encouraged to collect deposits. The instructions stated that:

> The agents will bear in mind, that as deposits are one of the great sources of profit to a Bank, every reasonable effort is to be made to secure lodgements, the rules of the Bank as to identity, &c., being complied with. Lodgements cannot, however, be received in the names of married women or minors, or if received they cannot be drawn out by such parties.[205]

The instructions also stated that staff must 'exhibit courtesy of manner [to customers]…no matter what their position in life may be'.[206]

Branch banking was expensive and an estimate of the cost of branch banking was given to the 1875 inquiry into banking laws in the UK. The costs of each bank seem to have been given on an anonymous basis, and all bar one bank submitted information regarding expenses. Given that all banks operated branch networks it seems reasonable to assume that table 3.5 is an indication of the expense of a branch banking system.

Table 3.5: Expenses of Irish joint stock banks, c. 1875

	Working expenses	Rents paid	Interest at 4 per cent on money expended on buildings	Total expenses
		Note-issuing		
	£	£	£	£
No. 1	123,495	2,583.3	3,034.15	129,112.45
No. 2	82,152	2,222	6,690	91,064
No. 3	36,082	1,455	1,476	39,013
No. 4	38,639.65	1,820.05	4,627.85	45,087.6
No. 5	47,964.15	1,048.4	39,939.8	52,952.45
		Non-issuing		
	£	£	£	£
No. 1	20,890	570	1,046	21,460
No. 2	27,673.65	3,196.9	2,185.45	30,870.55
No. 3	37,472	2,947.4	1,320	41,739.75

Note: One note-issuing bank did not submit a return; Working expenses excluded rent, interest on building account, and other expenses, and omitted interest on capital and reserves

Source: Appendix 17, in *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* pp 557-558. (351), H.C. 1875, ix, 1.

[204] Ibid, rules xxviii and xxix, p. 11.
[205] Ibid, rule xxxv, p. 13.
[206] Ibid, rule v, p. 4.

Branch banking proliferated in the post-famine period and, although costly to operate, branch banking enabled banks to diminish information asymmetries and reduce adverse selection in agricultural credit markets. Hollis and Sweetman believed that asymmetry of information in Ireland in the early nineteenth century was responsible for some problems of adverse selection. They cited two examples of asymmetric information.[207] These are worth discussing. Firstly, they cited a reference Cormac Ó Gráda made to a money lender in the early nineteenth century. Ó Gráda stated that:

> In 1819 Waugh lent £20 Irish to Thomas and William Murphy on a promissory note. Several years later he noted the whereabouts of the Murphys, with a view to getting his money back, but had no luck: "processed the Murphys to the January Hillsborough session in 1827. But not being able to procure a witness to prove the handwriting of the witness to the execution of their note and at present consider it lost." [208]

Hollis and Sweetman also used an example provided by F. G. Hall of the failure of the A&C. Hall's account was written in 1949 and is an historical account of the A&C, but he did not give any reference to any primary sources. Instead he cited another historical account written by Evelyn Thomas in 1934. The following citation, taken from Hall, is what Hollis and Sweetman used to support their argument regarding information asymmetry in nineteenth century Ireland:

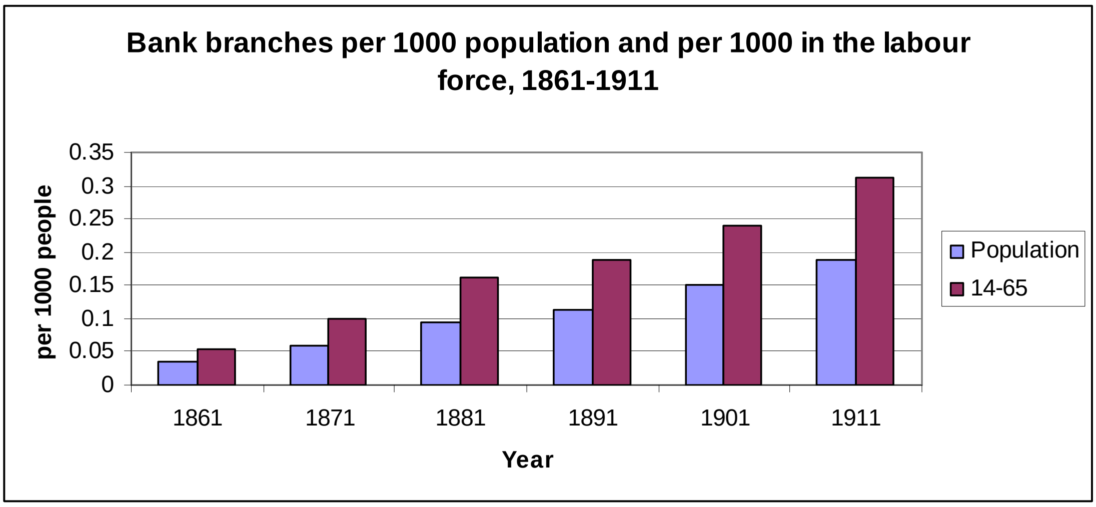
> The bank began business with scarcely a forethought or preparation; indeed, its methods were a travesty of banking principles. Branches were opened at places where they could not possibly pay, and advances were made on the security of bills discounted without any investigation being made. These bills represented a considerable proportion of the bank's assets and, after the crash, the total value of bills held was £252,000, of which £114,000 was past due. A large proportion of these bills were of the local variety, for amounts ranging from 30s. to £20, which had been granted chiefly to the poorest class of customer. In some cases, even the local managers were unable to identify the drawers of the bills.[209]

If such examples of asymmetric information are accepted then it would be plausible that the expansion of the bank branch system in Ireland could overcome such information asymmetries. The banks were undoubtedly helped by demographic patterns that emerged in the post-famine period, as shown in figure 3.4. The Irish population continued to decline in the post-famine period, and the number of bank branches per 1,000 people continued to increase over time. Figure 3.4 is a crude measure of this change, as it includes the total population and the population between the ages of 15 and 65. If the calculation is made using male only variables then the

[207] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 293.
[208] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 143.
[209] F. G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948), p. 160.

ratio of banks per 1,000 population will increase even more.[210] This implies that the branch banking policy of the Irish banks enabled them to overcome adverse selection problems caused by information asymmetry.

Figure 3.4



Note: The 'labour force' variable used in this graph is the population aged between 14 and 65.
Source: *Thom's Directory* and Census of Ireland, various years.

Although there were many cases where bank branches were clustered in the same rural towns, in general branch banking allowed banks to create and accumulate information about the local economy and to implement credit practices with less arbitrary discrimination. The banks themselves stated that their target was not the towns, but the surrounding areas.[211] This is a feature of the joint stock banking sector that was not present in the pre-famine period. The joint stock banks also overcame information asymmetries by adopting the lending technology of the loan funds. It must be stressed that the joint stock banks were not imitating the LFB loan funds, but rather they were imitating Scottish banking practices. Loans were given on the security of borrower and two guarantors. Evidence from Mr McDonald, a wholesaler in Dublin, to the committee on Irish industries in 1885, gave the following description of established bank lending practices in the post-famine period:

> That [cash credits] is done in this country in this way, namely, by lending sums on notes of hand or guarantees? – Yes; I consider the cash credit system is what I would call a mutual guarantee; that is to say, two people will mutually accommodate each other and become a mutual security. But there is another principle underlying the system of cash credits, and it is this: that the bank attaches as much importance to the character and

[210] I have not found much evidence to indicate a high level of female borrowing from the banks.
[211] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix*, question 2990, p. 159. (351), H.C. 1875, ix, 1.

> conduct and industry of the individual borrower as it does to the security that is offered, and according as the character is good the security need be the less.[212]

This account of the lending methodology is supported by evidence from an inquiry into the land law in Ireland which stated that banks required two sureties per borrower,[213] and that loans were made on the security of the tenant and not the land.[214] These are the same cash credits that were outlined in section 3.2.2 above.

It is interesting that character should have been referred to as property. It fits in with the Smilesian notion of character, or reputation, being an asset. Smiles outlined his view in *Character* in 1871:

> Character is property. It is the noblest of possessions. It is an estate in the general goodwill and respect of men; and they who invest in it – though they may not become rich in this world's goods – will find their reward in esteem and reputation fairly and honourably won. And it is right that in life good qualities should tell – that industry, virtue, and goodness should rank the highest – and that the really best men should be foremost.[215]

The use of 'cash credits', personal credit, enabled banks to reduce the cost of lending. Every bank loan, regardless of size, required the same labour input in terms of screening, monitoring and bureaucracy. Personal credit can partially reduce the transaction costs to the bank by outsourcing monitoring to the borrower's guarantor. Personal credit was a technique used to overcome formal constraints due to the uncertainty of property rights. It was stated by Hugh Stuart Moore, a solicitor practising in Dublin,[216] that:

> They [joint stock banks] do not generally lend upon the security of mortgages. Their security is rather personal, and has regard to the position of the person to whom they lend. I do not know how that may be affected, but there is no doubt they are more cautious in lending.[217]

The growth in branch banking coincided with a growth in savings mobilisation in the Irish joint stock banks. Savings are another means to signal information about

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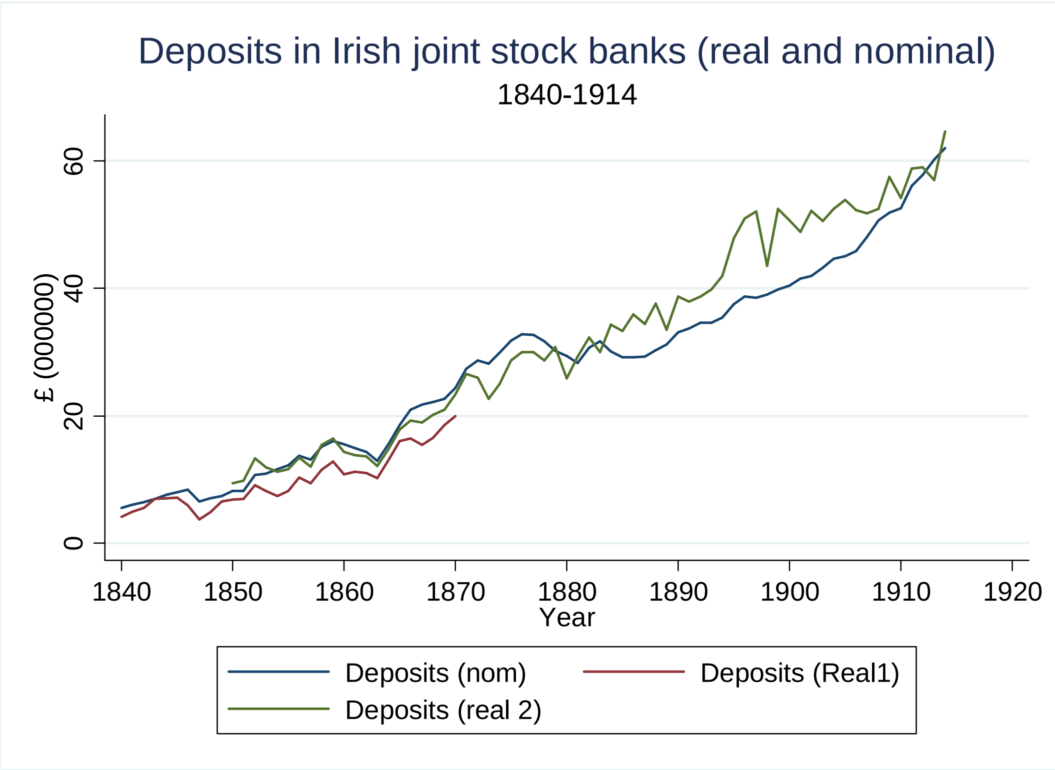
212 *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* question 10267, p. 554, H.C. 1884-85 (288), ix, 1.
213 *First report from the Select Committee of the House of Lords on Land Law (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* questions 1595-1597, p. 150, 1882, H.L. (249), xi, 1.
214 Ibid, question 895, p. 82.
215 Samuel Smiles, *Character* (London, 1871), p. 6.
216 *First report from the Select Committee of the House of Lords on Land Law (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* questions 727, p. 68, 1882, H.L. (249), xi, 1.
217 Ibid, question 895, p. 82.

potential borrowers,[218] as the banks would have had access to information about the financial assets of a potential borrower. The growth in savings enabled the banks to have better information of the conditions of borrowers, and from anecdotal evidence it does appear as though farmers had savings in banks from which they borrowed.[219] Horace Plunkett also made a similar assertion in the early twentieth century when addressing the A.G.M. of the Institute of Bankers.[220] The banks, it seems, did encourage saving. Evidence of this comes from the Society of Saint Vincent de Paul's efforts to set up Penny Savings Banks. They attempted to encourage thrift, but wanted to place a ceiling on deposits they collected. It was stated that the joint stock banks accepted deposits starting from £5, so this was the ceiling that the Saint Vincent de Paul placed on accounts in their Penny banks.[221] But other evidence suggests that the savings habits of farmers may have been as much to do with the financial illiteracy of borrowers as with an intentional policy on the part of the banks. William Kirby Sullivan, the president of Queens University Cork, in evidence to the Irish industries commission in 1885 said that farmers saved in the joint stock banks in order to accumulate a dowry for their daughters and that they did not want to touch that nest egg at any cost. They preferred to borrow money, at higher interest, than to draw on their savings.[222] Sullivan believed that the farmers did not understand their cash flow requirements and simply placed too much money in savings accounts in the banks and left themselves short of cash.

The amount of deposits held by the joint stock banks is shown in figure 3.5. In the period 1860 to 1914, the nominal savings in the Irish joint stock banks increased by 297 per cent. Coincidently, the growth rates in nominal savings per bank branch decreased by 16 per cent in the same period.

[218] Robert C. Fogel and Paul Burkett, 'Deposit Mobilization in Developing Countries: The Importance of Reciprocity in Lending' in *The Journal of Developing Areas*, xx, No. 4 (Jul., 1986), pp 425-438.
[219] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* question 903, p. 49, H.C. 1884-85, (288), ix, 1.
[220] Horace Plunkett, 'Bankers and farmers in Ireland' in *Journal of the Institute of Bankers in Ireland*, ii (1900), p. 20.
[221] *Bulletin of the Society of St. Vincent De Paul*, xii (Dublin, 1867), p. 369.
[222] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* question 222, p. 13, H.C. 1884-85 (288). This view was held by a number of other witnesses before the committee.

Figure 3.5



Note: Real 1 was obtained using a cost of living index in Geary and Stark (2004), and Real 2 was obtained using a cost of living index in Kennedy (2003).

Source: *Thom's Directory*, various years.

Figure 3.5 shows the amount of deposits[223] held by the joint stock banks from 1840 to 1914. Although we do not yet have annual time series information regarding the actual distribution of deposits in the individual branches and banks, there is some information available for individual years.[224] Table 3.6 shows the aggregate amount of deposits and the average deposits per branch for all of the Irish joint stock banks.

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[223] This is cash balances and savings balances in the joint stock banks; the two were not separated in the earlier years of the reports.

[224] For example there is information from *The Economist*: See Table 37 in Philip Ollerenshaw, *Banking in nineteenth century Ireland: The Belfast banks, 1825-1914* (Manchester, 1987), p. 185.

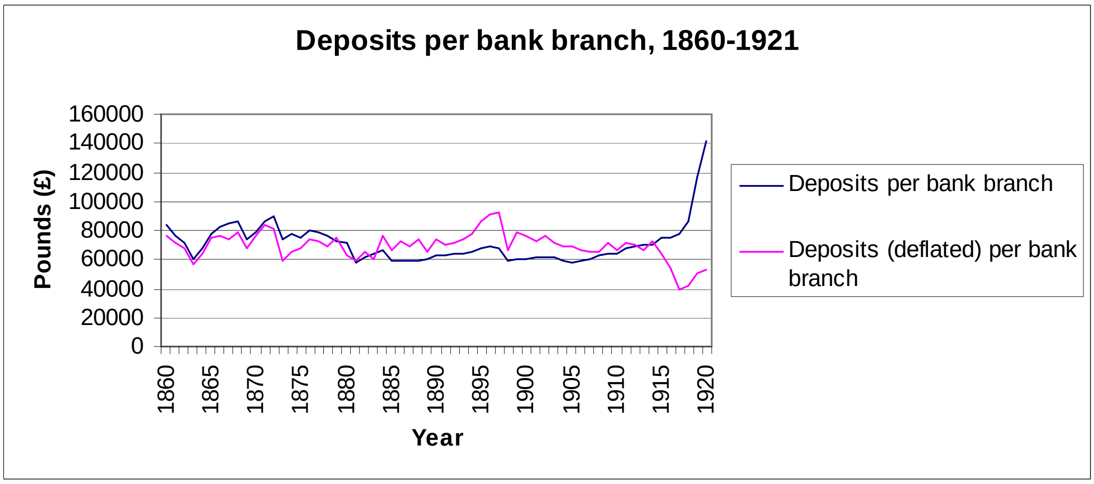
Table 3.6 : Bank deposits, bank branches and deposits per branch, (£ million) 1886 and 1912.

	Deposits and credit balances 1886 £	1912 £	Branches 1886	1912	Deposits per branch 1886 £	1912 £
Bank of Ireland	9.446	16.377	58	99	0.16	0.17
Belfast	2.27	6.046	54	77	0.04	0.08
Hibernian	1.234	3.942	47	77	0.03	0.05
Munster and Leinster	0.444	5.787		82		0.07
National	8.764	13.321	110	135	0.08	0.10
Northern	2.23	5.32	72	100	0.03	0.05
Provincial	3.71	5.838	59	84	0.06	0.07
Royal	1.621	1.902	5	11	0.32	0.17
Ulster	3.583	8.972	60	163	0.06	0.06

Note: The Munster bank was wound up in 1885, but re-formed as the Munster and Leinster.
Sources: Table 37 in Philip Ollerenshaw, *Banking in nineteenth century Ireland: The Belfast banks, 1825-1914* (Manchester, 1987), p. 185 and *Thom's Directory*.

The information in figure 3.6 can be seen as a rough proxy for the marginal benefit of opening an additional bank branch from the perspective of the joint stock banks.[225]

Figure 3.6



Source: *Thom's Directory*, various years

[225] It should be noted that some 'branches' were only open at weekly fairs, but the majority of branches were open regularly. There is no detailed published information available on the cost of operating a bank branch, but it primarily consisted of interest, rent, wages and some fixed costs associated with safes and cash tills. Postage costs should not be discounted as there is evidence that banks were in frequent postal and telegraphic communication with head offices.

Figure 3.6 would suggest that in the deflationary periods of the late nineteenth century and early twentieth century the number of bank branches was at an optimum level, and that the continued opening of branch banks would have meant a decreasing marginal return as the benefit of each additional branch in terms of deposits was decreasing. Loan funds do not seem to have been able, or perhaps did not want, to attract small deposits in a similar fashion to the joint stock banks. This is something which may have undermined the performance of loan funds as they would not have been able to exploit information that deposit accumulation provides. Joint stock bank branches were also able to transmit funds to areas where they could have been better utilised. Loan funds on the other hand were isolated units and would not have been able to do so.

Joint stock banks also benefited from better information about the agricultural sector than had previously been available. Information on the agricultural structure of Ireland was available via parliamentary reports that were published annually, namely the agricultural statistics of Ireland that began to be published annually from 1847 onwards. Information on agricultural prices were widely circulated in national and local newspapers. It is not unreasonable to assert that the banks would have been aware of such information. For example, in evidence to the 1875 banking committee Edward James Mills, a general manager of the National Bank, when referring to why deposits had increased stated that 'it must be increased prosperity, because under every heading, according to the statistics, the wealth of the country has increased'.[226]

There was also increasing information available regarding the number of agricultural evictions. From figure 3.7 it can be seen that there was a decrease in the number of annual evictions in the post-famine period, with an increase in the number of evictions occurring in the 1880s, but thereafter decreasing. The number of land purchase defaulters is included in the graph from 1906 onwards, as tenants began to purchase their land *en masse* from 1903 onwards, discussed in chapter 7, and therefore evictions were no longer a reliable indicator for the risk involved in agricultural lending. There are a number of factors that contribute to risk in agricultural markets,[227] but many of these would be reflected in the rate of eviction as

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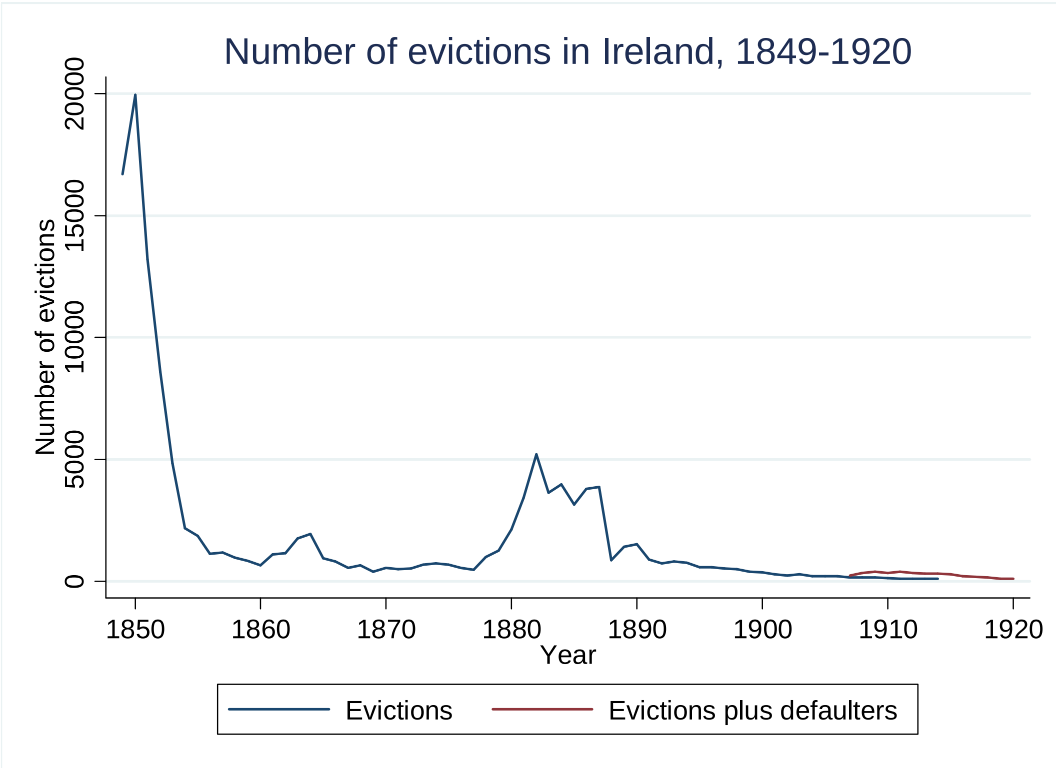
226 *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix*, question 2960, p. 157, (351), H.C. 1875, ix, 1.

227 These are human or personal risk, asset risk, production or yield risks, price risk, institutional risk, financial risk, see: European Commission Agriculture Directorate-General, 'Risk management tools for EU agriculture with a special focus on insurance', working document January 2001, pp 12-13.

eviction signalled, assuming evictions were not arbitrary, low returns from farming activities. From figure 3.7 it is immediately obvious that the scale of evictions in the post-famine period does not match the number of evictions that occurred during the famine, thus indicating that the post-famine period was a period of lower risk.

Figure 3.7



Notes: This graph has been compiled from a number of sources. The statistics of evictions are taken from the compilation of returns made by the Royal Irish Constabulary. From 1880 to 1887 the number of evictions are taken from the quarterly returns of the Royal Irish Constabulary. From 1887 the number of evictions are taken from tables 1 and 3 from the quarterly returns of the Royal Irish Constabulary.

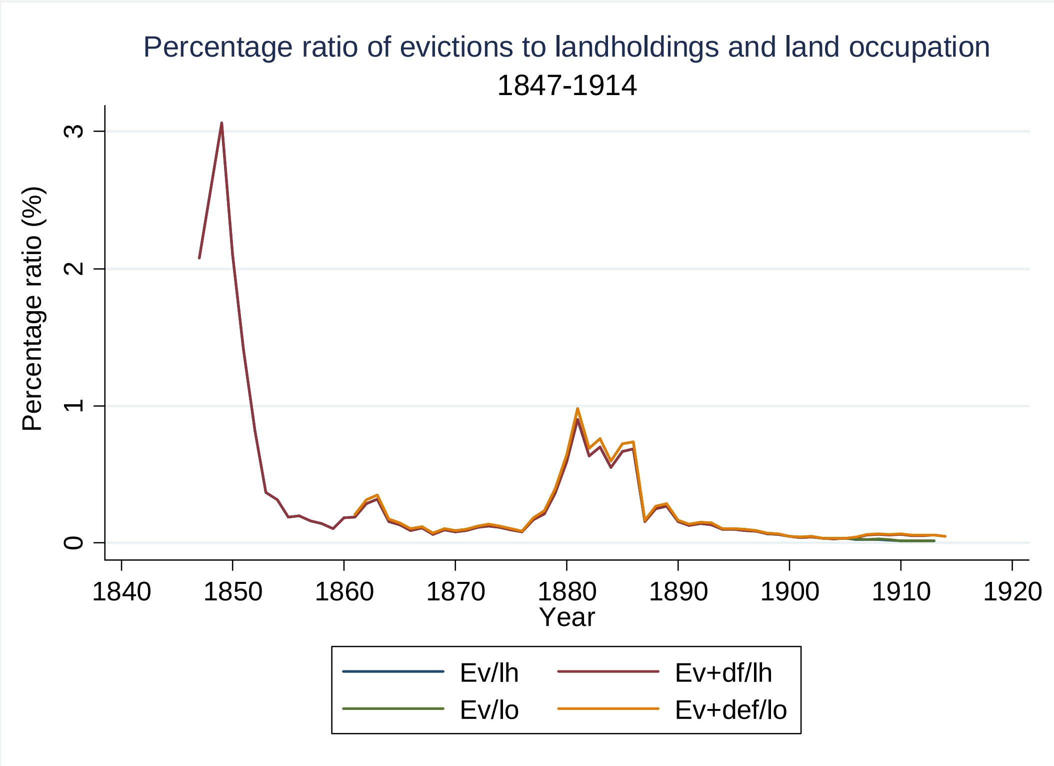
Tables 1 referred to 'the Number of evicted tenants and sub-tenants, i.e. of ex-tenants and ex-sub-tenants, turned out of their holdings under section 7 of the Land Law Act of 1887, and of tenants and sub-tenants turned out of their holdings under other processes of law at the suit of the landlord, who were not re-admitted as caretakers or otherwise on the day of eviction.'Table 2 refered to 'Number of tenants whose tenancy has been determined (1) under section 7 of the Land Law Act of 1887 (i.e. those who, having received an ejectment notice, have been converted into caretakers), and (2) of tenants and sub-tenants whose tenancy has been determined under other processes of law at the suit of the landlord.' Table 3 referred to 'The number of evictions, not at suit of the Landlord, for Debt, foreclosure of Mortgage, &c.'

The number of evictions is most likely an overstatement, as they do not account for the fact that tenants could be reinstated as caretakers any time after their eviction. The statistics recorded only include tenants who were reinstated as caretakers on the day of their eviction.

Sources: *Return, by provinces and counties (compiled from returns made to the Inspector General, Royal Irish Constabulary), of cases of evictions which have come to the knowledge of the constabulary in each of the years from 1849 to 1880, inclusive***,** H.C. 1881 (185), lxxvii, 725.
From 1880 onwards the eviction statistics were obtained from parliamentary *Return of the number of evictions from agricultural holdings which have come to the knowledge of the constabulary*.
Statistics on loan defaults are from the annual reports of the Land Commission.

Annual figures of landholdings are available from 1849 onwards,[228] and combining these with the available statistics on the number of evictions it is possible to create a proxy variable of the level of risk associated with lending to the agricultural sector.

Figure 3.8



Note: The percentage ratio is based on this formula: evictions in year T/ landholdings (land occupiers) in year T-1. There was no statistics for landholdings for 1848, so the values for 1847 were used instead. Land occupation statistics are not recorded until 1860.
Sources: For evictions, cited above for figure 3.7. For landholdings: Agricultural statistics 1859 to 1914 and Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996).

Figure 3.8 shows the percentage ratio of the number of evictions to the number of landholdings and land occupation in Ireland during the period 1847-1914. Firstly, it must be highlighted that the ratio of evictions to landholdings is very small during the post-famine period. It should also be noted that the number of evictions is most likely to be overstated so that the real ratio would be smaller. But assuming there are no data problems, the low level of evictions per landholding during the post-famine period, excluding the land war period, suggests that the agricultural sector was relatively stable and that banks would have had no difficulty making loans to Irish agriculture.

[228] These were included in the agricultural statistics of Ireland; for example *Agricultural statistics of Ireland. General abstracts showing the acreage under the several crops and the number of live stock, in each county and province, for the year 1857*, H.C. 1857-58, [2290], lvi, 265; Turner has collected data on landholding from 1847 to 1914, and on land occupation from 1860 to 1914; Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996).

If the rate of evictions was high it would have meant that there was a strong likelihood that an agricultural borrower would be evicted, and thereby default on a loan. In contrast, the low rate of evictions as shown in figure 3.8 indicates that the post-famine period was a relatively stable environment for banking.

The information in figure 3.8 actually fits some details that we know about joint stock banking and agricultural lending in Ireland. The joint stock banks did expand lending facilities to farmers in the post-famine period,[229] but in the agricultural recessions of the early 1860s and 1880s the banks retracted the amount of credit available to the agricultural sector. The periods of agricultural depression coincided with decreases in the amount of deposits,[230] so therefore it would have been a risky policy to lend in periods when withdrawals exceed deposits. This was due to the higher level of risk in these periods. The banks did lend to tenant farmers, and from the committee on Irish industries in the mid-1880s one gets the impression that the type of tenancy was not what was important to the banks, but what the land was capable of producing. Mr. McDonald, a member of a wholesale establishment in Dublin, believed that the banks lent to farmers based not on their views on his 'character', but 'on the security of the farm or of the land, which security is now becoming all the less, as proved by the banks having almost as a general rule withdrawn their accommodation to the farmer.'[231]

The 'credit crunch' in the late 1870s and early 1880s came as a result of a crash in the prices of agricultural goods.[232] This, coupled with an increase in evictions, meant that there would have been a higher likelihood of loan default than had previously been the case. Therefore, banks retracted the amount of available credit. Banks, as private business ventures, had responsibility to both their shareholders and to depositors not to unduly put at risk any capital. Deposits it seems were held on two-week notice, with the standard loan on a bill given for three months. Thus, the banks had to exercise caution when disbursing loans. The banks did keep reserve funds, but

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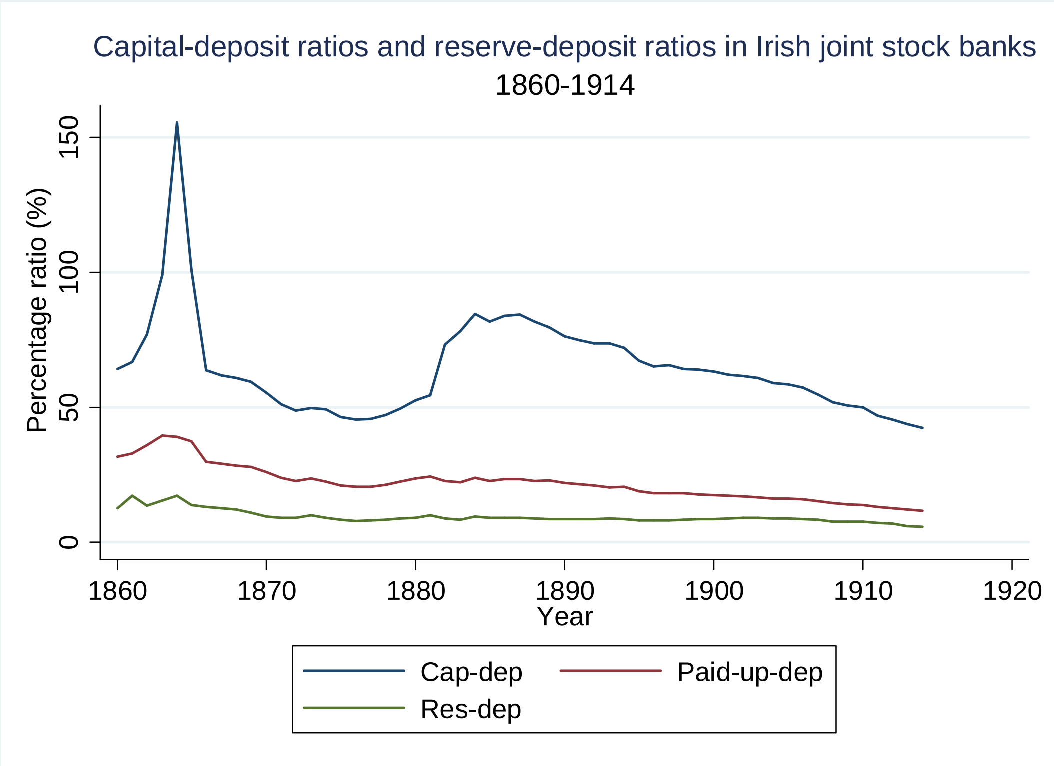
[229] *First report from the Select Committee of the House of Lords on Land Law (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix*, questions 1590, p. 150, H. L. 1882, (249), xi, 1.
[230] Ibid, question 4431, pp 416-417.
[231] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix*, question 10269, p. 554, H.C. 1884-85 (288), ix, 1.
[232] For example, the price indices constructed by Kennedy and Solar show falls in this period: See Liam Kennedy and Peter Solar, *Irish agriculture: a price history* (Dublin, 2007), tables A. 16 and A. 17, pp 184-191.

if we look at the ratio of reserves to deposits we can see that reserves alone would not protect the bank in the event of a run on its deposits.

Figure 3.9



Note: cap-dep = Percentage ratio of capital to deposits

Paid-up-dep = Percentage ratio of paid up capital to deposits

Res-dep= Percentage ratio of reserves to deposits

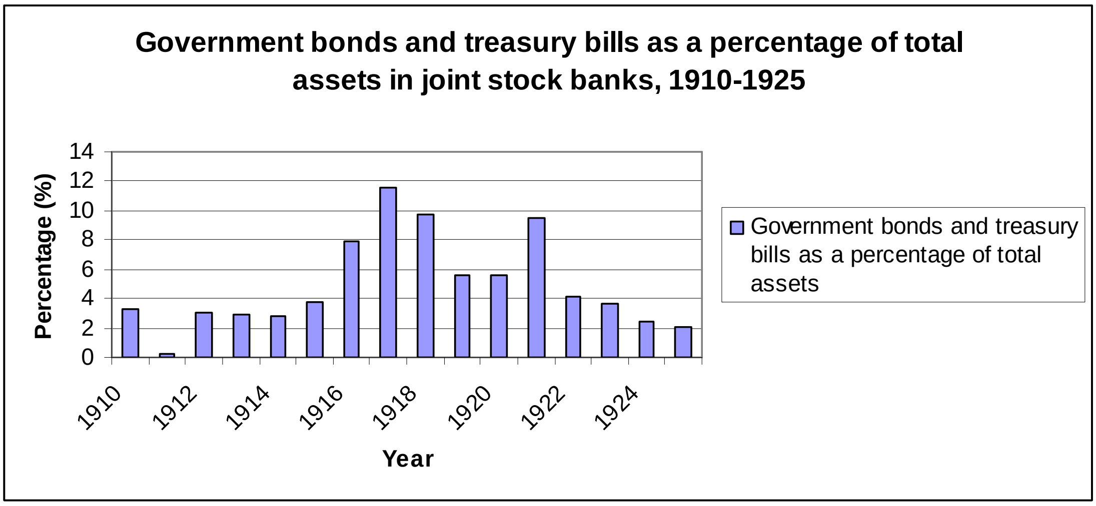
Source: *Thom's Directory*, various years

Most available primary source material relating to bank activity came during periods of unusual distress;[233] hence we get a distorted and static picture of banking activity. From the commission on Irish industry in the mid-1880s, the commission on agricultural credit in 1914, and the commission on banking in 1922 we begin to see a more balanced view of the joint stock banks. The commission on banking in 1922 contained one of the first published statements of accounts of the Irish joint stock banks. Although the series only starts late in 1910 and contains information for an extremely volatile period in economic history, it does give evidence to dispute claims that the banks only invested in government bonds. In figure 3.10 government bonds

[233] For example, see the references to banking in the 1882 land law committee: *First report from the Select Committee of the House of Lords on Land Law (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix*, 1882, H.L. (249), xi, 1.

and treasury bills are shown as a percentage of the total assets of the joint stock banks. In the periods of relative tranquillity, 1910-1914 and 1923-25, safe assets do appear to comprise a small proportion of the bank's asset portfolio. Even in the war years government bonds and treasury bills do not comprise all of the joint stock bank assets.

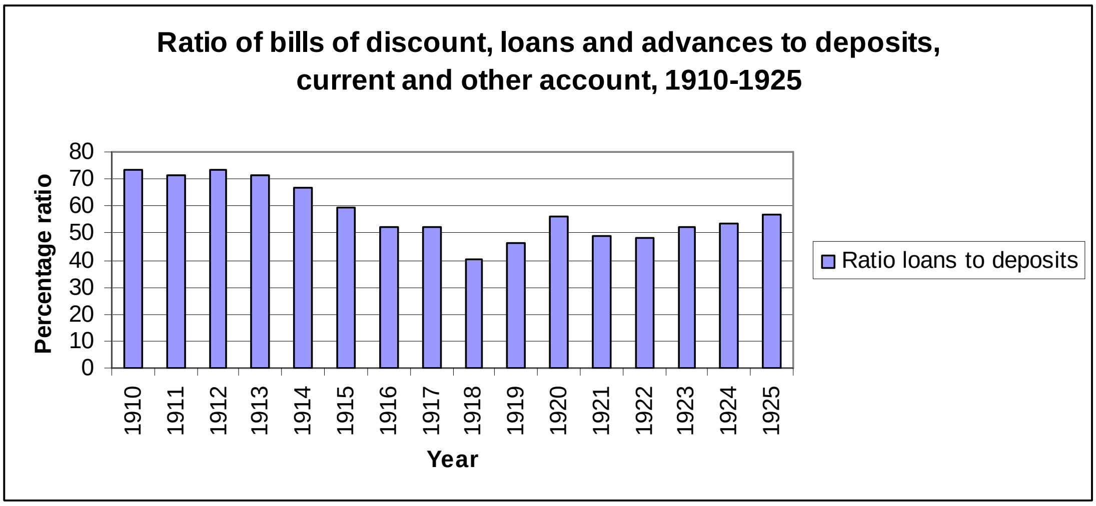
Figure 3.10



Source: Second, third, and fourth interim reports on agricultural credit; business credit; and public finance, (Dublin, 1926), R33/2 Banking commission, 1926.

Figure 3.11 is a ratio of the bills of discount, loans and advances to deposits in the joint stock banks. Unfortunately, there was no distinction between loans to various industries, but the information in both figures 3.10 and 3.11 does suggest that the banks did re-lend the majority of deposits that they received.

Figure 3.11



Source: Second, third, and fourth interim reports on agricultural credit; business credit; and public finance, (Dublin, 1926), R33/2 Banking commission, 1926.

When one considers some non-official evidence, such as Joe Ward's description of bank facilities at an agricultural market,[234] one gets the impression that joint stock banks did expand credit services in the post-famine period. The foregoing argument challenges that posited by Hollis and Sweetman, which was cited at the beginning of this section. Although banks may have been able to capture loan fund information advantages, this assumes that loan funds actually possessed such informational advantages. The evidence presented in chapter 2 of this thesis suggests that although the loan funds theoretically had the potential to exploit information, their actions undermined any information advantages that they might have possessed. Joint stock banks on the other hand, through their business model, were able to create information, while at the same time developments in communications and economic infrastructure also created information on the economy as a whole.

3.5 Scottish and Irish banking in the latter nineteenth century

As was stated in the introduction to this chapter and in section 3.2.2, the Irish joint stock banks made a deliberate effort to imitate the Scottish banking system. Given this context, it would be interesting to undertake a comparative study of Scottish and Irish banking in the latter nineteenth century. There are two existing comparative studies of Scottish and Irish banking.[235] This section will contribute to this literature by exploring the structure of banking in both polities. Scotland and Ireland were peripheral economic regions of the UK, and both maintained a separate banking structure to that of England.

As was stated in section 3.2.2 there were three chartered banks in Scotland, but monopoly rights were not renewed in their charters. The Bank of Ireland was the only chartered bank in Ireland. It maintained some of its monopoly rights after 1821 but these were not continued in the period after 1845. The only bank in the UK which had its monopoly privileges renewed and strengthened was the Bank of England. This

[234] Ciaran Buckley and Chris Ward, *Strong farmer: the memoirs of Joe Ward* (Dublin, 2007), pp 164-165.

[235] Charles Munn has written an article on the comparative development of joint stock banking in Scotland and Ireland in the early nineteenth century. There is an article written by Philip Ollerenshaw in a volume of comparative Scottish and Irish history. But the focus of Ollerenshaw's article is primarily Ireland: Charles W. Munn, 'The coming of joint-stock banking in Scotland and Ireland, c. 1820-1845' in T. M. Devine and David Dickson (eds.), *Ireland and Scotland, 1600-1850* (Edinburgh, 1983), pp 204-218; Philip Ollerenshaw 'Aspects of bank lending in post-famine Ireland' in Rosalin Mitchison and Peter Roebuck (eds.), *Economy and society in Scotland and Ireland 1500-1939* (Edinburgh, 1988), pp 222- 232.

helps explain the central role of the Bank of England within the UK banking structure. The Scottish banking system was innovative and Ireland, by imitating this structure, strove to replicate such dynamism. Gaskin stated that:

> These innovations in the techniques and organisation of banking were far from being the only ones to emerge from Scotland. Scottish bankers originated the overdraft form of lending and with it an important type of personal security. They were the first British bankers to put emphasis on the wide gathering of deposits. Above all, they pioneered the modern system of branch banking. To the observer of one hundred years ago the most obvious difference between English and Scottish banking was that of structure: Scotland with its fourteen banks and England with four hundred seemed poles apart in banking organisation. The structural differences combined with other, connected elements of Scottish banking, especially note issuing and the emphasis on deposit gathering, to form a system of banking which impressed contemporaries as very different from that of England and which, in fact, they designated 'the Scotch system of banking'.[236]

The same could be said of Ireland in the post-famine period. The Scottish banking structure was highly concentrated, with only a small number of joint stock banking institutions, but all of them operated a branch banking network. This was also the case in Ireland with nine institutions operating branch networks. Such concentration in Scottish and Irish banking took place well before the 'big five' emerged in England. This is evidence of the fact that Ireland was imitating the Scottish system. The Irish structure was also similar to the Scottish in terms of where the business and administrative centres were based. In Scotland the administrative centre was based in Edinburgh; in Ireland it was Dublin. And in Scotland the main business centre was Glasgow; in Ireland it was Belfast. In comparing Scottish and Irish banking this section will proceed as follows. Firstly, it will compare Scotland and Ireland in terms of branch banking. Secondly, it will look at the structure of liabilities, rates and charges and how they were set. Finally, it will compare the asset structure of both systems.

In terms of branch banking it is worth highlighting the fact that there was some convergence between Ireland and Scotland in terms of the number of bank branches per 1,000 population, as shown in figure 3.12.

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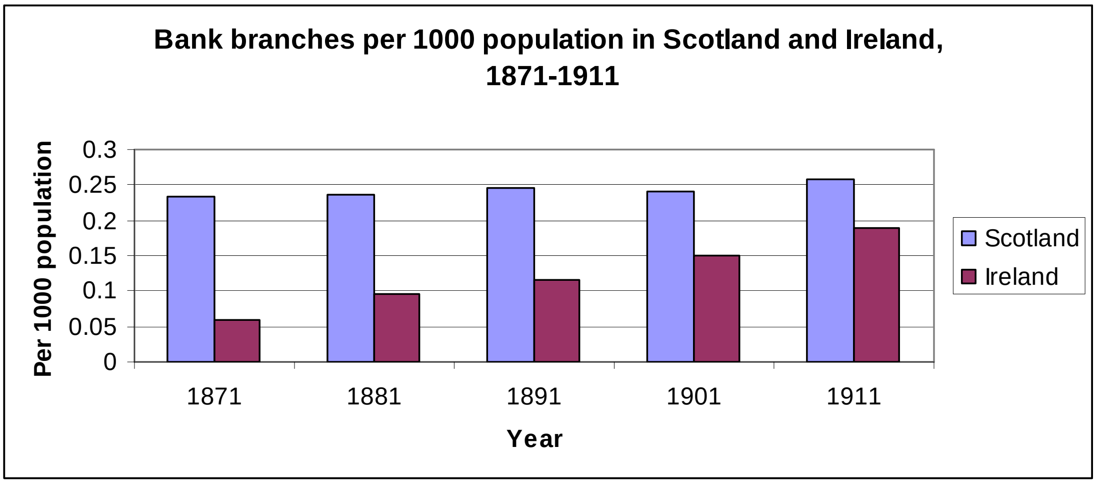
[236] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 16.

Figure 3.12



Sources: Population figures were taken from B. R. Mitchell *British historical statistics* (Cambridge, 1988); Bank branch figures were taken from table 44 in S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975); Branch bank figures for Ireland were taken from *Thom's Directory*.

Figure 4.12 is somewhat misleading as the population levels and population growth were not the same in either country. In Ireland population declined in the period 1861 to 1911, whereas in Scotland population increased. But both countries witnessed an increase in the number of bank branches.

Branch banking was an important component of banking in both Scotland and Ireland; hence it would likely have an influence on the structure of liabilities. In the case of Ireland the main banking liabilities were published annually so it is possible to make a reasonable comparison between Scotland and Ireland. This will be done by looking at notes issued, share capital, reserves and deposits.[237] Returns on bank notes were required to be published under banking legislation, and returns on deposits were published regularly in the later stages of the nineteenth century. The other variables used, capital and reserves, and the figures derived from them ought to be treated as approximations, as the banking institutions did not synchronise the publication of their balance sheets until the 1920s in Ireland[238] and the 1960s in Scotland.[239] They are also annual data and therefore do not reflect seasonality.

[237] In modern banking terminology reserves held at central banks or at other banks are considered to be assets. In the nineteenth century reserves mainly referred to retained earnings and were considered to be additions to the banks capital, as such they were included in reserves. The practice of including reserves in the liabilities side of the balance sheet was done by Hall and Gaskin amongst others; see appendix H in F.G. Hall, *The Bank of Ireland, 1783-1946* (Dublin, 1948), pp 400-401; and Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 53.
[238] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 354.
[239] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), pp 18-19.

Firstly, figure 3.13 shows note issues as a percentage of total liabilities; as can be seen there is a trend towards convergence towards the distribution of liabilities in Scotland. Scotland and Ireland were governed under separate banking legislation to England and Wales. After the 1844 Bank charter act both Scottish and Irish banks still had the right to issue notes,[240] albeit under the proviso that they had existed before 1844 and had been issuing notes.[241] In England and Wales Bank of England notes were recognised as 'legal tender' under the 1833 bank act,[242] and this was strengthened under the 1844 bank act.[243] Unsurprisingly, non-issuing banks in Ireland believed that Bank of Ireland notes were legal tender;[244] this was because they could only issue Bank of Ireland notes. On the other hand all banks that operated outside Dublin before 1844 had the right to issue notes, and therefore they stressed the fact that Bank of Ireland notes were not legal tender.[245] Notes are an important characteristic in understanding the development of branch banking in both Scotland and Ireland.

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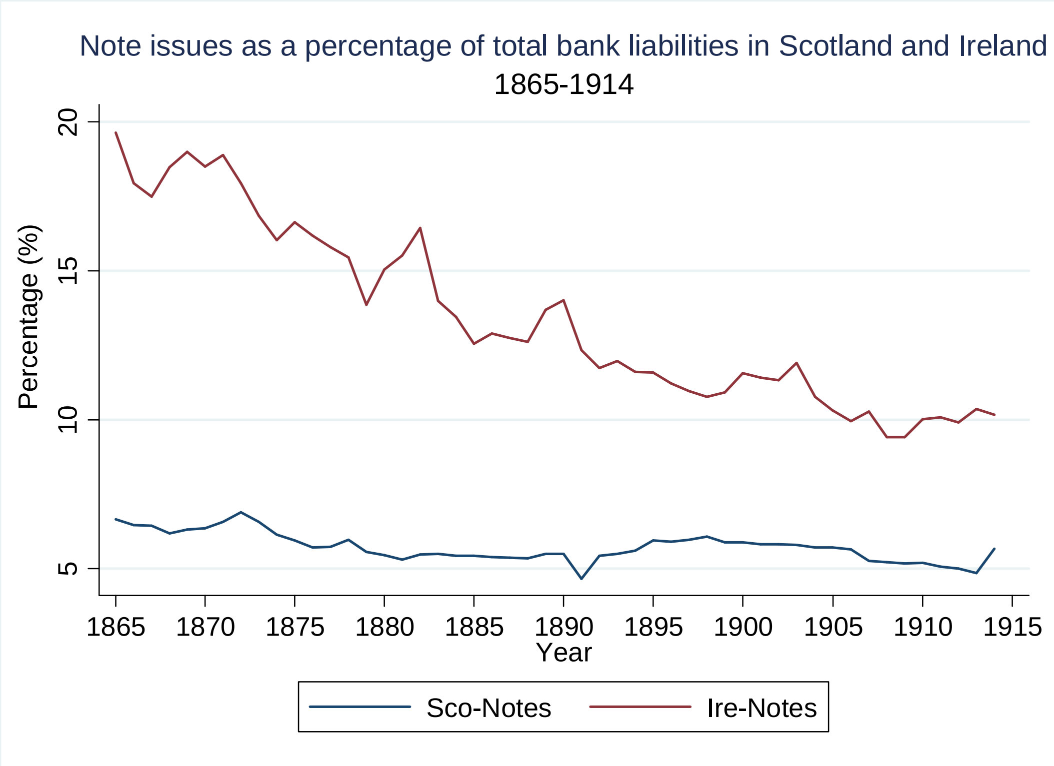
[240] Bankers (Ireland) Act, 1845 (8 & 9 Vict.), c. 37, section 6; and Bank notes (Scotland), 1845 (8&9 Vict.), c.38, section 15.
[241] Bank Charter Act, 1844 (7 & 8 Vict.), c. 32, section 10.
[242] Bank of England Act, 1833 (3 & 4 Will. 4), c. 98, section 6.
[243] Bank Charter Act, 1844 (7 & 8 Vict.), c. 32.
[244] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* questions 2468-2469, p. 140. (351), H.C. 1875, ix,1.
[245] Ibid, question 2923, p. 196 and question 3464, p. 174.

Figure 3.13



Note: Bank liabilities for Ireland have been calculated as a sum of notes issued, paid-up capital, reserves and deposits.
Sources: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975) and *Thom's Directory*.

As was discussed above, note issues enabled banks to reduce the cost of operating a branch network as unissued notes could be used as cash, in effect reducing the cost of having a ready supply of money. Notes that were not in circulation were not considered to be money, as such, nor did they have to be stamped, and this therefore reduced the cost of operating a branch network. Gaskin stated that:

> Even the note issues themselves came to be regarded as deriving their chief importance from the fact that they sub-served the collection of deposits. Where an earlier generation of bankers had looked on them primarily as a source of funds, after the middle of the nineteenth century their prime function in the eyes of the Scottish bankers was to make possible a wide spread of branches which in turn produced a more effective 'draining' of the country of deposits than would otherwise have been possible.[246]

Contemporary evidence from the 1875 banking committee shows that a similar view prevailed in Ireland. Bristow, speaking on behalf of the Ulster banks, stated that:

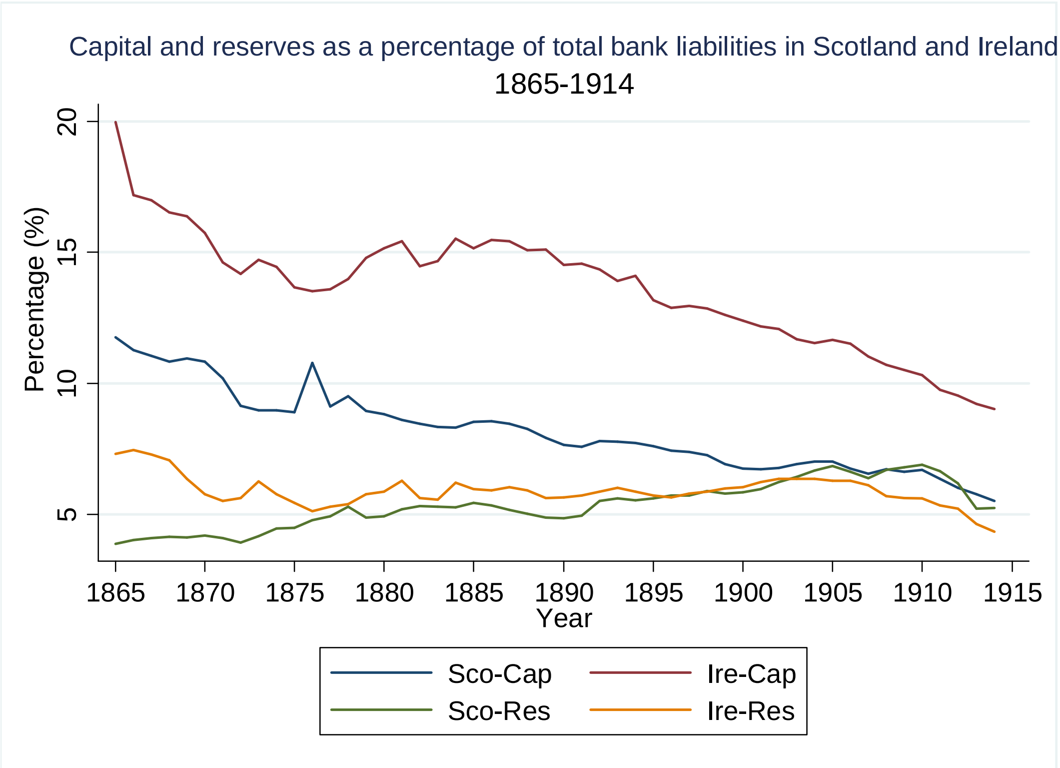
> The amount of money which may lie dormant at a branch, if it is not issued, if it is in our own notes, is not actually costing us money; it is lying in our safe. We can send any

[246] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 61.

amount of notes to a branch, and they will cost us nothing until they are issued by that branch.[247]

Figure 3.14 shows both capital and reserves as a percentage of total bank liabilities in Scotland and Ireland. Capital is taken as paid-up capital rather than reserve capital. As can be seen there are signs of convergence between Ireland and Scotland in terms of the distribution of capital and reserves as a percentage of total liabilities. In the case of notes, capital and reserves, the trend is of a decreasing importance of all three in the distribution of liabilities.

Figure 3.14



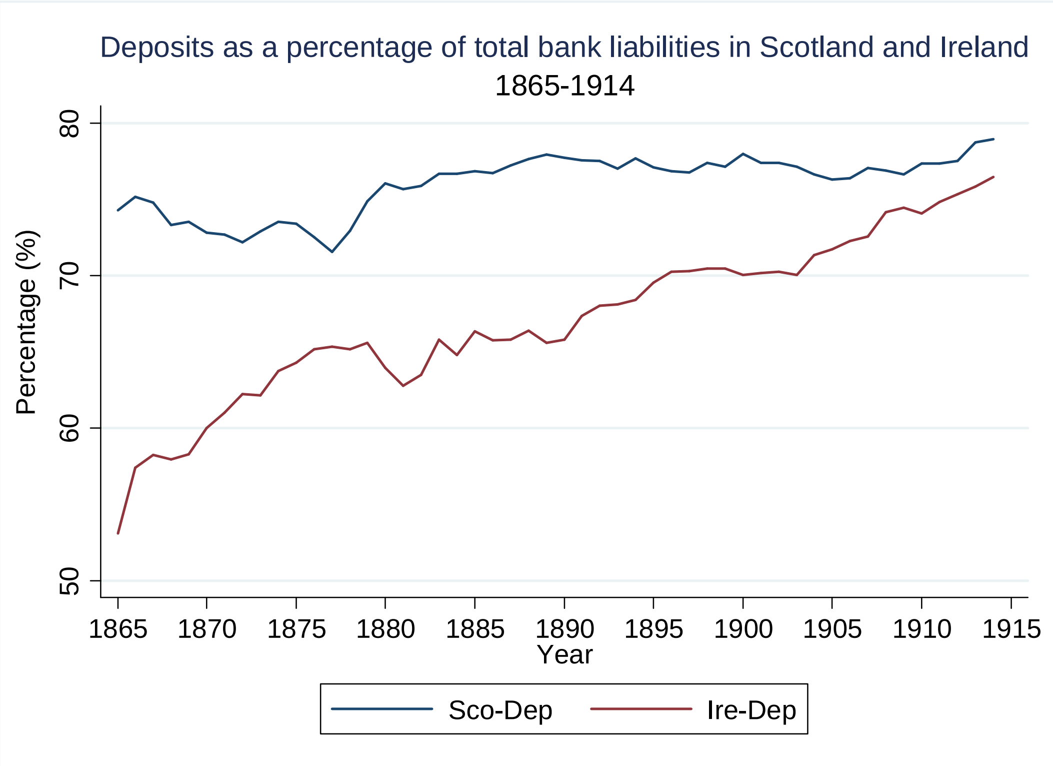
Note: Bank liabilities for Ireland have been calculated as a sum of notes issued, paid-up capital, reserves and deposits.
Sources: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975) and *Thom's Directory*.

The declining portion of capital as a percentage of bank liabilities is an indication that deposits were to become more important in the structure of banking in both Scotland and Ireland. Capital is the money received from the proprietors of the banks, whereas deposits come from the public. Figure 3.15 shows the percentage share of deposits in total liabilities in both Scotland and Ireland. As can be seen,

[247] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix*, questions 3516, p. 176. (351), H.C. 1875, ix, 1.

deposits make up the largest proportion of liabilities in both countries, and the distribution of deposits in Ireland converged with levels in Scotland.

Figure 3.15



Note: Bank liabilities for Ireland have been calculated as a sum of notes issued, paid up capital, reserves and deposits.
Source: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975) and *Thom's Directory*.

Both figures 3.14 and figures 3.15 indicate that the equity capital contributed a lower share of the balance sheet structure than deposits, something that indicates that these banks had a high gearing ratio.[248] Gaskin stated that:

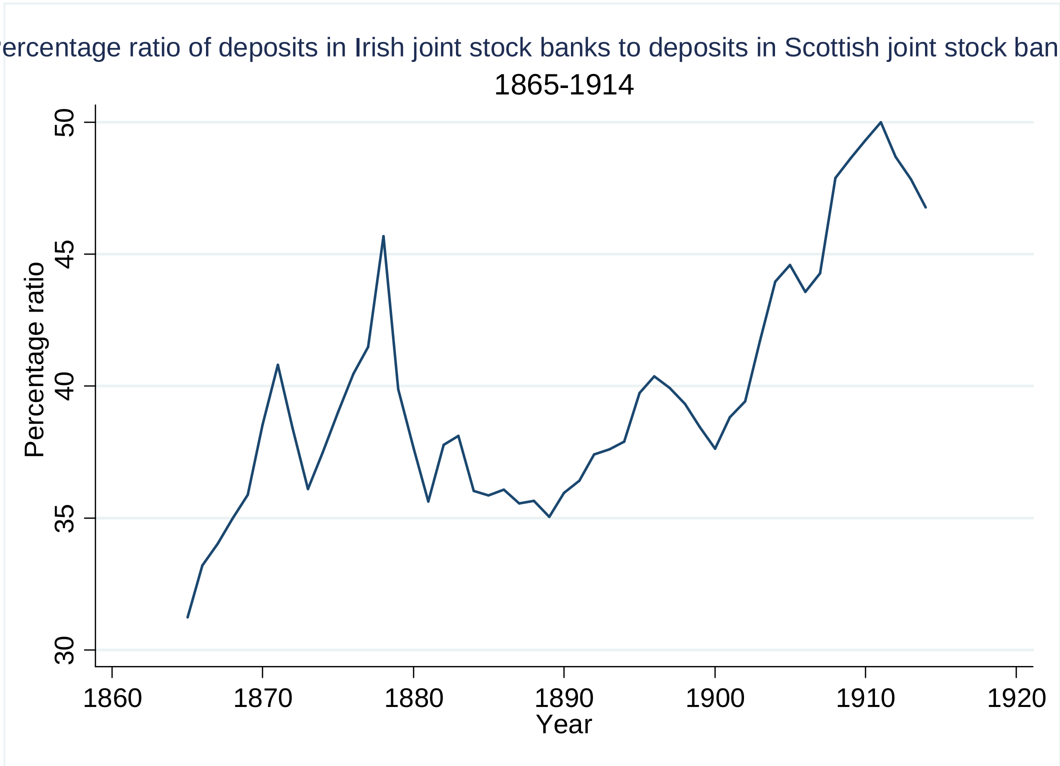
> In the nineteenth century the intensive gathering of deposits was regarded as one of the great distinguishing marks of Scottish banking. Before the consolidations of the big joint-stock banks of deposit in England, the Scottish banks were the outstanding examples of institutions that set themselves to attract the unused liquid balances of the public on a wide scale.[249]

Again the same holds true for Ireland with the intentional efforts of the joint stock banks to imitate Scotland. Scottish and Irish banks relied heavily on deposit mobilisation and in this respect it would be useful to compare Scottish and Irish banks

[248] The gearing ratio compares a company's equity to its debt, in this case comparing the banks shareholder capital to its deposits. High gearing indicates that debt is greater than equity.
[249] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 60.

in terms of deposit mobilisation. Firstly, if we compare the deposits in the Irish joint stock banks to those in the Scottish joint stock banks we can see that there was a gradual convergence in the early twentieth century. This is a useful benchmark for Irish joint stock banks, as the Scottish system experienced the same nature of competition for deposits as the Irish joint stock banks, mainly from the savings banks, although in Scotland the savings banks had a different history to those in the rest of the UK. Scottish savings banks held accounts in the joint stock banks,[250] whereas in England and Ireland savings banks deposited their funds with the Commissioners for the Reduction of the National Debt. Figure 3.16 shows that the savings deposits held by Irish banks were slowly converging to the amounts held by Scottish banks, but that the amounts held by Scottish banks were considerably higher than the amount of deposits in Ireland.

Figure 3.16



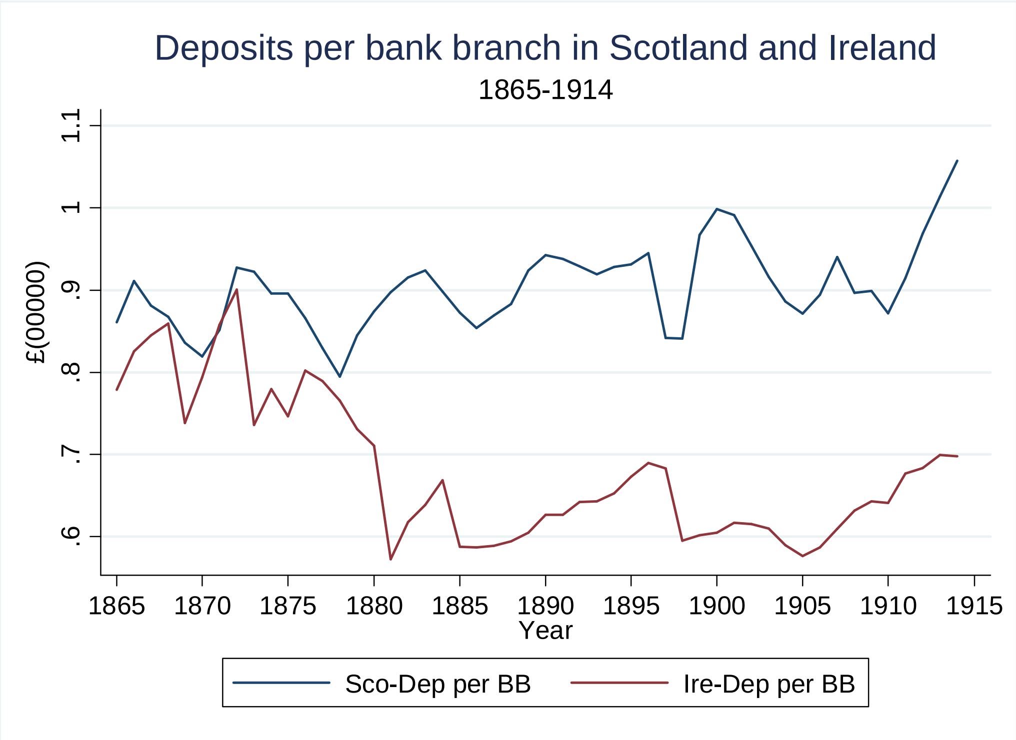
Source: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975) and *Thom's Directory*.

Finally, if we compare the number of deposits per bank, shown in figure 3.17, we can see that there was some convergence towards the beginning of the period. But from the 1880s the number of deposits per bank branches diverged from the trend in

[250] Ibid, p. 61.

Scotland. Figure 3.17 is interesting as it suggests that the bank branch network in Ireland was not as efficient as the branch network in Scotland.

Figure 3.17



Source: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975) and *Thom's Directory*.

If we look at banks in Scotland and Ireland in terms of interest payments and charges we can see that they were an integrated part of the Sterling area. Prior to the Act of Union in 1800 Ireland had its own pound that was pegged to Sterling,[251] but after the 1825 currency act Ireland became a fully fledged member of the Sterling area.[252] All banks conformed to the Bank Rate,[253] which is shown in figure 3.18. It is also interesting that there were collusive agreements amongst banks in both Scotland and Ireland. The Scottish banking system was infamous for its special agreement on charges among its banks and the agreement was traced back to 1836.[254] The system was still in existence as recently as the 1960s. The report of the committee on the working of the monetary system in 1958 stated that:

[251] Mártan MacDevitt, *Irish banknotes: Irish paper money, 1783-2005* (Kells, 2005), p. 8.
[252] An Act to provide for the Assimilation of the Currency and Monies of Account throughout the United Kingdom of Great Britain and Ireland 1825 (6 Geo. 4), c. 74.
[253] The rate set by the Bank of England.
[254] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 164.

> In fixing the terms on which they do business the Scottish banks act as a tight cartel, to a higher degree even than the English. Rates of interest paid on savings deposits and deposit receipts are fixed by agreement (not in invariable relation to Bank Rate): there is also agreement that deposits can be cashed on demand but earn interest only if left for a minimum of one month. Rates charged on advances are equally rigidly agreed – at two levels, the "cash account rate" (secured) and the "unsecured overdraft rate", the latter being ½ per cent above the former. Also the commission charges on the working of current accounts – which vary greatly in England, and are neither agreed nor published – are in Scotland rigidly agreed at flat rates, which are published. The strength of these agreements has meant encouragement of competition by service a factor that has played some part in making Scotland one of the relatively "overbanked" countries of the world.[255]

It is interesting to note that a similar 'agreement' existed in Ireland. Ollerenshaw highlighted the fact that the Ulster banks had such an agreement.[256] But evidence from the 1875 banking committee suggests that tacit agreements existed amongst all banks in Ireland on a nationwide basis and not just among the Ulster banks. For example, Edward James Mills, a manager in the National Bank of Ireland, stated that the charges were much the same and reached a 'level'.[257] Mills stated that 'there is no verbal understanding; but of course one bank establishes a rate of its own, and it comes to the ears of others, and we are obliged, as I say, to find our own level'.[258]

The rates and charges in Scotland were loosely based on the Bank of England rate.[259] In the Irish case the Bank of Ireland would adopt the Bank of England rate and the other banks would follow suit. Evidence of this comes from the 1875 banking committee. Du Bedant, a Bank of Ireland official, explained how the Bank of Ireland followed the Bank of England Rate.[260] He also stated that the Provincial and the National followed the Bank of Ireland rate changes, but that he was not sure if other banks followed their rate changes.[261] Edward Mills, representative of the National Bank, also stated that the National followed the rates set by the Bank of Ireland.[262] And James Thomson Bristow, the representative of the Northern banks, also stated

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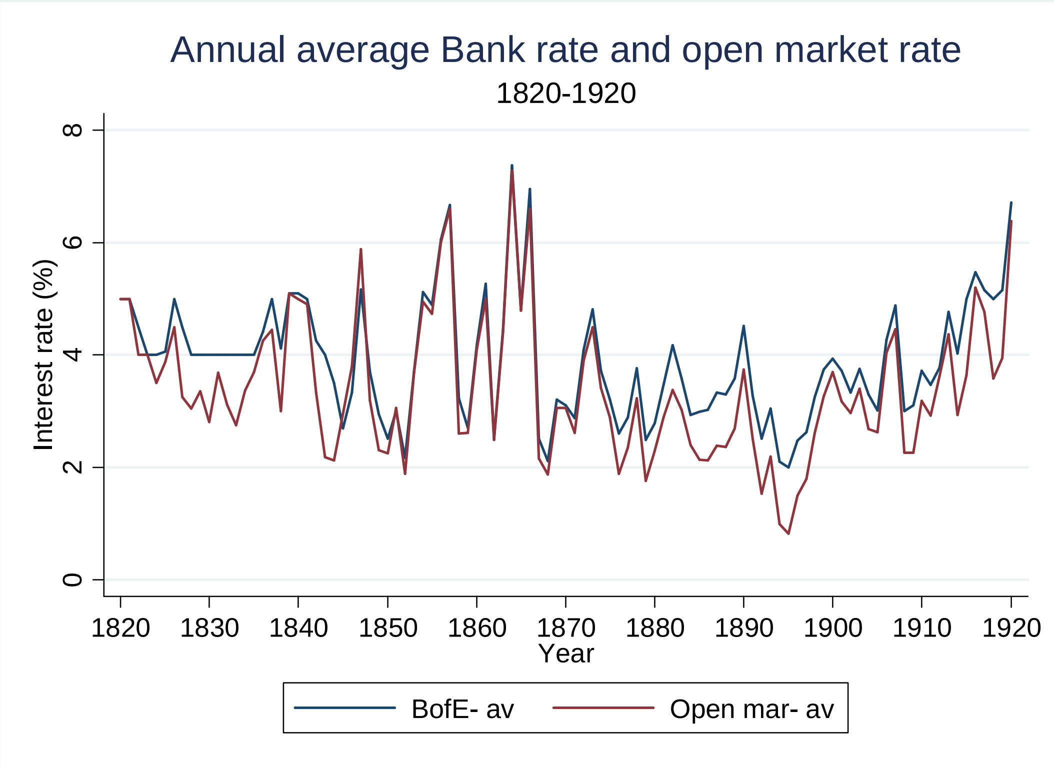
[255] *Report of the Committee on the Working of the Monetary System*, paragraph 159, H.C. 1958-59, [Cmnd. 827], xvii, 389.
[256] Philip Ollerenshaw, *Banking in nineteenth century Ireland: the Belfast banks, 1825-1914* (Manchester, 1987), pp 52, 122-6.
[257] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* question 2893, p. 155 (351), H.C. 1875, ix, 1.
[258] Ibid, question 2972, p. 158.
[259] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 165.
[260] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* question 3068, p. 161. (351), H.C. 1875, ix, 1.
[261] Ibid, question 3069, p. 161.
[262] Ibid, question 2951-2952, p. 157.

that they followed the Bank Rate by following the rate changes of the Bank of Ireland.[263]

Interest payments on deposits were then set below the Bank Rate, and charges for various services were set above the Bank Rate. The variability in the Bank Rate is an explanation for the statements that interest on deposits in Ireland was between 1.5 and 2 per cent. It was stated by a representative of the Bank of Ireland that it paid 5 per cent on deposits when the Bank rate rose to 10 per cent.[264]

Figure 3.18



Source: Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005).

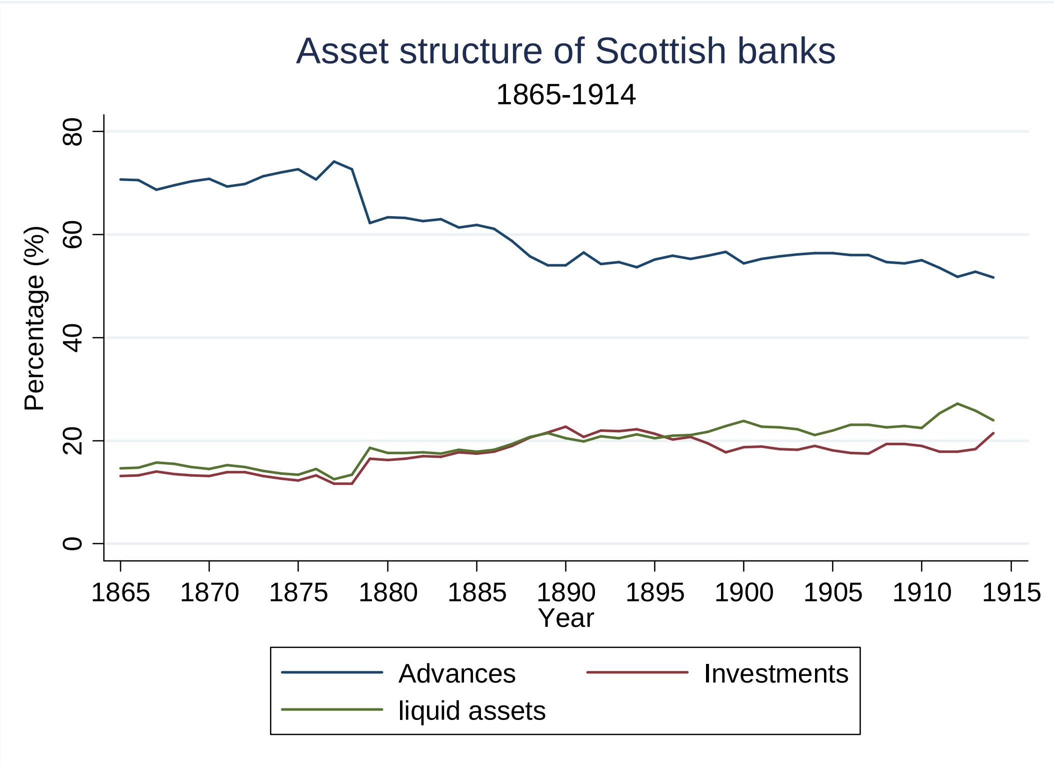
The low rate of interest received for deposits in Ireland may also be a sign of the level of collusion, rather than competition, within the banking structure. The banks competed with each other in terms of service, i.e. opening of branches, rather than competing in terms of prices, i.e. rates and charges. This raises the question of over-banking, an issue that was also continually raised in Scotland.[265] It is also evident in Ireland. A prize winning essay in 1906 published in the *Journal of the Institute of*

[263] Ibid, question 3451-3452, p. 174.
[264] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* question 3114, p. 163 (351), H.C. 1875, ix, 1.
[265] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), pp 23-24.

Bankers in Ireland was related to the theme of over-competition amongst the banks.[266] The essay recommended more collusion between the banks to prevent excessive competition and that 'combination and co-operation should be the watchwords of the Irish banker'.[267]

Finally, to conclude this section, it would be interesting to compare the asset structures of banks in Ireland and Scotland, but it is not possible to do this due to data constraints. In the nineteenth century banks were private businesses, and although there were requirements to publish certain statistics relating to liabilities, it was not until more recent times that there were requirements for more detailed banking statistics in the UK. Given that the distribution of liabilities was similar for Ireland and Scotland, it would be a reasonable assumption that this led to a similar distribution in asset structure. So if we look at the asset structure in Scotland, shown in figure 3.19, we might get an idea of what the asset structure of Irish banks was like.

Figure 3.19



Sources: S. G. Checkland, *Scottish banking: a history, 1695-1973* (Glasgow, 1975); Branch bank figures for Ireland were taken from *Thom's Directory*.

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266 Owen C. Barry, 'The effect of competition amongst Irish banks' in *Journal of the Institute of Bankers in Ireland*, ix (1907), pp 39-50.

267 Ibid, p. 49.

Figure 3.19 shows the asset structure in Scottish banks and as can be seen advances, i.e. loans, made up a significant portion of assets. Investments in figure 3.19 were the securities, municipal and colonial, that the banks held and liquid assets were mainly short-term treasury bills or Consols. Before 1914, Consols were considered to be liquid assets based on the fact that there was a strong demand for them and they could be sold easily; it was not until the post-war period that Consols would have been classified as investments.

There is not a similar series available for all banks in Ireland. But we do possess a series for the Bank of Ireland from 1886 to 1946, information for all banks in 1886 and 1912, and the data from the 1926 banking commission that were shown in section 3.4. Firstly if we look at the information from *The Economist* banking supplement we can look at the asset structure of the various Irish banks.

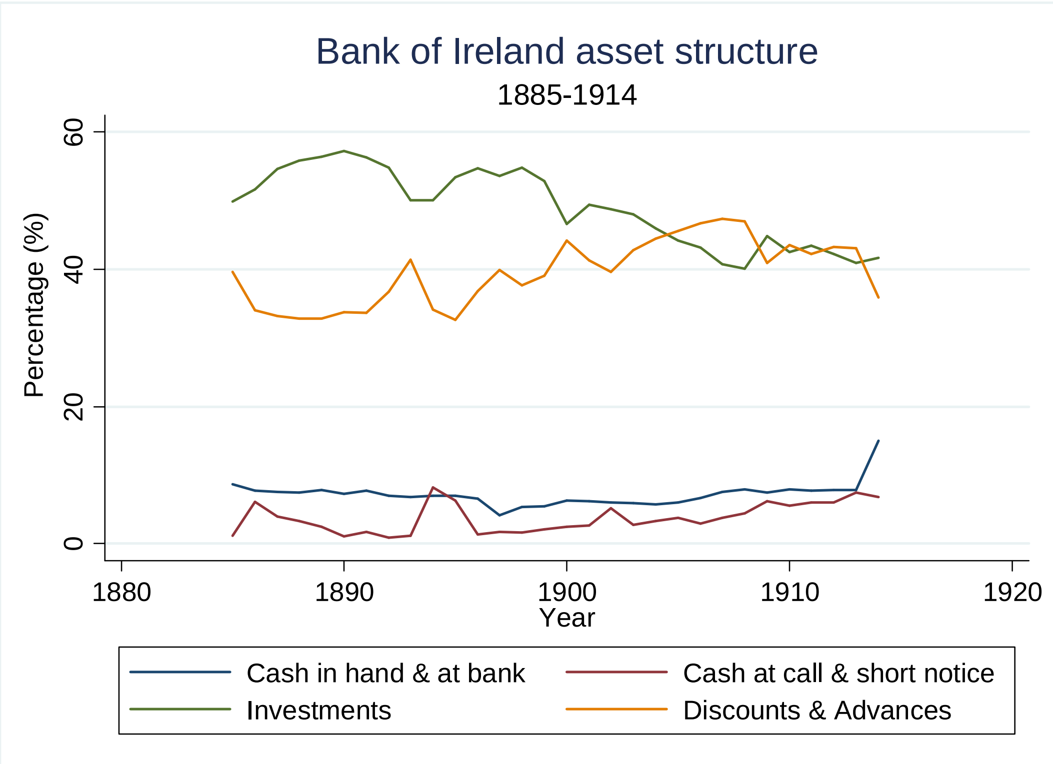
Table 3.7: Asset structure of Irish banks in 1886 and 1912

	Year	Advances %	Investments %	Cash %
Bank of Ireland	1886	37.63	53.46	8.91
	1912	43.57	42.13	14.31
Belfast	1886	67.13	19.70	13.17
	1912	61.99	19.33	18.69
Hibernian	1886	81.26	8.18	10.57
	1912	69.83	26.39	3.78
Munster and Leinster	1886	41.53	10.56	47.91
	1912	55.67	25.73	18.60
National	1886	65.85	14.00	20.14
	1912	61.38	13.53	25.09
Northern	1886	74.07	11.87	14.06
	1912	53.82	30.44	15.74
Provincial	1886	65.72	18.24	16.04
	1912	56.68	33.72	9.59
Royal	1886	60.97	25.93	13.10
	1912	56.31	36.36	7.33
Ulster	1886	70.50	18.18	11.32
	1912	61.11	25.24	13.65

Source: *The Economist* banking supplement cited in Table 37 in Philip Ollerenshaw, *Banking in nineteenth century Ireland: The Belfast banks, 1825-1914* (Manchester, 1987), p. 185.

Looking at table 3.7 we can see that loans make up a significant portion of the assets of the Irish joint stock banks. In order to assess the representativeness of using the Bank of Ireland asset distribution as a proxy for the Irish banks as whole, if we look at table 3.7 we can see that advances made up a lower proportion of Bank of Ireland assets and that investments were higher than in the other banks. Given the information we have from table 3.7 and from figure 3.11, it would seem like a reasonable assumption to suggest that the asset structure of the Scottish banking system could be used as a proxy for what the asset structure of the Irish banking system was like in the nineteenth century. This would suggest that the banks did make loans, and did not solely invest in government securities as was suggested by some contemporaries. A similar asset structure would have implications in terms of the microfinance institutions outlined in this thesis, namely the loan funds from chapters 1 and 2, and the Raiffeisen co-operatives in chapter 6.

Figure 3.20



Source: Appendix H in F.G. Hall, *The Bank of Ireland 1783-1946* (Dublin, 1948), pp 400-401.

3.6 Conclusion

This chapter outlined the development of the Irish banking structure in the nineteenth century. It argued that the liberalisation of the banking sector in the early nineteenth century influenced the development of joint stock banking in Ireland, and that the constraints placed on the system from the 1840s onwards influenced the path of development of Irish banking. The chapter also showed how Irish banking was influenced by Scottish banking, and that the new joint stock banks that were established in Ireland were based on the Scottish model of branch banking and introduced Scottish banking techniques, namely cash credits.

The chapter illustrated the history of the A&C bank, the first and only attempt to establish a joint stock microfinance company in Ireland. The A&C failed because of poor management. The aggressive branch banking strategy coupled with excessive bill discounting undermined the capital base of the company and the bank failed shortly after its introduction. The history of the A&C bank suggests that the model of the loan funds may not have been profitable and that loan funds were able to operate based on a number of subsidies, namely free management and tax exemptions, and based on the fact that loan funds were independent financial units. Therefore if one unit was profitable it would have been able to operate independently of a loss-making unit and if a loss-making unit ceased operations it would not affect another unit.

The chapter illustrated that the growth in branch banking in the latter stages of the nineteenth century enabled the Irish joint stock banks to create information and collect deposits. The collection of information enabled the Irish joint banks to have a better understanding of the creditworthiness of borrowers and also of the general economic environment. The chapter showed how Irish banks overcame the uncertainty of property rights in Ireland by lending to agriculturists on the basis of personal security.

The chapter made a comparative study between joint stock banking in Scotland and Ireland. It showed how Irish banking was an imitation of Scottish banking trends, and that there was a trend of convergence between Scotland and Ireland. The chapter also used information on the capital and asset structure of Scottish banks to suggest that Irish banks were lenders in the Irish economy, and to challenge the contemporary view that Irish banks primarily invested in securities.

In terms of this thesis joint stock banking is important as the banks were the largest financial institutions on the island and they operated branch networks. Thus, there were most likely to compete with other forms of microfinance discussed elsewhere in this thesis. The continued expansion in the second half of the nineteenth century coincided with the decrease in the number of loan funds. Joint stock banks were not only able to compete in the market for loans, but also in deposit markets. The consolidation of the joint stock banks made it difficult for new entrants in the market, and is an important factor in the failure to introduce forms of co-operative banking, discussed in chapter 6. The key difference was the professionalism of the joint stock banks in their information systems and management structures. The microfinance institutions may have had enthusiasts supporting them, but they were enthusiastic amateurs.

The final sections of this conclusion wish to assess assertions made by Tim Guinnane regarding the cultural, or informal, constraints, facing financial institutions in Ireland. And also, to analyse the role of the Irish banks in the economy in order to assess the interpretation of Irish banks made by Joseph Lee.

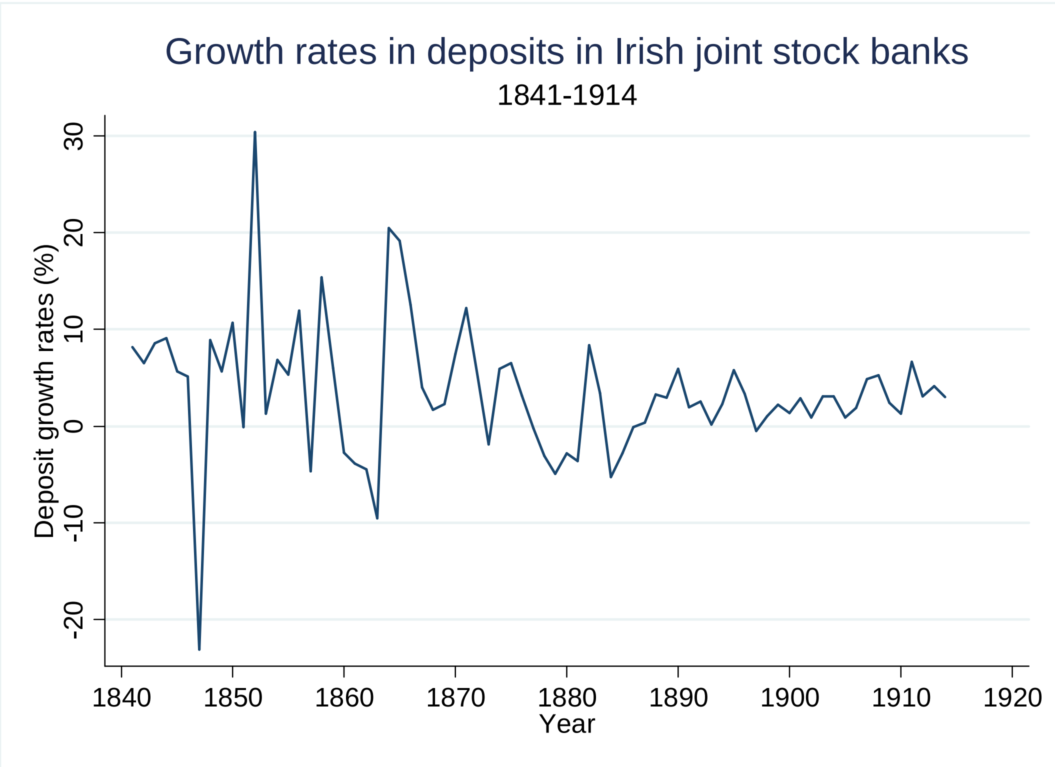
Tim Guinnane asserted that one of the reasons why Raiffeisen co-operative banks failed in Ireland was due to the fact that 'norms of Irish society' made it difficult to work a co-operative system.[268] Guinnane, using a statement from the 1926 banking commission, suggested that 'rural Irish people did not give "full recognition of the justice of the debt so incurred," and thus resisted efforts to force repayment of loans'.[269] Guinnane's interpretation has implications for the history of Irish banking. If Irish people resisted efforts to repay loans then how did banking work in rural Ireland? The truth it seems is that people did repay loans, so much so that the only thing in arrears in rural Ireland was rent.[270]

So why did the banks not experience arrears and why did joint stock banking work where credit co-operation, as outlined by Guinnane, failed? The answer is due to the role of reciprocity. The joint stock banks collected deposits, the savings of rural Ireland; therefore it was unlikely that people would default on loan obligations given that they or their sureties had deposits at risk. Ó Gráda stated that 'on balance, Irish farmers were creditors rather than debtors to the banks'.[271] Evidence to the 1875 banking committee supports this view and suggests that the banks received deposits from the agricultural community. For example, James H. Bealton, a general manager of the Munster bank, stated that 'the great bulk of the deposits are in small sums'[272] and that deposits came from small farmers.[273] James Thomson Bristow, a director of

[268] Timothy W. Guinnane, 'A failed institutional transplant: Raiffeisen's credit cooperatives in Ireland, 1894-1914' in *Explorations in Economic History*, xxxi (1994), p. 39.
[269] Ibid, p, 57.
[270] *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index*, questions 2372, p. 120, H.C. 1898 (260), x, 101.
[271] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 262.
[272] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* question 2391, p. 137 (351), H.C. 1875, ix, 1.
[273] Ibid, question 2423, p. 138.

the Northern Bank who was representing all three Ulster banks,[274] also stated that deposits came from the agriculturists.[275] The fact that the joint stock banks held the savings of those borrowing from them suggests this is the reason why it was reported to be uncommon for banks to take legal proceedings against defaulting borrowers.[276] The fact that agriculturists made up a significant portion of bank depositors suggests that there may have been a greater demand for savings services than for credit in rural Ireland. This again suggests that there was not a credit shortage hindering Irish development. Rather, there was a shortage of profitable investment opportunities. The fact that agriculturists were depositors in the banks would suggest that savings withdrawals would also be an indicator of the level of the economic climate from a bank's perspective. If we look at figure 3.21 we can see that the periods of negative percentage change in the deposits held by the joint stock banks coincided with the periods of agricultural depression in Ireland.

Figure 3.21



Sources: W. Neilson Hancock, *Report on deposits and cash balances in joint stock banks in Ireland, 1840-1869* (Dublin, 1870), and *Thom's Directory.*

[274] Ibid, question 3431, p. 173.
[275] Ibid, question 3459, p. 174.
[276] *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index*, questions 2341-2343, p. 119, H.C. 1898 (260), x, 101.

Finally, this chapter will conclude by evaluating the role of the joint stock banks in Irish economic development. Classical banking theory has divided banks into three types: commercial/retail, investment, and universal. Valdez has described commercial banks as 'banks which are in the classic banking business of accepting deposits and making loans'.[277] Investment/merchant banks provide longer term finance and underwrite securities. The third type of banking institution is the universal bank, a bank that combines commercial and investment banking.[278] Nineteenth century Scottish and Irish banks would be classified as commercial banks. Examples of investment banks would be the British mercantile banks or the French *Crédit Mobilier*. Universal banks are primarily associated with the banking structure in Germany that emerged in the late nineteenth century, and efforts were made to imitate them in various countries.

In periods of economic distress it was common for contemporaries to accuse the banks of not lending and thus blaming the banks for the state of the country. An example of that was a pamphlet written by Cornelius Dennehy in 1883 which contained a number of letters he wrote to various Irish newspapers advocating the establishment of an Irish industrial bank, essentially an investment bank.[279] Further support of this view can be seen in the committee investigating Irish industries. As was stated in the introduction, Joseph Lee is an example of an historian who has taken the same line of argument. Lee stated that:

> The fact that no investment banks emerged in Ireland partly reflects the conservatism of the business community, dominated by the English concept of banking, developed to cater for an economy endowed with an adequate supply of business capacity and therefore unsuited to Irish requirements.[280]

Lee's argument is a reflection of the Gerschenkron hypothesis that suggests that banks or government can act as substitutes for private entrepreneurship. It is important to address this view as to whether the Gerschenkron hypothesis is applicable to Ireland. Gerschenkron's examples of this were primarily France and

[277] Stephen Valdez, *An introduction to western financial markets* (London, 1993), p. 49.
[278] Ibid, p. 49.
[279] Cornelius Dennehy, *The Irish question: industrial and economic. Irish banks, &c*. (Dublin, 1883), p. 8.
[280] Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 20.

Germany in terms of banking and Russia in terms of the state.[281] But Gerschenkron's observations regarding banks have been criticised and alternative interpretations have been raised.[282] For example, Goldsmith emphasised the fact that 'the conclusions are in many cases expressed with hesitation and in no case are they based on intensive quantitative study of the role of financial institutions and instruments on the process of economic growth'.[283] The reason why the German case is often cited as evidence for the role of banks in industrial development is based on the rapid growth of Germany in the latter nineteenth century. Contemporary opinion, 'both popular and professional',[284] viewed this as being evidence of the fact that the German financial structure was superior to the British financial structure. German universal banks were perceived[285] as being actively involved in many of the industrial ventures. Goldsmith questioned the view that German banks were responsible for economic development in Germany. He argued that the reason for higher growth rates in Germany in the late nineteenth century was because economic development took place later in Germany. When Goldsmith compared growth rates for the period of early English industrialisation and with an equivalent period in German, he found that growth rates were similar.[286] More recent scholarship on German economic history in the late nineteenth century has also raised significant doubts on the role of universal banks in German economic development.[287] In fact, Fohlin argues that the joint stock universal banks were actually founded after the first wave of industrialisation in German states.[288]

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281 Alexander Gerschenkron, *Economic backwardness in historical perspective: a book of essays* (Harvard, 1962), pp 14 and 19.

282 For example there are a number of articles in the edited volume by Forsyth and Verdier which are critical of the Gerschenkron hypothesis: Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003); and also the work of Caroline Fohlin; for example see: Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), pp 305-343.

283 Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 403.

284 Ibid, p. 405.

285 Fohlin challenges the predominant view of the importance of German banks: Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), pp 305-343.

286 Ibid, p. 406.

287 For example Deeg refers to numerous articles based on primary research which found evidence that questions Gerschenkron's findings: Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 87-104.

288 Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), p. 311.

Also, if we look at the German financial structure we can see how universal banking emerged in Germany. Note-issuing, one of the key areas of bank growth in the early nineteenth century in the UK, was monopolised by state-controlled, note-issuing banks, and a central bank, the Reichsbank, was established in the 1870s.[289] The significance of note-issuing is key, as in the UK notes were payable on demand, and hence the assets of a bank were required to be fairly liquid in case of an emergency. Pierenkemper and Tully summarised the situation as follows:

> The significance of this development lay in the fact that the Reichsbank had to be ready to redeem its notes in gold coin on demand and, hence, to concentrate on safe and highly liquid business. Other banks, on the other hand, thus excluded from the payments business, could and had to turn to more risky business, in particular, to the "mixed banking" operations. The growth of the latter among German banks can thus be seen as a result of a division of labour between government dominated institutions and profit-orientated commercial banks. If the latter got into trouble and became temporarily illiquid, they could count on the Reichsbank to help them; and this further encouraged the growth of "mixed banking".[290]

The fact that the commercial banks in the UK, Ireland included, did not engage in investment banking was primarily due to how they were structured. Institutionally they were not designed to engage in long-term lending as their liabilities were short-term in nature. Deposits in Irish banks were short term and only required little more than a week's notice to be withdrawn, and if the Irish banks engaged in long-term lending it could have resulted in maturity mismatches and loss. Admittedly, the banks could have found ways to transform short-term liabilities into long-term assets, but in the event of commercial crises it would have been difficult to liquidate long-term assets. The Irish banking system had a quasi-central bank in the form of the Bank of Ireland, but it was not always a willing lender of last resort. So in liquidity crises banks, brought about by a bank's own actions, it would have been difficult to access funds, i.e. the experiences of the A&C and the Munster Bank discussed above. Also, if we look at the balance sheet structure of universal banks compared to commercial banks across Europe in the nineteenth century, we see that equity made a larger contribution to the capital of universal banks than in commercial banks,[291] thus indicating that commercial banks had a higher gearing ratio compared to universal banks. Another significant difference was the fact that German universal banks did

[289] Toni Pierenkemper and Richard Tully, *The German economy during the nineteenth century* (New York, 2004), pp 114-115.
[290] Ibid, p. 115.
[291] Ranald Michie, 'Banking and securities markets' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 56.

not operate large branch networks until the early twentieth century, and were not as successful as commercial banks in mobilising deposits.[292] It is often said that the German banks mobilised deposits for long-term investment, but they only began effectively mobilising deposits in the early twentieth century. Fohlin stated that the 'deposit business only became significant toward the end of the industrialisation period'.[293]

The Irish banks were able to lend to industry, as shown by Ollerenshaw, and Irish banks were supportive of industry in Ulster. Long-term loans were made available by rolling over short-term loans; a similar process occurred in other countries that had commercial banks. The fact that the rest of the island did not industrialise is not due to the absence of investment banks, but more to do with the fact that there was a shortage of profitable investment opportunities. If Germany did not have investment banks, chances are it would still have industrialised. And if Ireland had profitable investment opportunities similar to Germany, it is probable it would have industrialised to a greater extent. The argument that Lee wished to propose was that investment banks could have compensated for the apparent lack of entrepreneurship in Ireland.[294] But this is not the role of investment banks. They may complement the role of entrepreneurs but they can not substitute for them. The German banks did not create companies, but they did support companies that emerged. It should also be stressed that the German banks were conservative in their actions as equity holders of companies, and recent research has shown that companies that did not have bank equity holdings had higher profitability than companies where banks had equity shares.[295]

Lee's argument also runs contrary to the view of path dependence in the development of financial structures.[296] As was outlined in this chapter, Irish banks established in the 1820s were successful imitations of Scottish banking structures. Gaskin stated that:

[292] Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 99-100.
[293] Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), p. 325.
[294] Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 14.
[295] Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), p. 327.
[296] Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 376.

> As providers of finance the Scottish banks have always regarded themselves essentially as short-term lenders, as financing circulating capital, such as stocks or goods undergoing process, and not fixed capital in the shape of buildings and durable plant. In this they are, of course, in the long-standing tradition of British banking. Indeed they helped to form this tradition. They developed originally under the same conditions as English banks – conditions of a predominantly agrarian and mercantile economy. There grew up a practical emphasis on short-term lending which experience gradually and painfully established as the most appropriate type of lending for note-issuing and deposit banks. This practice was not altered by the development of branch-banking and the need to rely "on the judgement of branch managers [who might] reasonably be expected to assess the capacity of a borrower to repay in a short time, though they could have no assurance in estimating long-term profitability". But in the present day this account of matters must be immediately qualified by the known fact that in recent decades British banks have increasingly provided some finance for medium and long term purposes.[297]

So by imitating the Scottish model, Irish banks adopted similar lending practices. The German model of universal banking came much later in the nineteenth century. By the time universal banks were established in Germany commercial banking had been well established in Ireland, and survived the tribulations of the famine. If we look at the case of Sweden we can also see that it too decided to imitate Scottish banking methods in the early nineteenth century,[298] before being seduced by the attraction of German growth rates inspired by universal banking in the late nineteenth century.[299] This led to a structural change in the banking system, with commercial banks engaging in universal bank activities. The fact that Ireland did not invent or adopt universal banking is also a charge that could be raised against the UK as a whole, not just Ireland. But recent research suggests that UK commercial banks did offer long term credit,[300] something which blurs the distinction between the British and German systems. Gerschenkron was also aware that industrialisation had developed in Britain without recourse to universal banking,[301] and the development of Ulster is also evidence that investment banking was not a prerequisite for industrialisation in Ireland.

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297 Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), pp 146-147.

298 Hakan Lindgren and Jans Sjorgren, 'Banking systems as "ideal types" and as political economy: the Swedish case, 1820-1914' in Douglas J. Forsyth and Daniel Verdier (eds), *The origin of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 132.

299 Ibid, p.140.

300 Douglas J. Forsyth, 'Introduction' in Douglas J. Forsyth and Daniel Verdier (eds), *The origin of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 7.

301 Alexander Gerschenkron, *Economic backwardness in historical perspective: a book of essays* (Harvard, 1962), p. 14.

4 Savings banks and thrift in Ireland, 1817-1914*

4.1 Introduction

Thrift is a value commonly associated with the UK in the nineteenth century.[1] Central to the pursuit and encouragement of thrift in the UK during the nineteenth and early twentieth centuries were the institutions used to facilitate saving, the savings banks: Trustee savings Banks (TSBs), Post Office Savings Bank (POSB) and Penny Savings Banks. This chapter will focus on the development of TSBs and the POSB in Ireland.

Savings banks were not an Irish phenomenon. The original savings banks were imported from Scotland in the early nineteenth century, and the POSB was established by the UK parliament. The main focus in British historiography has been on surveys of developments within the savings bank movement, either taken from the perspective of the old savings banks[2], referred to as TSBs[3] from 1863 onwards,[4] or from the vantage point of the state savings bank,[5] or surveys on the contribution of savings banks to the self-help movement.[6] The subject of savings banks has been overlooked in Irish historiography,[7] but Cormac Ó Gráda has recently begun to redress this balance.[8] In the case of Ireland, although some reference has been made to the POSB,[9] the attention of economic historians has been directed elsewhere rather than on the introduction of these institutions. This chapter engages with Ó Gráda's

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* I would like to thank Cormac Ó Gráda for providing me with a copy of 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s'.

[1] For example a recent newspaper article which referred to 'Victorian thrift': Tom Clark, 'Keynes and the opposite of Victorian thrift', in *The Guardian* (12 November, 2008).

[2] For example see: Oliver H. Horne, *A history of savings banks* (London, 1947).

[3] An Act to consolidate and amend the Laws relating to Savings Banks, (26 & 27 Vict.). c. lxxxvii.

[4] It is anachronistic to refer to savings banks pre 1863 as Trustee Savings Banks, but I have made an anachronistic violation in order to mark the distinction between the Post Office Savings Bank and the pre-existing savings banks.

[5] The work of C.R. Perry is primarily about the institutional development of the Post Office in the nineteenth century, but the work includes a chapter on the POSB, See: C. R. Perry, *The Victorian post office: the growth of a bureaucracy* (Suffolk, 1992), pp 54-83.

[6] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), pp 207-258.

[7] For example the work of Charles Eason written in 1929 is one of the few studies of TSBs in Ireland: Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland* (Friday 15 November, 1929).

[8] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review*, x (2003), pp 31-55; Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD centre for economic research working paper series*, WP08/04 (February 2008); Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' (2009).

[9] Anthony D. Buckley, '"On the club": Friendly Societies in Ireland' in *Irish Economic and Social History*, xiv (1987), pp 39-58.

work, while exploring the issue of savings banks, including the POSB, in Ireland from a broader perspective.

This chapter will outline the early history of the TSBs in Ireland. TSBs were introduced in Ireland in the early 1800s in an attempt to encourage the industrious classes to practice thrift by saving. Despite a promising start, the savings bank movement experienced a severe downturn in the 1840s in Ireland from which they never fully recovered. The events of the 1840s will be outlined to illustrate how this affected the path of development of savings in Ireland. For comparative purposes the LFB loan fund system, described in chapter 1, will be used as a benchmark when analysing the early history of the TSBs. The existing microfinance literature on early nineteenth century Ireland has focused more on the credit side and less on the savings side of microfinance.[10] This chapter will show how TSBs and loan funds were related, and illustrate how they used different financial instruments to tackle 'poverty'. TSBs and LFB loan fund societies and RLFs, which were effectively trustee credit and savings banks, experienced similar difficulties in the 1840s and 1850s. These difficulties were agency problems relating to the monitoring of staff. There was also an element of moral hazard as the state was involved in both institutions and as such undermined the role of the trustees in monitoring of staff. From the 1850s onwards both institutions were uncompetitive and stagnant in the savings market due to the reputational damage caused by these agency problems and the emergence of competition for savings from the joint stock banking sector and the POSB.

'Gladstone's' POSB was established in 1861, and introduced to Ireland in 1862. The creation of the POSB gave the British government a distinct and tangible presence in the market for savings deposits. What is interesting about the POSB is that it saw the UK adopt a more complete *etatist* approach to savings banks, when at the same time many other European countries continued their liberal approach to savings banks.

[10] Aidan Hollis and Arthur Sweetman, 'Microcredit: Can we learn from the past?' in *World Development*, xxvi, no. 10 (1998), pp1875-1891; Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), pp 1509-1523; Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), pp 347-380; Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), pp 291-311; and Aidan Hollis and Arthur Sweetman, 'The Role of Local Depositors in Controlling Expenses in a Microfinance Organization' (November, 2005) unpublished.

This chapter will analyse the establishment and introduction of the POSB in Ireland. These events and their consequences for other agents competing in similar market niches have not been given a significant amount of historical attention. This chapter is written from an Irish perspective. However, it is not possible to give a complete assessment without referring to developments in the POSB system as a whole. The POSB was a UK-wide saving institution with centralised decision-making in London. The chapter will stress that from its inception in 1861, until the partition of Ireland in 1921, the POSB was the largest branch banking institution in the UK. As the POSB had branches throughout the UK, the sources used in this chapter are for UK-wide activity as well as Irish activity. The POSB held a significant amount of savings, and was a limited financial institution that only provided savings services to the government, and did not offer any reciprocal lending services to individuals. Instead the POSB bought government bonds and securities with the deposits it received. The POSB was not an insignificant agent in the market for government bonds, Consols or 'the funds' as they were referred to by contemporaries, and by 1914 the POSB held approximately 18 percent of the UK national debt.[11]

This chapter will analyse the savings banks in terms of their outreach and impact capacity as microfinance institutions. It concludes by outlining how the state explicitly and implicitly subsidised savings markets in nineteenth century Ireland.

4.2 Smilesian thrift

Samuel Smiles was a famous contemporary social commentator who championed the cause of self-help and thrift. In the mid-nineteenth century Smiles wrote a trilogy of books in relation to 'self-help'.[12] In the preface to the third work, *Thrift*, Smiles stated that 'thrift is the basis of self-help, and the foundation of much that is excellent in character'.[13] Therefore, thrift can be seen as central to Smilesian thought. Chapter 2 illustrated how the loan funds ran contrary to this nineteenth century view of thrift. In contrast, the savings banks were the embodiment of thrift, so much so that they received a distinct chapter in *Thrift*.[14]

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[11] This figure is most likely an underestimate. It is derived from calculations using statistics on funded and unfunded National Debt from *Thom' Directory*, 1918, p. 596 and from an appendix in the *Sixty-first report of the Postmaster General on the Post Offi*ce. [Cd. 7955], xxxii, 851.
[12] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002); Samuel Smiles, *Character* (London, 1871); Samuel Smiles, *Thrift* (London, 1876).
[13] Samuel Smiles, *Thrift* (London, 1876), p. i.
[14] Ibid, Chapter 8 is titled 'savings banks.'

In order to give some contemporary perspective on the importance of savings we shall briefly explore Smilesian views on saving. In *Self-help* and in *Thrift* Smiles outlined his view of a consumption life-cycle. In his view, one should practise 'self-denial'[15] and consume less early in life in order to save for old age.[16] The aim of thrift was to save for the future and the essential emphasis was on people not being burdens to society and relying on the poor rates.[17] Self-respect was an important theme in *Self-help* and *Thrift*, with Smiles' interpretation of self-respect meaning that a person would not embarrass his or her self by placing him or her self, by his or her own actions, at the mercy of the poor rate.[18] In this respect Smilesian thought is reminiscent of the Malthusian view that people should not have families if they could not support them by themselves. In fact, Malthus was highly critical of the poor law in England,[19] and of the prospect of a poor law in Ireland.[20]

Once we understand the central views of Smilesian thought we can see the remainder of Smiles' work as an instruction on how to live one's life and conform to his views of a consumption life cycle. An important consideration in Smilesian thought is the use and abuse of money, namely income:

> How a man uses money – makes it, saves it, and spends it – is perhaps one of the best tests of practical wisdom. Although money ought by no means to be regarded as a chief end of man's life, neither is it a trifling matter, to be held in philosophic contempt, representing as it does to so large an extent, the means of physical comfort and social well-being.[21]

Central to this Smilesian view, as was outlined in chapter 2, is the importance of not getting into debt[22] and a great emphasis on saving. Thus, the key financial instruments to help meet this consumption life cycle were savings instruments. The main financial institutions which Smiles advocated were friendly societies that offered health insurance and were ostensibly life assurance societies, building societies,

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[15] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002), p. 243.
[16] Samuel Smiles, *Thrift* (London, 1876), pp 18-19.
[17] Ibid, p. 129.
[18] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002), p. 243; and Samuel Smiles, *Thrift* (London, 1876), p. 21.
[19] T. R. Malthus, *An essay on the principle of population* (1798 edition, reprint 2007 New York), pp 32-33.
[20] T. R. Malthus, *An Essay on the principle of population; or, a view of its past and present effects on human happiness with an inquiry into our prospects respecting the future removal or mitigation of the evils which it occasions* (3rd ed., vol ii, London, 1806), Book iv, chapter vii, p. 409.
[21] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002), p. 242.
[22] Samuel Smiles, *Character* (London, 1871), pp 174-175.

ostensibly mutual savings and loans societies, and savings banks (TSBs, POSB and Penny banks).[23]

4.3 Trustee Savings Banks and loan fund societies: a comparative study

The TSB system was first established in Scotland in the 1810s and this innovation diffused throughout the UK.[24] This section, while stressing developments within the TSB system, will make comparisons with the LFB loan funds that were discussed in chapter 1. The primary aim of the section is to introduce the TSBs as a microfinance institution, but a secondary aim is to illustrate how both institutions, TSBs and loan funds, were related as strategies to combat poverty. The aim here is to show that, in most cases, these strategies were not integrated with one another, and were in fact competitors. The terms used in the comparison of both institutions will be outreach and impact, the standard terms used in microfinance literature.

The motivation for using LFB loan funds for comparative purposes is the fact that they offered savings services similar to the TSBs. As was stated in the introduction the recent literature on microfinance in Ireland has overrepresented microcredit at the expense of microsavings,[25] but the evidence will show that savings banks were a larger financial institution than the LFB loan funds in terms of savings. Therefore, such a comparison will give us a greater understanding of the roles of both institutions. It has also been overlooked in the literature that there was a close relationship between the two institutions. For example, in a return of the location of savings banks in 1852 it was disclosed that 9.62 per cent of the TSBs shared an office with a loan fund society, 13.46 per cent of TSBs were run from landlord rent offices, and 26.92 per cent were located in municipal offices.[26] These are interesting statistics, as they show that social elites attempted to encourage both TSBs and loan funds, but

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[23] Samuel Smiles, *Thrift* (London, 1876), pp 114,117,198-199.

[24] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review*, x (2003), pp 31-55.

[25] Aidan Hollis and Arthur Sweetman, 'Microcredit: Can we learn from the past?' in *World Development*, xxvi, no. 10 (1998), pp 1875-1891; Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), pp 1509-1523; Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), pp 347-380; Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), pp 291-311; and Aidan Hollis and Arthur Sweetman, 'The Role of Local Depositors in Controlling Expenses in a Microfinance Organization' (November, 2005) unpublished.

[26] *Return from each Savings Bank in United Kingdom, of House or Building in which Business is transacted; Names of each Trustee and Manager; Number of Days on which Bank was open, November 1850-51*, H.C. 1852, (521), xxviii, 757.

also that there was a strong landlord involvement in both. This is to be expected as trustees were needed. Many were located in what have here been deemed municipal offices; these were local court offices or town halls.

It is also interesting to highlight the parallel agency problems that occurred in these institutions, something which suggests a fault in the management structure of both institutions. Also, a key factor influencing the study of TSBs is that they are normally located within the historiography of nineteenth century ‘self-help’. By comparing the loan funds with the TSBs it can be seen that the loan funds were also a ‘self-help’ institution.

4.3.1 Savings banks in Ireland, 1818 to 1860

Before discussing the TSBs in Ireland it is important to stress the inherent source bias due to the fact that most sources date to the 1840s and early 1850s. At this time a number of frauds were detected in TSBs in Ireland and in England,[27] and the availability of the historical source material is influenced by these events.

The Irish loan fund system, discussed in chapter 1, emerged contemporaneously with the savings bank movement, another financial institution that was targeted towards the ‘industrious poor’. According to Gosden the belief of those advocating savings services was that ‘the classes whose savings the banks were to hold could afford to save in normal times against periods of hardship or difficulty later on’.[28] The first successful savings bank adhering to this belief was established in Ruthwell, Scotland, by Henry Duncan in 1810.[29] The savings bank was managed gratuitously, on a not-for-profit basis, by Duncan. The system was very strict. Depositors were screened before they could begin to save and depositors were also fined if they did not deposit at least 4 shillings a year.[30] Ruthwell is a small village in Drumfries in south-west Scotland, close to the English border,[31] so it is likely that the services were targeted towards rural inhabitants. The Ruthwell model was very labour intensive and required a lot of information about depositors. Therefore it is not

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[27] For discussion on the frauds across the UK see: chapter 7 ‘the search for security’ in Oliver H. Horne, *A history of savings banks* (London, 1947).

[28] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p. 209.

[29] John Tidd Pratt, *The history of savings banks in England, Wales, and Ireland* (London, 1830), p. xiii.

[30] Charles Eason, ‘The trustee savings banks of Great Britain and Ireland, from 1817 to 1928’, a paper read before the *Statistical and Social Inquiry Society of Ireland*, (Friday 15th November, 1929), pp 2-3.

[31] A. A. Road map; also the website of the Ruthwell savings bank museum http://www.savingsbanksmuseum.co.uk/location.html

surprising that a less stringent alternative savings bank model was devised shortly afterwards in Edinburgh, in 1814, which paid a uniform rate of interest on all deposits and did not fine depositors.[32]

The Edinburgh model was very popular and the savings model spread. Within three years there were similar savings banks established throughout the United Kingdom, 70 in England, 4 in Wales and 4 in Ireland.[33] It was not long after this that TSBs came to the attention of the British legislature. In the first report of the TSB inspection committee in 1893 it was stated that 'like most of the institutions of our country, Trustee Savings Banks are no creation of the law. They made themselves; the law has recognised and regulated them'.[34] There were 6 savings banks registered in Ireland under the first savings bank act in 1817;[35] these are shown in table 4.1.

Table 4.1: Savings banks in Ireland in 1818

Names of Banks	Date of establishment	Sums vested (£)	3.5 per cent stock bought*
Kilkenny City	20 May 1816	800	843.95
Waterford City	8 August 1817	3,700	3974.3
Belfast City (Co. Antrim)	6 October 1817	1,800	1879.35
Cork City	8 December 1817	5,300	5,609.35
Bangor, Co. Down	10 January 1818	1,000	1050.8
School Street, Dublin City	19 February 1818	300	322.2
St. Peter's Parish, Dublin City	16 February 1818	700	753.1
		13,600	14,433.2

* rounded to the nearest shilling and decimalised

Source: *An account of the several banks for savings, established in Ireland, and registered, under the act 57 Geo. III, cap. 105; specifying the date of each establishment, and the amount of the sums vested to their credit severally, in government securities, under the provisions of that act*., H.C. 1818, (153), xvi, 381.

[32] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p. 212.
[33] John Tidd Pratt, *The history of savings banks in England, Wales, and Ireland* (London, 1830), p. xiv.
[34] *First annual report of the proceedings of the Inspection Committee of Trustee Savings Banks. From the date of the formation of the committee to the 20th November 1892, and appendices*, p.3, H. C. 1893-94 (40), lxxxii pt 1, 125.
[35] *An account of the several banks for savings, established in Ireland, and registered, under the act 57 Geo. III, cap. 105; specifying the date of each establishment, and the amount of the sums vested to their credit severally, in government securities, under the provisions of that act*., H.C. 1818, (153), xvi, 381.

TSBs and loan funds were not affiliated to any central body and were individual units rather than branches. This is an important distinction as the most successful financial institutions, the joint stock banks and the POSB, operated branch systems. Initially, TSBs experienced sluggish growth and by 1844 there were 74 individual TSBs in operation in Ireland.[36] Loan funds, by contrast, experienced rapid growth and by 1844 there were 259 individual loan funds registered with the LFB.[37] This may be more of a reflection relating to the difficulty of establishing a savings institution, whereby savers have to trust the institution, than establishing a lending institution, where the institution has to trust the borrowers. The preamble to the 1817 savings bank act in Ireland stated that:

> …certain provident institutions or banks for savings have been and may be established in Ireland for the safe custody and increase of small savings belonging to the industrious classes of His Majesty's subjects there; and it is expedient to give protection to such institutions and the funds thereby established, and to afford encouragement to others to form the like Institutions.[38]

Although TSBs were not created by the legislature, they were continually regulated by the law. The key features of the TSBs in terms of interest rates and deposit limits are shown in table 4.2. Table 4.2 will be repeatedly referred to in this chapter as columns 3, 4 and 5 were also applicable to the POSB.

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[36] John Tidd Pratt, *A summary of the savings banks in England, Scotland, Wales, and Ireland* (London, 1846);

[37] *Seventh Annual Report of the Commissioners of the Loan Fund Board of Ireland*, (365), H.C. 1845, xxvi, 233.

[38] An Act to encourage the Establishment of Banks for Savings in Ireland, (57 Geo. 3), c. cv [11th July 1817], preamble.

Table 4.2: Interest rates and deposit limits in TSBs 1817-1920, and the POSB 1861-1920.

Year	Interest paid to TSBs per annum(%) (1)	Interest paid to depositors (%) (2)	Annual deposit limit (£) (3)	Total deposit limit (£) (4)	Total limit of account (p+i)[c] (£) (5)
1817 [a]	4.56	No figure set	50	-	-
1828 [b]	3.80	3.42	30	150	200
1844	3.25	3.04	30	150	200
1863	3.25	3.008	30	150	200
1880	3	2.75	30	150	200
1888	2.75	2.5	30	150	200
1893	2.75	2.5	50	150	200
1915	2.75	2.5	Removed	Removed	Removed
1920	2.875	2.5	No limit	No limit	No limit

Notes: a – The rate of interest was stated as 3d per cent per diem; the annual rate of 4.56 per cent per annum was calculated by multiplying the daily rate by 365, the number of days in the calendar year.
b – The rate of interest stated in the act was 2.5 pence per cent per diem; the annual rate of 3.80 was calculated by multiplying the daily rate by 365, the number of days in the calendar year. The interest paid to depositors was 2 pence per cent per diem; the annual rate of 3.04 was calculated by multiplying the daily rate by 365, the number of days in the calendar year.
c – the total limit is the principal plus the interest. After 1863 TSBs were given the privilege to create special investment units for the investment of accounts that went over the £200 limit.

Sources:
Columns 1 and 2 are based on a table from Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland*, (Friday 15 November, 1929), p.5.
Additional information for this table was obtained from the legislation relating to savings banks from 1817 to 1920:
An Act to encourage the Establishment of Banks for Savings in Ireland, (57 Geo. 3), c. 105 [11 July 1817], sections x, xx.
An Act to encourage the Establishment of Banks for Savings in England , (57 Geo. 3), c. 130 [12 July 1817].
An Act to consolidate and amend the Laws relating to Savings Banks, (9 Geo. 4), c. 92, [28 July 1828]sections xv, xvi, xxv.
An Act to amend the Laws relating to Saving Banks, and to the Purchase of Government Annuities through the Medium of Savings Banks. (7 & 8 Vict.), c. 83 [9 August 1844], section 2.
An Act to consolidate and amend the Laws relating to Savings Banks (26 & 27 Vict.), c. 87, [28 July 1863], sections 21, 23.
An Act to amend the Savings Banks Acts (43 & 44 Vict.) c. 36, [7 September 1880], section 2.
An Act to make certain Amendments in the Law consequential on the passing of the National Debt (Conversion) Act, 1888, (51 & 52 Vict.), c. 15, [28 June 1888], section 5.
An Act to amend the Law relating to Savings Banks, (56 & 57 Vict.), c. 69 [21 December 1893], section 1.
War Loan (Supplemental Provisions) Act, 1915, (5 & 6 Geo. 5), c. 93. [23 December 1915], section 7 (1) & (2).
An Act to amend the Enactments relating to Savings Banks; to extend to National Savings Certificates the enactments relating to War Savings Certificates; and to amend the law with respect to the transfer of Government stock by Savings Bank authorities, (10 & 11 Geo. 5), c. 12 [20 May 1920], sections 1, 2 (1).

The TSBs and the loan funds ostensibly had the same *raison d'être* and both were prone to mistargeting. They only differed in their *modus operandi*. Mistargeting here refers to the fact that they were targeted towards the industrious classes, but it was the middle classes who took advantage of the services provided.[39] As can be seen from table 4.2 there was no initial restriction on total deposits in the TSBs but these were imposed on the system after 1828 as a result of more affluent socio-economic groups taking advantage of the system. Both TSBs and loan funds offered savings services, and wished to encourage thrift amongst the 'industrious classes'. It seems that TSBs were intended to be the bankers of the 'self-help' movement. For example, friendly societies, charities and loan funds were permitted to deposit their funds in a local TSB for safe keeping. Loan funds were permitted to deposit funds in TSBs despite the fact that they themselves offered savings services. Both LFB loan funds and TSBs paid interest on deposits they received and the maximum interest paid by them was determined by the British legislature. The TSBs were paid a fixed rate by the Commissioners for the Reduction of the National Debt (CRND) and in turn transferred a lower rate to depositors. The differential between the rates received and paid was to pay for the expenses of management.

The sums deposited with the CRND were used to purchase government-backed securities. Technically one cannot say that the TSBs lent to the 'government', as Porter was at pains to point out to distressed depositors who lost money in St Peter's Parish Savings Bank in Dublin that crashed in 1848.[40] The deposits were placed in the account of the CRND, or rather 'they are prohibited from lending to any other persons than the Commissioners for the Reduction of the National Debt'.[41] Initially the government had offered very attractively subsidised interest rates, but these proved to be quite expensive to the exchequer and were subsequently reduced. An example of the expense of the subsidised interest rates can be seen from the following extract from an article in the *Bankers Magazine* in 1847. The article refers to the problems that the savings banks were causing for the government. The deposits were used to buy government securities; the problem was that people saved when times were good, when the price of securities was high, and had to withdraw when times were bad, or if

[39] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review* , x (2003), pp 34-35.
[40] W. H. Porter, *Savings banks: their defects – the remedy , part I* (Dublin, 1848), p. 4.
[41] W. Neilson Hancock, 'Duties of the public with respect to charitable savings banks' in *The Transactions and Journal of the Dublin Statistical Society* (Read 19th April, 1852, reprinted Dublin, 1856), p. 5.

there was a run, so the CRND had to sell government securities when prices were low. Neilson Hancock, professor of political economy in Dublin University, alleged that the scheme had been making a loss for 40 years.[42] Deposits in TSBs were short-term demand deposits; in the 1817 savings bank act it was stated that the trustees of any savings bank could 'demand payment at any time'.[43] On the other hand, the government securities, namely Consols, were long-term assets. This maturity mismatch resulted in a loss. In 1847 the *Bankers Magazine* noted that:

> The state of the money market at the present time, and the recent sales of Savings' Bank stock by the Commissioners to meet the payment of the calls of the depositors, who have of late largely withdrawn, and are still withdrawing, to a considerable amount, their money for more profitable investment, render any particulars on the subject more than usually interesting…Such a deficiency [£4,373,531] although only estimated, as four millions of pounds sterling in the value of the Savings' Bank stock, and also the present weekly drain upon some of the larger Savings' Banks, and the consequent sales of such stock, are alone sufficient to justify the devotion, by the chancellor of the exchequer, of some attention to the system under which the investment of Savings' Bank deposits has been for some years past carried on, with a view to prevent in future the loss to which the country is now exposed by the sales of stock at prices so much lower than those at which it was purchased.[44]

The CRND were supposed to use the money from deposits to purchase government securities, but Hancock accused the CRND of using the money to tide over budget deficits. Hancock stated that:

> As the balances of the savings banks were not under any public scrutiny, a lax principle seems early to have been introduced, of considering them under the orders of the Chancellor of the Exchequer; and accordingly successive chancellors, when in a difficulty, have resorted to the savings banks balances in the hands of the Commissioners, for the purpose of making up temporary deficiencies; in other words, for the purpose of making the quarterly and annual statements of the public accounts present a fictitious appearance of prosperity.[45]

The fixed rates offered by the TSBs underwent periodic review by parliament. In the period 1817 to 1860, there were three changes in the interest rate payable by TSBs. The first act in 1817 set the rate payable by TSBs at 4.5 per cent, but it was gradually reduced to 3 per cent in 1844 and by the end of the nineteenth century the rate received by depositors was set at 2.5 per cent. In the same period rates offered by loan funds were also reduced by parliament, as was shown in chapter 1, but these rates were fixed at 5 per cent by the 1843 loan fund act. The reason for the changes in

[42] W. Neilson Hancock, 'The present state of the savings bank question' from the *Transactions and journal of the Dublin Statistical Society* (Read 19 February, 1855, reprinted Dublin, 1856), p. 31.
[43] An Act to encourage the Establishment of Banks for Savings in Ireland, (57 Geo. 3), c. cv [11 July 1817], section xii.
[44] Anonymous, 'Savings banks', in *The Bankers magazine; and Journal of the Money Market*, vii (June, 1847), p. 165.
[45] W. Neilson Hancock, 'The present state of the savings bank question' from the transactions and journal of the Dublin statistical society (Read 19th February, 1855, reprinted Dublin, 1856), p.31.

the rate of interest paid by, and to, TSBs was due to the fact that the government was the sole borrower from the TSBs. This was the main structural difference between the LFB loan funds and TSBs. Loan funds lent money to individual economic agents on a quasi-commercial basis. The interest rates, or rather the discount rates, that they lent at were lower than those alleged to have been charged by other commercial moneylenders and banks.

The government's aim in offering subsidised interest rates was to encourage the lower classes to deposit their money, but the outcome was that the interest-rate-sensitive middle classes began using the TSBs. Subsequent legislation began placing limits on the amounts that could be saved per person per year, and caps on the total deposits on which interest would be paid. There was also a restriction on a person having more than one account, not only in an individual TSB, but in all TSBs. This is an important legal distinction, and depositors were made aware of this by the printing of the rules in their depositor-books. An example of this can be seen in the Cashel and Drogheda savings banks.[46]

The view that the TSB system was loss-making is supported by some returns made by the CRND which show the amount of losses that the public was to absorb in the period 1817 to 1849. These are shown in table 4.3 and it suggests that the government was subsidising the TSB system in the UK, and in Ireland in particular. This may be a key factor in explaining the decline of the TSB system in Ireland, which shall be referred to below.

[46] 'Depositors passbook with the Cashel Savings' Bank, also the rules of the institution', Clonmel, 1846, (*N.L.I*, I 6551 Clonmel) and 'Depositor's passbook with the Drogheda Saving's Bank, together with the rules of management, etc.', Drogheda, 1844?, (*N.L.I.*, P 2025 [1]).

Table 4.3: 'Amount of loss of interest sustained by the public, on account of the savings banks and friendly societies in the united Kingdom', 1817-1849

	Savings Banks				Friendly societies	Savings banks + friendly societies
	Britain Loss	Britain - Profit	Ireland - Loss	UK - Loss	UK - Loss	UK Total loss
	£	£	£	£	£	£
1817-1837						1,484,096.95
1844	62,370.4		39,302.9	101,673.35	10,562.35	112,235.75
1845		28,396	48,581.2	20,185.2	16,352.2	36,537.4
1846		36,917.35	54,194.55	17,277.2	18,143.25	35,420.5
1847		36,947.2	54,611.9	17,664.7	18,888.8	36,553.5
1848	1,922.55		27,328.25	29,250.8	19,412.15	48,663
1849	29,954.65		6,902	36,856.7	20,736	57,592.7

Sources:
An account, showing the difference between the amount paid by the public for interest and charges on the sums due to trustees, and the amount received from the sums invested by the commissioners. (411) H.C. 1837-38, xxxvi, 497; *A return, showing the amount of loss of interest sustained by the public, on account of the savings banks and friendly societies in the United Kingdom in each year, from the year ending 20 November 1844 to the year ending 20 November 1849 inclusive; distinguishing the friendly societies from savings banks, and the savings banks of Ireland from those of Great Britain.*, H.C. 1850 (470), xxxiii, 319.

The structure of the TSBs appeared to give depositors the advantage of a state guarantee for their deposits. This, coupled with the security which the trustees themselves provided, gave the TSBs an appearance of being a secure, and stable, financial institution. Not only were they perceived to be secure, but they also offered higher rates of interest for deposits than the prevailing market rates. The nascent joint stock banks, discussed in chapter 3, were not offering similar rates for deposits, and if they were, they were not coupled with state guarantees. Therefore, the TSBs had two advantages over private commercial competition, higher interest rates and security. Ó Gráda has called these benefits public and private subsidies.[47] The public subsidies came in the form of the subsidised interest rates and the government security. The private subsidies came from the involvement of trustees, who provided philanthropic management services.[48]

[47] Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD centre for economic research working paper series*, WP08/04 (February 2008), p. 4.
[48] Ibid, p. 4.

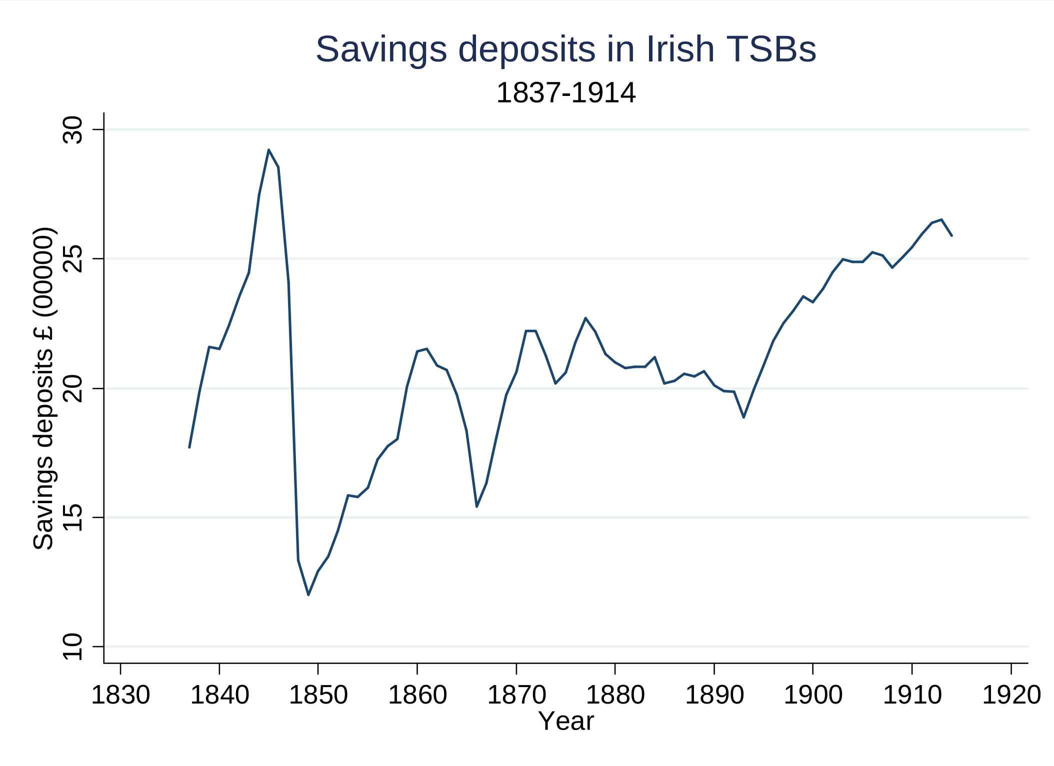
The loan fund societies also had similar advantages. The loan funds offered high rates of interest in comparison to the savings banks, and these rates were not subsidised by the taxpayer. They were also perceived as being equally secure, although in reality they had no security[49] before the famine. Loan funds were not unlimited liability societies, as the actual liability of the trustees was limited by statute. The loan funds were managed on a voluntary basis by notable local trustees and gave local depositors confidence in the institution; thus the loan funds availed of a private subsidy similar to that of the TSBs. Also, many depositors perceived that the loan fund societies availed of some form of government security.[50] This conclusion came about due to the fact that the forms and stationery that registered LFB loan funds used was supplied by the LFB. The LFB happened to have a very misleading address as it was based in Dublin Castle, the heart of government administration in Ireland. An example of this can be seen in plates 2.1 and 2.2 in chapter 2. Therefore, both the loan funds and the TSBs were seen to have similar benefits before the 1840s and the famine.

4.3.2 Savings in loan funds and TSBs

The loan funds and TSBs both offered savings services, but it is worthwhile to compare the two institutions as vehicles for such services. Did they offer microsavings, and if so what was their level of outreach? Evidence will be presented in this section that suggests that the level of outreach in terms of savings services in the LFB loan funds was not as high as that of the TSBs. Yet, the savings services of both institutions were more likely to have been used by higher socio-economic groupings than was originally intended, i.e. not the 'industrious poor' but the 'industrious not-so-poor'. Firstly, figure 4.1 shows the amount of savings deposits (£) in Irish TSBs in the period 1837 to 1914. The most noticeable feature in figure 4.1 is the sharp fall in savings deposits in the late 1840s; this will be discussed below.

[49] *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, question 381, p. 20. H.C. 1854-55 (259), vii, 321.
[50] Ibid, question 306, p. 16.

Figure 4.1

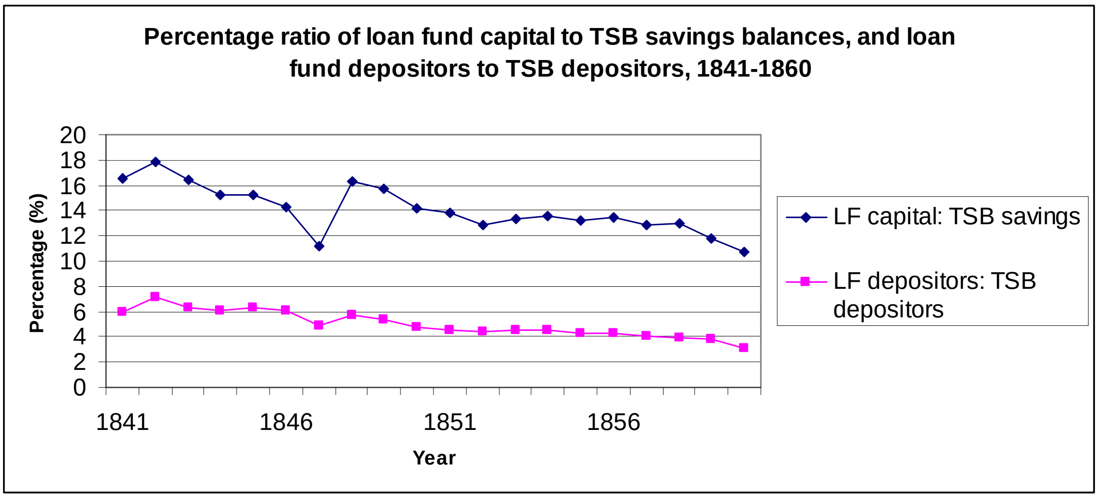


Source: *Thom's Directory*, various years.

Figure 4.1 does not include information for the loan funds simply because the amount of deposits held in the TSBs dwarfed those held by the loan funds.[51] This is an indication that the TSBs had a greater outreach, simply because of the larger scale of their activities. In fact, before the famine, the deposits held by the TSBs were the highest of all savings institutions in Ireland, and the TSBs were in direct competition with the joint stock banks for deposits.[52] In order to compare the TSBs to the loan funds, a ratio of loan fund capital[53] to TSB deposits has been constructed for the period 1841-60 and is shown in figure 4.2.

[51] For information of loan fund capital (i.e. savings) see chapters 1 and 2.
[52] Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD centre for economic research working paper series*, WP08/04 (February 2008), p. 4.
[53] Capital was the term used by the LFB; it refers to savings, charitable donations and retained profits.

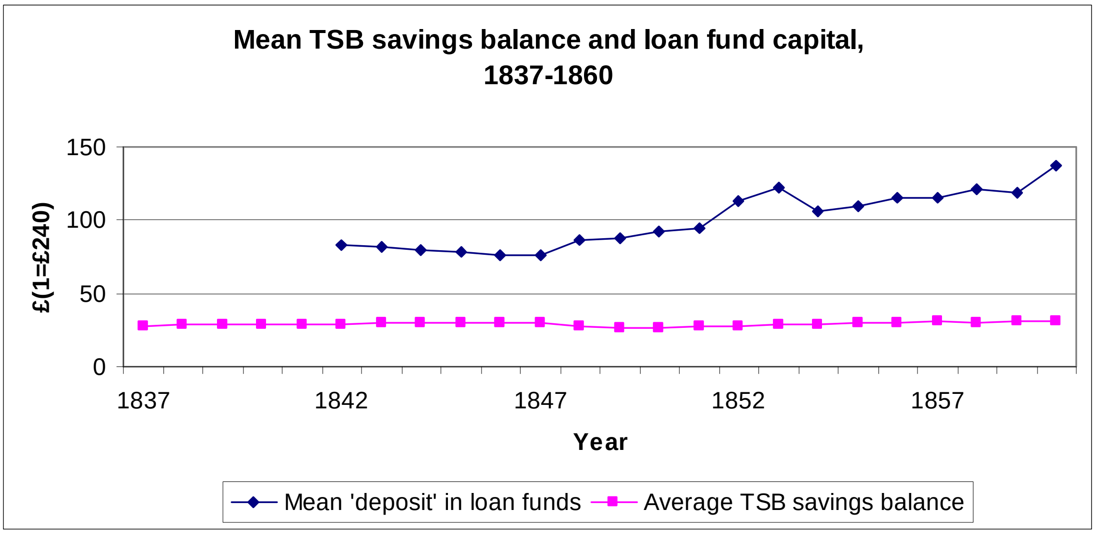
Figure 4.2



Sources: Annual reports of the commissioners of the loan fund board, and *Thom's Directory*, various years.

The amount of capital held by loan funds made up roughly about 15 per cent of the savings deposits held by the TSBs. The ratio of loan fund capital to TSB deposits decreased in the period 1841 to 1860. This is interesting given the crash in the TSBs in the late-1840s. The decline was due to the fact that the capital of the loan funds substantially decreased after the famine. There are various factors that influenced the low ratio levels between the amount of loan fund capital and TSB deposits. One of these was that friendly societies and charities were permitted, under the savings bank legislation, to deposit their funds in TSBs, but friendly societies did not make up a large proportion of savers in Irish TSBs. Furthermore, some of the largest TSBs were located in the main cities in Ireland and therefore provided savings services to a larger population group. Figure 4.2 also includes a ratio for the number of depositors in the loan funds to the number of depositors in the TSBs. As can be seen, the loan fund depositors made up a small percentage of TSB depositors. The two ratios together suggest that the depositors in the loan funds held larger average amounts of savings than those in the TSBs. The most likely explanation for the low ratios is that there was a greater demand for secure savings services; perhaps savers may have been worried about losses from bad loans.

Figure 4.3



Sources: Annual reports of the commissioners of the Loan Fund Board, and *Thom's Directory*, various years.

Figure 4.3 shows the average deposit in both TSBs and loan fund societies from 1843 to 1860. Figure 4.3 suggests that the loan funds were not successful in their outreach of savings services. The higher average deposit in loan funds in comparison to the TSBs is an indicator of who was targeted by the loan funds for their savings and investments. Loan funds raised their capital through issuing debentures, and figure 4.3 suggests that the socio-economic background of the average depositor, or investor, in a loan fund would have been higher than that saving with a TSB. TSBs offered savings instruments to small to medium sized savers, but as was shown in columns 3, 4 and 5 in table 4.2 there were ceilings on the amount of deposits per annum, and on the total amounts that could be saved. In contrast, the loan funds did not have annual ceilings, nor did they have ceilings on the amounts that could be saved. This may explain the discrepancy between the two.

It is possible to compare the two institutions, using the statistical data compiled by Tidd Pratt on the TSBs and Henry Porter on the loan funds, and thereby get an insight about the real level of average saving. Tidd Pratt, the first Registrar of Friendly Societies and the barrister to whom TSBs sent their annual accounts, published a book in 1845 on the early history of savings banks.[54] Pratt's book was

[54] John Tidd Pratt, *Progress of savings banks, an account of the number of depositors and of the sums deposited in savings banks, in Great Britain and Ireland, divided into classes, on the 20th November in each of the years 1829to 1844,both inclusive and the increase or decrease in each year* (London, 1845).

described as a 'compendium of the statistics of these institutions'.[55] Using these statistics allows the reader to get a sense of the activities of the TSBs. But if one tries to compare the loan funds and the TSBs by average deposits, it may give a slightly misleading account. The same applies if one tries to compare the average deposit size of the TSBs in the United Kingdom, as was done by Ó Gráda.[56] He stated that the average in Ireland in 1844 was £28, £26 in England, £27 in Wales and £14 in Scotland.[57] Table 4.4 shows average deposit figures in the United Kingdom by country and divided by account sizes.

Table 4.4: Average deposit size in UK TSBs c. 1844

Amounts	England	Scotland	Wales	Ireland	Total UK	Standard Deviation
	£	£	£	£	£	£
Under £20	6.50	4.96	7.99	7.70	6.47	1.38
Under £50	30.92	30.24	30.29	30.55	30.83	0.31
Under £100	68.97	68.92	68.81	67.75	68.85	0.58
Under £150	120.86	121.08	121.23	116.40	120.50	2.33
Under £200	171.18	169.98	168.40	162.77	170.49	3.72
Above £200	235.23	-	257.21	226.64	235.24	15.77
Total Individual depositors	28.85	14.04	28.79	29.79	27.90	7.56
Charitable Societies	51.68	45.84	58.84	60.91	52.03	6.90
Friendly Societies	127.24	119.49	145.16	52.34	124.67	40.59

Source: John Tidd Pratt, *Progress of savings banks, an account of the number of depositors and of the sums deposited in savings banks, in Great Britain and Ireland, divided into classes, on the 20th November in each of the years 1829to 1844, both inclusive and the increase or decrease in each year* (London, 1845).

55 John Tidd Pratt, 'The history of Savings Banks in the United Kingdom' in *Journal of the Statistical Society of London*, vi, no. 1 (April, 1843), p. 73.
56 Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD centre for economic research working paper series*, WP08/04 (February 2008), p. 11.
57 Ibid, p. 11.

Table 4.4 shows that, in comparison with the other countries, Ireland was not that different in respect to the average deposit size in account grouping. Ireland has a slightly higher average deposit size in the 'under £20' category, but nothing drastically above average. Table 4.5 is also derived from Pratt's statistics, and shows the percentage distribution of each class of depositor.

Table 4.5: Percentage distribution of TSB depositors in the UK by account size, c. 1844

Account size	England	Scotland	Wales	Ireland	Total UK
	%	%	%	%	%
Under £20	55.41	75.11	50.61	45.53	55.79
Under £50	24.88	17.56	29.88	36.49	25.52
Under £100	11.02	4.65	10.69	11.62	10.63
Under £150	3.85	0.92	3.39	3.31	3.59
Under £200	2.23	0.29	1.57	1.73	2.04
Above £200	0.35	0.00	0.20	0.10	0.30
Individual Depositors	97.74	98.52	96.35	98.80	97.87
Charitable societies	1.19	0.90	1.10	0.74	1.13
Friendly societies	1.07	0.58	2.56	0.46	1.01

Source: John Tidd Pratt, *Progress of savings banks, an account of the number of depositors and of the sums deposited in savings banks, in Great Britain and Ireland, divided into classes, on the 20th November in each of the years 1829to 1844,both inclusive and the increase or decrease in each year* (London, 1845).

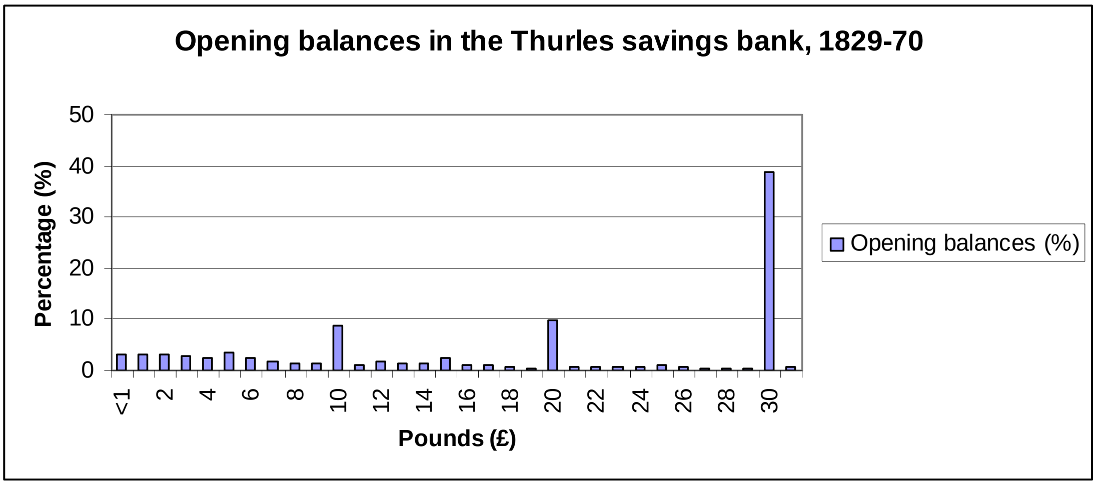
Table 4.5 shows that Ireland, in comparison to the rest of the UK had a lower percentage of its accounts under £20, and a higher percentage of accounts in the bracket under £50, but above £20. Looking at table 4.5 it appears as though Scotland was the outlier with the larger proportion of accounts under £20, and the lower proportion of accounts in the other account sizes. This is a reflection of the more developed banking structure in Scotland where savings banks were used as feeders for the joint stock banks,[58] and where higher income groupings had alternative investment options.

Ó Gráda's study of the Thurles Savings Bank contains information on the size of accounts based on the first deposit. Figure 4.4 is a reproduction of this work. It can

[58] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 61.

clearly be seen that the largest single grouping of new accounts opened were in the maximum of £30. Ó Gráda found that 39 per cent of all accounts were actually opened in trust. This meant that someone would lodge money in the name of a family member, usually a child. Ó Gráda believed that this was a deliberate strategy to overcome the annual restrictions that were statutorily imposed. There is evidence to suggest that this practice was common, as many depositors in the failed savings banks in Kerry had their savings in trust accounts.

Figure 4.4



Source: Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' in *Irish Economic and Social History* (forthcoming).

It is not possible to directly compare the TSBs' average deposit size with the loan fund deposit as information for both are not available for the exact same year. But it is possible to get a sense of the difference by viewing Porter's statistics which were for the year 1840, shown in table 4.6. Unfortunately, Porter's statistics do not give the average deposit size in all loan funds, but they do show the percentage distribution of depositors in different account sizes, making it possible to make tentative comparisons with Pratt's statistics.

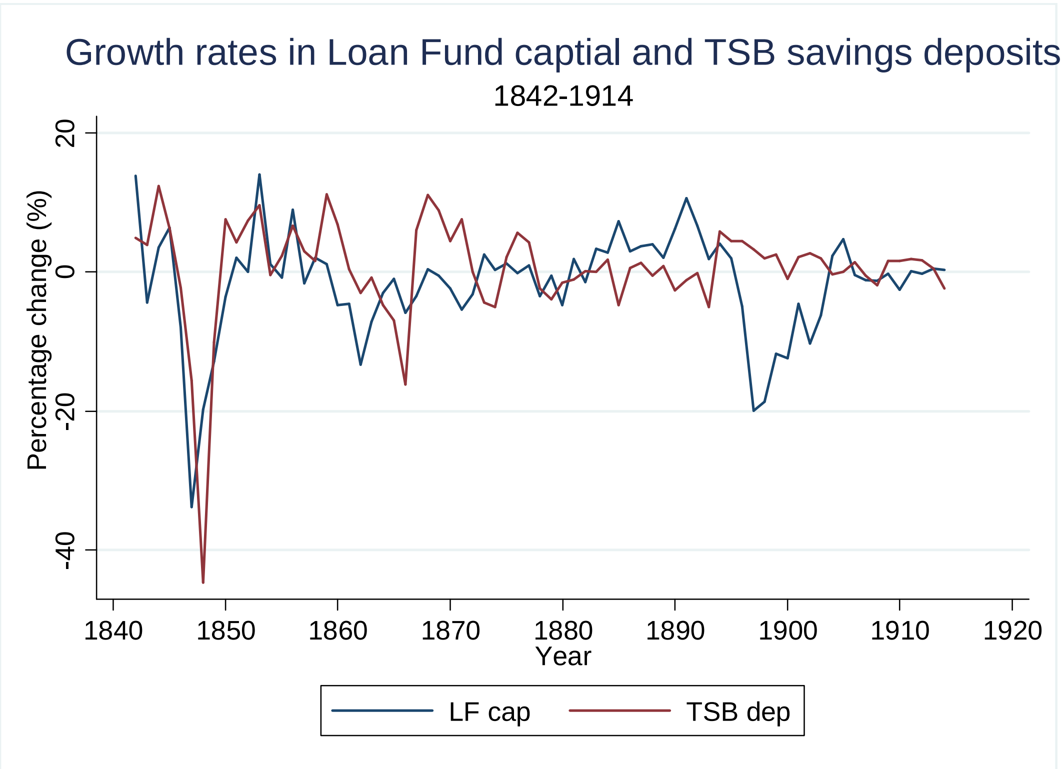
Table 4.6: Percentage of depositors in loan funds, c. 1840

	£5 and under	£5 to £10	£10 to 20	£50 and upwards
	%	%	%	%
Ulster	21.27	13.85	17.65	47.24
Leinster	12.96	18.03	18.59	50.42
Connaught	3.28	16.39	26.23	54.10
Munster	25.67	22.25	26.16	25.92
Ireland	18.99	16.72	19.69	44.60

Source: Henry John Porter, 'A statistical account of loan funds in Ireland, for the year 1840' in *Journal of the Statistical Society of London*, iv, no. 3 (October, 1841), pp 209-224.

Porter's statistics show that the loan funds and the savings banks had the same percentage of their depositors holding deposits within the classification of under £20. When comparing the two institutions, given that there was such a low ratio of loan fund capital to TSB deposits, and that it decreased over the time period, it is difficult to assess changes in the time period unless the variables are transformed into a metric which is more easily comparable. For this reason figure 4.5, which is a graph of the percentage change of the deposits in both institutions from 1842 to 1914, has been constructed.

Figure 4.5



Sources: Annual reports of the commissioners of the loan fund board, and *Thom's Directory*, various years.

As can clearly be seen, there is a sharp drop in both loan fund capital and TSB savings deposits in the late 1840s.

4.3.3 Exogenous and endogenous shocks

During the period 1840 to 1860 the TSBs and the loan funds both suffered three separate shocks which affected their structural developments in the latter years of the nineteenth century. Reference will be made to figure 4.5 when explaining the shocks which the TSBs and loan funds experienced during the period 1840 to 1860.

A shock that affected both was the famine of the late 1840s. Much has been written on the famine and its aftermath, and it is not the intention of this chapter to comment at length about the famine as the topic has been dealt with by Aidan Hollis and Arthur Sweetman in relation to the loan funds and by Cormac Ó Gráda in relation to the TSBs.[59] The object here is to highlight the affect of the famine on both financial institutions, the loan funds and the TSBs.

Ó Gráda's synopsis of the cause and duration of the famine is most apt for these purposes. Ó Gráda stated that:

> The proximate cause of the Great Irish Famine (1846-52) was the fungus *Phytophthora infestans* (or potato blight), which reached Ireland in the autumn of 1845. The fungus destroyed about one third of that year's crop, and nearly all that of 1846. After a season's remission, it also ruined most of the 1848 harvest.[60]

The loan funds seem to have been more affected by the famine, with the loan fund capital decreasing by 34 per cent in 1847, compared with a 15 per cent decrease in the deposits of the TSBs. The lower percentage decrease in the deposits of the TSBs may be accounted for by the location of the institutions, with a number of institutions located in urban areas. The higher average deposits in the TSBs led Cormac Ó Gráda to believe that the Irish middle classes were using their services and he stated that the 'socio-economic profile' of these depositors meant that they were the people least likely to be adversely affected by the famine.[61]

The TSBs were commonly associated as being the savings bank of the industrious (urban) poor. The effects of the famine were not immediately realised, and

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[59] Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), pp 1509-1523; and Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' in *Irish Economic and Social History* (forthcoming).

[60] Cormac Ó Gráda, *Ireland's great famine* (Dublin, 2006), p. 7.

[61] Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' in *Irish Economic and Social History* (forthcoming).

it was even noted that many savings banks actually experienced increases in deposits in the initial years of the famine. An editorial in *The Times* commented on this. It stated that:

> Undoubtedly, the thought that would first cross the simple mind, at the mention of the savings banks, is that they would exhibit, in due proportion, the drain on the general resources. A famished people one expects to be poor. A population of eight millions, of whom three or four are on the charity list, and a large portion of the remainder are said to be actually dying, or dead, in ditches, cannot have much to lay by. They cannot pay rent. They boggle at rates. As for taxes, they have been excused that incumbrance. What can they possibly save? A savings bank in such a situation can be little else than a mockery of woe…the fact is the Irish savings-banks never were so prosperous…the only remark to be made now is that famine has not affected the savings of the people.[62]

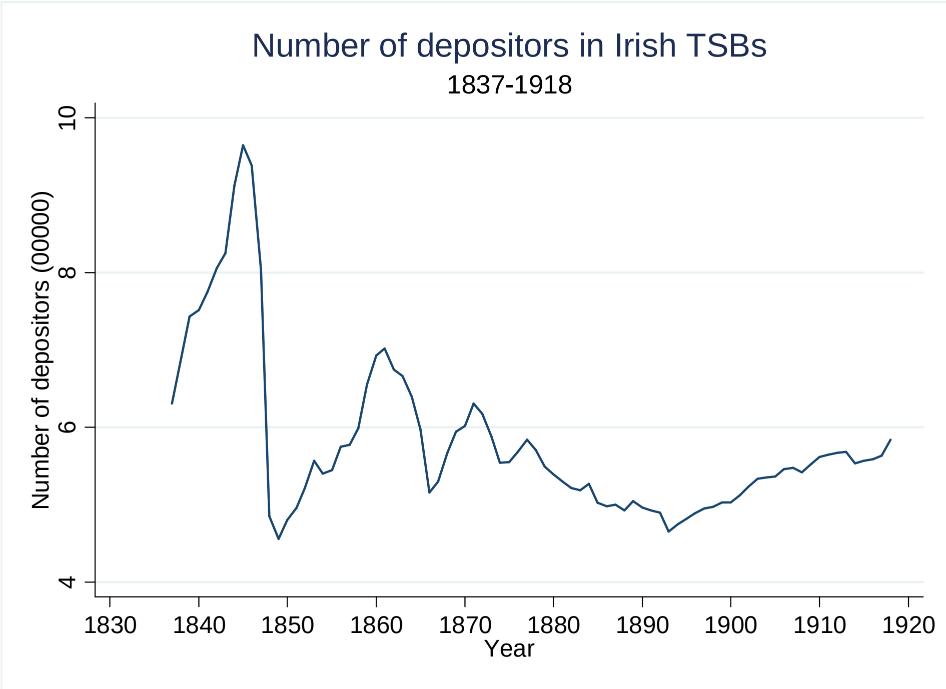
The Times article cited was published on 4 March 1847; therefore the savings bank figures cited would have been those for the calendar year ended 1846. There was a slight decrease of 2.25 per cent in the amount of savings deposits in TSBs from 1845 to 1846. Savings continued to decrease in 1847, falling by 15.59 per cent, and in 1847 they dropped by 44.65 per cent. In the same period savings had increased by 5.11 per cent between 1845 and 1846 in the joint stock banks; there was a greater decrease in 1847 of 23.09 per cent as compared with the TSBs, but savings increased by 8.90 per cent between 1847 and 1848.[63]

The famine did affect the TSBs, but the observation made by *The Times* can be explained by the mistargeting of the TSBs, as it was not the industrious poor who were using their services, but rather in fact it was higher socio-economic groupings. There was some decline in the number of depositors in Irish TSBs at the start of the famine period, but there was a significant decrease in the number of depositors as shown in figure 4.6 after 1848.

Figure 4.6

[62] Editorial 'The returns of the Irish Savings Banks are, to say the least, a very remarkable fact' in *The Times* (4 March, 1847), p. 4.

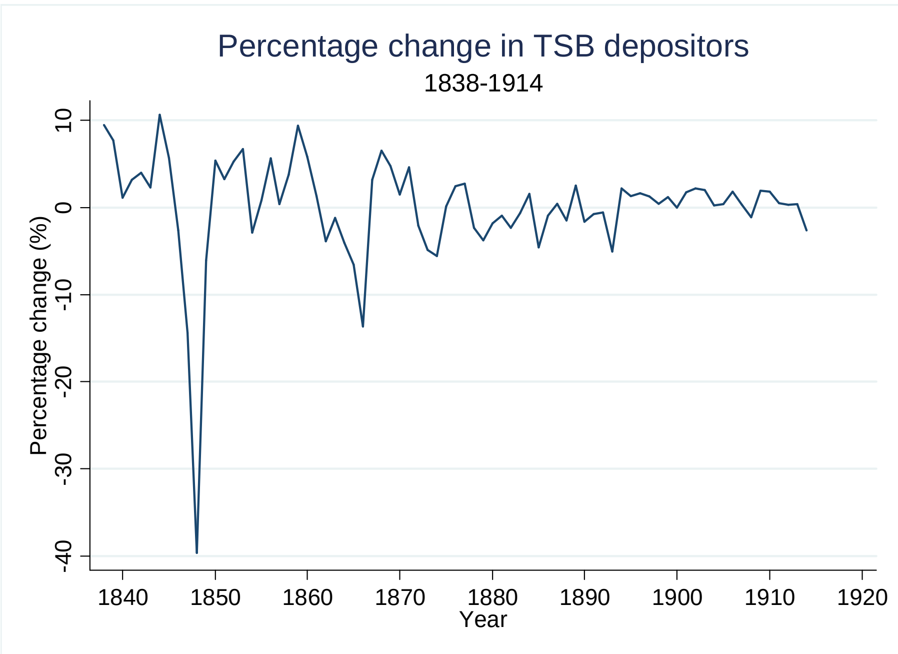
[63] Percentage figures derived from data on savings banks in *Thom's Directory*, and information on joint stock bank deposits from W. Neilson Hancock, *Report on deposits and cash balances in joint stock banks in Ireland, 1840-1869* (Dublin, 1870).



Source: *Thom's Directory*, various years.

Figure 4.7 shows the percentage change in the number of deposit accounts in the Irish TSBs over the period 1837 to 1914. As can be seen, the most significant decrease came during the famine years, which started in 1846. This seems to suggest that the TSBs were affected by the famine.

Figure 4.7



Source: *Thom's directory*, various years.

The deposits in the TSBs dropped dramatically in 1848, as can be seen in figure 4.1 and figure 4.5, and the number of depositors decreased as can be seen in figure 4.6 and 4.7. This drop was caused by an endogenous shock that came in the form of a series of high-profile bank failures, and these were unrelated to the famine. The most notable failure, the Cuffe Street savings bank, was caused by fraud and this was first detected in the 1820s, but the legal advice, of Tidd Pratt, recommended that the savings bank continue.[64]

The failure of St. Peter's Parish Savings Bank in Cuffe Street Dublin, was contemporaneous, but unrelated, to two failures in Kerry: the Tralee and Killarney savings bank. Confidence in the TSB system seems to have deteriorated as a result. Ó Gráda has suggested that the TSB system was affected by contagion caused by fears that other TSBs would be equally prone to collapse and insolvency, [65] and this in turn led to mass withdrawals.[66] The fraud in the TSB system was significant not just in Ireland but in the UK as well: as such it will be discussed in greater detail below.

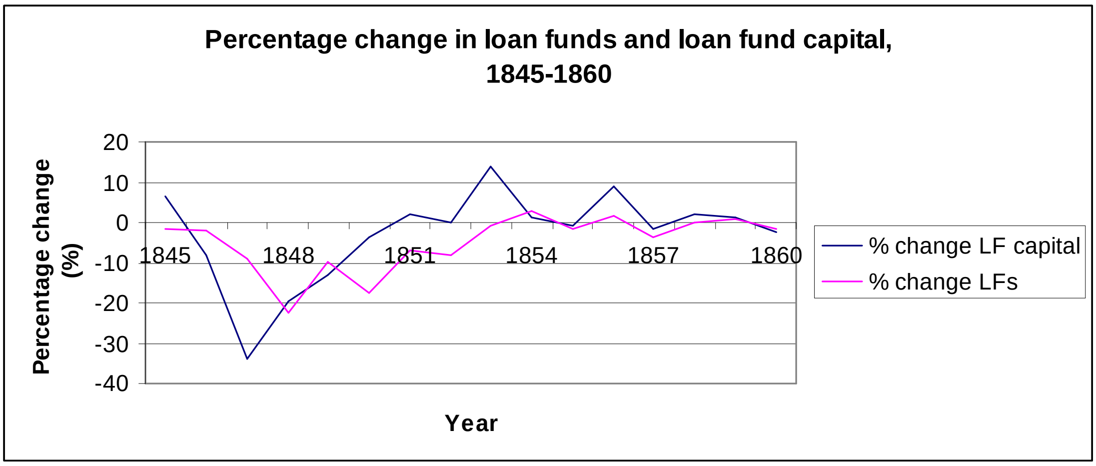
A third shock that was alluded to by Charles Eason,[67] but not by Cormac Ó Gráda, was the reduction in maximum interest rate payable to depositors of the TSBs in 1844. Eason suggested that this reduction in interest rate may have influenced interest-rate-sensitive depositors, again those being middle class depositors. If we look at yields of alternative investments for middle class depositors i.e. Consols, we can see that Consol yields were above the rate received by depositors as outlined in table 4.2.[68] Perhaps a more significant effect of the reduction in interest rates was that which the CRND paid to the trustees of savings banks. As was shown in table 4.3 the Irish TSBs were loss-making; therefore the reduction in this subsidy would have put a significant amount of them out of business.

The loan funds suffered from similar shocks to the TSBs, but in the case of the loan funds the interest rate shock was possibly of greater significance. It led to the interest rate being offered to depositors falling from 6 per cent per annum to 5 per cent per annum. The effects of this reduction in interest may not have been

[64] W. Neilson Hancock, 'The present state of the savings bank question' from the transactions and journal of the Dublin statistical society (Read 19 February, 1855, reprinted Dublin, 1856), pp 33-34.
[65] Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s'.
[66] *Report from the Select Committee on Savings Banks (Ireland); together with the proceedings of the committee*. H.C. 1847-48, (693), xvii, 773; and *Minutes of the evidence taken before the Select Committee on Savings Banks (Ireland). Appointed in the last session*, H.C. 1849 (21), xiv, 283.
[67] Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland*, (Friday 15 November, 1929), p. 16.
[68] Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005), pp 192-193.

immediately apparent, but subsequent events may have made 5 per cent seem like an unattractive risk premium to depositors and investors. The term risk premium is used here rather than the conventional definition of interest being the price of delayed consumption, as the loan funds offered financial instruments to investors that were inherently riskier than those available from joint stock banks, TSBs and direct purchase of Consols. The loan fund system was severely affected by the famine, as was shown in chapters 1 and 2. When the dust settled after the famine, the LFB believed that the money lost during the famine had not been caused by the famine, but by the defalcation of clerks working in the societies. It would be interesting to discern if the number of loan funds ceasing to operate coincided with the 1848 crisis in the savings banks; this would give us an indication as to whether there were any contagion effects caused by the crises in the TSB system. Or, rather, did the frauds in one form of financial self-help lead to a loss of confidence in the alternative form of financial self-help?

Figure 4.8



Source: LFB reports

Figure 4.8 shows that the largest decrease in loan fund capital came in 1847, but the largest percentage decrease in the number of loan fund societies registered with the LFB came in 1848. This may be due to the fears of trustees in loan funds about the repercussions of the TSB scandal and the effect of legislation on the liability of trustees, but it may also be related to the winding up of RLFs, discussed in chapter 1. Hollis and Sweetman have shown that there is some evidence of depositors switching from TSBs to the security of a loan fund in Co. Clare in 1848.[69] Given that this evidence is from 1848, one can assume it had more to do with the 1848 run on the savings banks, than as evidence of loan funds performing well during the famine.

After the famine separate parliamentary enquires were held regarding the respective institutions. The savings bank committee found that the laws relating to savings banks were inadequate; the managers and trustees of the banks were not responsible for its loss unless they gave a written statement stating that they would accept liability, and they were only responsible if it could be proven that there was wilful neglect on the part of the managers. This led to the reform of the 1844 savings bank act in Ireland, and in Ireland alone.[70]

The following statement is a summary of the legal position of Trustees in the early 1850s:

> The second section of the 11 & 12 Vict. enacted, that after 20 November 1848, any Trustee Manager of a Savings Bank in Ireland who had declared, or shall declare in writing, deposited with the Commissioners for the Reduction of the National Debt, that he was willing to be answerable for a specific amount only, being in no case less than £100 should not be liable to make good any deficiency which might thereafter arise in the funds of the Savings Bank beyond the amount specified in such writing, except in respect to moneys actually received by him, and not paid over. The law as to Great Britain is therefore that to make Trustees and Managers responsible for general deficiencies not arising out of their own individual acts, they must, by writing under their hands, make themselves so responsible; while as to Ireland the trustees and Managers would appear to be so responsible, but have power to limit that responsibility to a sum in no case less than £100.[71]

The same faults regarding trustees appeared in the loan funds. There was no guarantee to depositors in the case of the loss of the deposits through fraud or malfeasance unless the trustee or trustees ‘declare[d] his or their willingness to be liable

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[69] Aidan Hollis and Arthur Sweetman, ‘Microfinance and Famine: The Irish Loan Funds during the Great Famine’ in *World Development*, xxxii, no. 9 (2004), pp 1513.

[70] An Act to amend the Laws relating to Savings Banks in Ireland (11 & 12 Vict.), c. 133, [5th September 1848].

[71] *Return to an address of the Honourable the House of Commons, dated 26 April 1852;--for, "returns from each savings bank in the United Kingdom, of the house or building in which the business is transacted; stating, whether the building is the property of the trustees, and if it is used for any other and what purpose, or is hired, or gratuitously lent; stating, also, whether the secretary or actuary, or any other officer, resides in such house or building, and whether rent is paid by such officer for such occupation:" "of the names of each trustee and manager, and the number that have signed any writing, making themselves responsible for any deficiency, pursuant to the act 7 & 8 Vict. c. 83, s. 6, and for what amount each is so responsible:" "and, of the number of days on which the savings bank was open during the year ending the 20th day of November 1851, for the receipt and withdrawal of deposits; and the number of days, if any, during the same period, on which the savings bank was opened for that purpose without a trustee or manager being present, and by whom the entry of receipt and withdrawal of deposits is signed in a depositor's book."*, H.C. 1852 (521), xxviii, 757.

in person or property for the specific sums so guaranteed'.[72] The frauds in both institutions show a failure of the monitoring structures. The trustees of the TSBs were supposed to meet on a quarterly basis to audit the accounts of a society, and they were also supposed to send an annual account to the CRND. Both these methods of monitoring failed. The most notable failure in terms of the monitoring by the CRND is the fact that they were aware of the shortfall in the Cuffe Street savings bank as early as the 1830s but decided not to wind-up the bank. Tidd Pratt, in evidence to the committee on Irish savings banks in 1849, stated that he visited the Cuffe Street savings bank in 1830 but advised them not to close.[73] A likely motivation for this was that the CRND were afraid that if they ordered the closure of the Cuffe Street savings bank this would start a general run on the TSBs.[74]

The clerks in the TSBs were supposed to provide security and sureties for their position, essentially bonding. But this screening of staff also failed. The limitations of this system can be seen from the fact that the clerk in the Cuffe Street savings bank was a church minister. In England a clergyman was responsible for the defalcation of £24,000 in the Hertford savings bank,[75] something which suggests that just because someone was a church minister did not necessarily mean the person would be trustworthy. There was also irregular, if any, monitoring by trustees. Frauds in loan funds had similar origins: trustees were supposed to meet regularly and inspect the books and monitor the society to ensure that there were no incidents of fraud. But there was no daily contact with the clerk and as such it was possible for fraud to take place. External audits took place, with inspectors employed by the LFB. But these inspectors were either incompetent or neglected their duty, as was discussed in chapter 1. The evidence from both the TSBs and the loan funds suggests that there was a moral hazard problem in both systems. This is because in both cases the government limited the liability of trustees and ensured that they had no incentive to monitor activities on a full-time basis. The government involvement in these institutions had also created a perception that it would guarantee deposits in both institutions, so again the trustees were given an incentive not to monitor the activities of the staff.

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[72] Charitable Loan Societies (Ireland) Act, 1843 (6 & 7 Vict.) c. 91 Section 36.
[73] *Minutes of the evidence taken before the Select Committee on Savings Banks (Ireland). Appointed in the last session*, questions 1700-1705, p. 124, H.C. 1849 (21), xiv, 283.
[74] W. Neilson Hancock, 'The present state of the savings bank question' from the *transactions and journal of the Dublin Statistical Society* (Read 19 February, 1855, reprinted Dublin, 1856), pp 33-34.
[75] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 122.

Finally, there was a belief in the early nineteenth century that the loan funds and TSBs should be merged. In evidence to the committee on loan funds in 1854, R. R. Madden, the secretary of the LFB, raised the idea of uniting the loan funds and the TSBs into an umbrella organisation which would supervise both institutions and provide regular inspections.[76] His plan was not acted upon even though it would perhaps have been beneficial to the TSB system, although given the calibre of loan fund inspectors the benefit is questionable. There was a need for external monitoring, and the TSBs did create their own external monitoring system, the Trustee Inspection Committee, but that was not until 1887.[77]

Another writer, P. J. Ryan, also proposed a unification of loan funds and savings banks in 1838.[78] Ryan's plan proposed

> That the new institution shall combine the most approved rules of savings' banks for the reception of money, with a system for the circulation of it in loans to humble life, in each parish, reserving the profits for local exigencies, according to the usage of most of the continental states.[79]

Ryan proposed that this new institution be run by the Post Office and allow local circulation, instead of exporting the money and reducing the Irish money supply. Ryan stated that:

> If we can but retain in circulation (the great desideratum of Ireland) the *future* savings of humble industry, which have been heretofore, a *caput mortuum* funded *abroad* in what are *called* Saving's Banks, sponging up the life's blood of our country, pauperising the majority of the resident inhabitants, and *taking the seed out of the ground where it ought to increase and multiply*; the distribution of such capital, which it were sound policy, but common justice to leave amongst use, under parental regulation, even that capital at honest interest dispersed through our virtuous, endeavouring, but struggling people, would make a garden of the Emerald Isle. (sic)[80]

These plans to merge the loan funds and the TSBS were based on the assumption of continuing the loan fund lending methodology. It also assumed that there were investment opportunities within Ireland. One of the main investments referenced in the loan fund literature was the purchase of pigs. But in the post-famine period there would have been a negative return on this type of investment. This was

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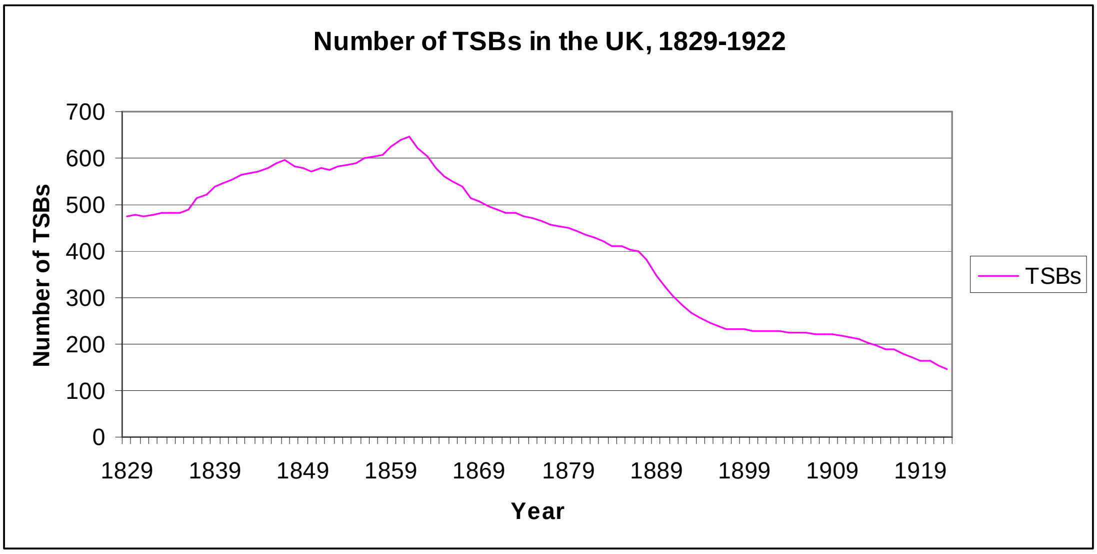
[76] *Report from the Select Committee on Loan Fund Societies (Ireland); with the proceedings of the committee, and minutes of evidence*, question 409, p. 22. H.C. 1854-55 (259).
[77] Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland*, (Friday 15 November, 1929).
[78] P. B. Ryan, *Provision for the poor of Ireland, without any additional taxation, on the principles of the musical charitable loan society, the 17th & 18th Geo 3rd , cap 12 , (Irish statutes 1778)* (2nd ed., Dublin, 1838), pp 67-68.
[79] Ibid, p. 67.
[80] Ibid, p. 68.

due to the fact that the main input in pig farming before the famine was potatoes, and potato yields were highly volatile and unpredictable in the post-famine period due to the continued existence of potato blight.

4.4 TSB fraud

Figure 4.9 shows the number of TSBs in the UK from 1829 to 1922. The number gradually increased from 1829 to 1847 when it reached 595. There was a slight fluctuation in the number in the late 1840s and early 1850s, but the growth in TSBs recovered and reached a peak in 1861, declining thereafter.

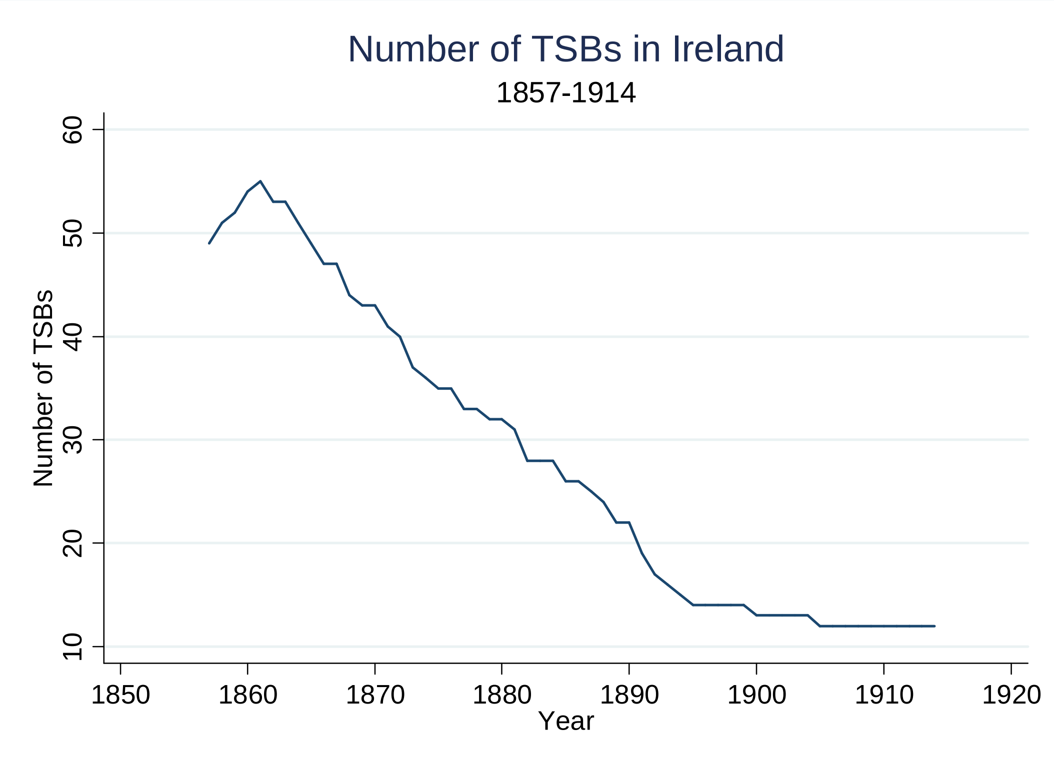
Figure 4.9



Source: Oliver H. Horne, *A history of savings banks* (London, 1947).

Figure 4.10 shows the number of TSBs in Ireland from 1859 to 1914. The Irish TSBs continually declined from 1863 onwards until they reached a plateau in the early 1900s.

Figure 4.10



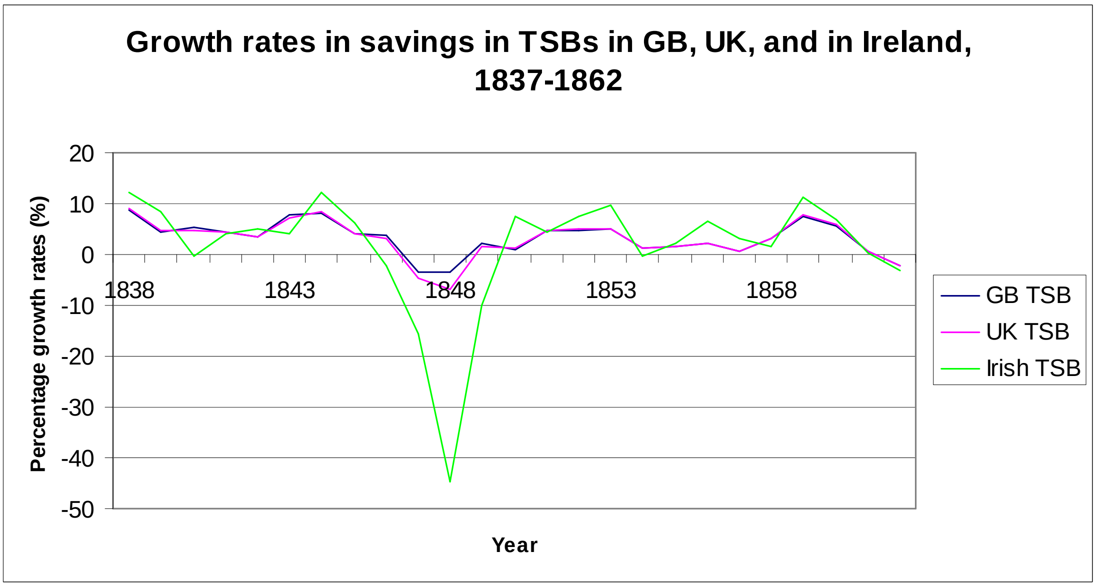
Source: *Thom's Directory*, various years.

There were two separate parliamentary returns that highlighted the number of TSB closures. The first return stated that 24 TSBs closed in Ireland between 1844 and 1852, and the second return stated that 32 TSBs closed in Ireland between 1852 and 1888.[81]

Figure 4.11 shows the growth rates of savings in GB, UK and Irish TSBs. In the period covered by the graph there are two phases when the savings held by TSBs experienced negative growth, in the late 1840s and the early 1860s. In the 1840s the decline in savings held can be explained by the recessionary period, and also more significantly there were a number of high-profile frauds in Ireland which were followed by runs on the savings banks. They again experienced negative growth in the early 1860s due to the transfer of a number of TSB deposits to the POSB, discussed below.

[81] *Return of the names of the savings banks in the United Kingdom that have failed, stopped payment, or been discontinued, since the year 1844; and, of the amount of loss that has been sustained by depositors in each of these establishments*, H.C. 1852 (471), xxviii, 749. *Return of the names of the savings banks in the United Kingdom that have failed, stopped payment, or been discontinued since the 14th June 1852;--and, of the amount of loss (as far as it can be ascertained) that has been sustained by depositors in each of these establishments (in continuation of Parliamentary Paper, no. 471, of session1852)*, H.C. 1888 (427), xci, 607.

Figure 4.11



Sources: Appendix in Oliver H. Horne, *A history of savings banks* (London, 1947), and *Thom's directory*, various years.

A number of frauds involving TSBs were uncovered in the 1840s and 1850s, and these frauds were believed to have unravelled confidence in the TSBs in general. The first frauds to be uncovered occurred in Ireland, one in Dublin and two in Kerry. These were not deemed sufficient to merit questioning of the entire TSB system as it stood in 1848, and there was not much critical thought of the TSB system being undertaken outside of Ireland. The main problem which the frauds revealed was the limitation to the state guarantee for depositors, and the limitation of liability of trustees. The problem stemmed from the 1844 Savings bank act which stated in paragraph vi:

> …No Trustee or Manager of any Savings Bank shall be liable to make good any Deficiency which may hereafter arise in the Funds of any Savings Bank, unless such Persons shall have respectively declared, by Writing under their Hands and deposited with the Commissioners for the Reduction of the National Debt, that they are willing so to be answerable; and it shall be lawful for each of such Persons, or for such Persons collectively, to limit his or their Responsibility to such Sum as shall be specified in any such Instrument: Provided always, that the Trustee and Manager of any such Institution shall be and is hereby declared to be personally responsible and liable for all Monies actually received by him on account of or to and for the Use of such Institution, and not paid over or disposed of in the Manner directed by the Rules of the said Institution…[82]

This reduced the liability of trustees and effectively created a moral hazard problem, as now the trustees had no incentive to supervise the clerks as vigilantly as previously when there was an element of liability. The 1844 Act also created a legal

[82] Savings Bank Act, 1844 (7 & 8 Vict.) c. 83, section vi.

black hole, as it stated that trustees and managers of savings banks were responsible for moneys they 'actually received', and the CRND would be 'answerable' for money they received. The question then arose in the case of the Irish frauds, and later the English and Welsh frauds: who was responsible if neither the Trustees nor the CRND received the money? The 1844 Act did not say who was responsible for the actions of the officers of a savings bank, and it was the officers who invariably committed the frauds. In most of the cases money was given to the treasurer of the bank out of office hours, and not duly recorded in the bank's accounts.

The response of the UK government to the Irish frauds, and contagion problems they created, was to treat the TSB problem in Ireland as separate to the rest of the UK and to assume that the problems were systemic in the Irish TSBs, as opposed to a problem with the wider TSB structure. An act was passed for Ireland in 1848 which increased the liability of Trustees of Irish TSBs.[83] Under this act the trustees were to be liable for £100, and larger amounts if they expressed their willingness in writing;[84] also the act stipulated that Trustees must appoint an auditor to annually audit the accounts of the savings banks.[85] These were significant changes, but ones which were not extended to the rest of the UK. During the debate on the bill for savings banks, it had been intended to apply the changes to the UK as a whole,[86] but there was resistance from the GB savings banks, and the Act was only passed for Ireland.

The perception of the necessity of reforming the savings bank legislation for GB changed when a number of frauds similar to the Irish cases occurred in a number of TSBs in England and Wales, which again revealed the limitations of the existing legislation. In Rochdale there was a deficit of £71,715 owing to depositors caused by the machinations of the treasurer George Haworth. But as the CRND had not received the money, the government guarantee did not extend to depositors of the Rochdale savings bank. A saying that originated in Rochdale after this event was, "We will spend our money rather than George Haworth shall have it."[87] Following the Rochdale case, a number of other frauds came to light in GB. The extent of these frauds showed that the cause of fraud was similar in a number of episodes and showed that the TSB system as regulated by parliament was an inadequate institution and

[83] Savings Banks (Ireland) Act, 1848 (11 & 12 Vict.) c. 133.
[84] Savings Banks (Ireland) Act, 1848 (11 & 12 Vict.) c. 133, section ii.
[85] Savings Banks (Ireland) Act, 1848 (11 & 12 Vict.) c. 133, section iii.
[86] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 125.
[87] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 127.

needed reform. Various attempts were made to reform the TSBs in the 1850s, but these did not amount to much as there was organised opposition to the bills from the TSBs in the UK. As was stated above, after 1848 there were different laws regulating TSBs in Ireland and Great Britain. The difference in the law is highlighted by table 4.7. Given the number of TSBs in the UK, shown in figure 4.12, and the number of TSBs in Ireland, shown in figure 4.13, table 4.7 shows the effect of the reform of the savings bank law in Ireland in comparison to the rest of the UK.

Table 4.7: Number of TSBs in the UK where trustees have made themselves responsible to the depositors for deficiencies, c. 1852

	TSBs
England	4
Wales	1
Scotland	1
Ireland	46

Source: *Return to an address of the Honourable the House of Commons, dated 26 April 1852;--for, "returns from each savings bank in the United Kingdom, of the house or building in which the business is transacted; stating, whether the building is the property of the trustees, and if it is used for any other and what purpose, or is hired, or gratuitously lent; stating, also, whether the secretary or actuary, or any other officer, resides in such house or building, and whether rent is paid by such officer for such occupation:" "of the names of each trustee and manager, and the number that have signed any writing, making themselves responsible for any deficiency, pursuant to the act 7 & 8 Vict. c. 83, s. 6, and for what amount each is so responsible:" "and, of the number of days on which the savings bank was open during the year ending the 20th day of November 1851, for the receipt and withdrawal of deposits; and the number of days, if any, during the same period, on which the savings bank was opened for that purpose without a trustee or manager being present, and by whom the entry of receipt and withdrawal of deposits is signed in a depositor's book."*, H.C. 1852 (521), xxviii, 757.

The resistance from the GB TSBs to reform led to the formation of a special commission to investigate the issue of savings banks in 1858. The commission was comprised of a number of members sympathetic to the interests of savings banks and focused on four areas. [88] These were:

1. The course of legislation from 1817 to 1857
2. The central authority of the National Debt Office, and the practice with respect to investment and payment of balances
3. The question of Parliamentary guarantee, and the relations between the Central and local offices
4. The mode of providing for future expenditure.[89]

The commission went on to make recommendations based on their enquiry into the four different areas. Their recommendation for the first area of inquiry was that

[88] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 153.
[89] *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index*, p. iv. (441), H.C. 1857-58, xvi, 1.

the existing laws be ‘amended and consolidated’.[90] The report went into depth dealing with the issues relating to the second grievance. The commission objected to the way that the National Debt Office had used the funds of the savings banks for investments and recommended that the CRND be ‘relieved from the office of investing the monies of savings bank’.[91] Coincidentally the inquiry unearthed evidence of the use of the savings bank funds during the Crimean War through the purchase of Exchequer bills. The commission recommended that a new body be set up specifically for the investment of savings bank funds, that not all savings bank funds be invested in Consols and that at least one third of the funds be invested in higher yielding securities.

The third area of the inquiry did not get as much attention as the second. In fact it seems as though the committee was more preoccupied with the second. The commission acknowledged that ‘a very general impression prevails throughout the country that the government is bound to make good any deficiency whenever a savings bank has failed…this impression is not warranted by the laws which regulate savings banks.’[92] The problem stemmed from earlier legislation which limited the liability of trustees, and to some extent it made trustee liability voluntary. This was one of the main problems with the TSBs in the 1840s and 1850s. It was not given much attention; in fact in the report the space of four paragraphs were given to the question. The commission made some recommendations concerning this, namely that an external inspector be appointed to audit the accounts of certified TSBs.[93] This was an important recommendation as up until this point the auditing of savings banks was decentralised. The fourth area was related to the second. The committee stated that:

> …the payment of interest and expense of management ought not to be a source of annual loss to the State. By investing a portion of the capital in Parliamentary securities, which will yield a larger return than three per cent, and by applying to the purpose of a management fund the interest of the present unappropriated surplus, and of all dormant claims after the expiration of 10 years, your committee think it probable not only that the present rate of interest, viz., 3*l* 5*s*., can be provided, but all expenses of the Commission may be defrayed, and even a balance may be put by yearly towards liquidating the deficiency arising from the transactions of former years. (sic.)[94]

[90] Ibid, p. iv.
[91] Ibid, p. ix.
[92] Ibid, p. x.
[93] Ibid, p. xii, recommendation 15.
[94] *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index*, p. x. (441), H.C. 1857-58, xvi, 1.

Here it can be seen that the recommendations for the fourth area of the inquiry overlapped with those of the second. In summary, the 1858 commission of savings concluded that a number of reforms in the existing legislation would be adequate to solve the problems in the TSB system.

The recommendations of the 1858 Savings bank commission were not acted upon, primarily because there was a change in government before any action could be taken. William Gladstone first became Chancellor of the Exchequer in 1853 and remained in that capacity until 1855 when there was a change in government. The commission of inquiry into the savings bank came under a different administration, and that government fell before the recommendations could be implemented. Gladstone, who returned as Chancellor of the Exchequer in 1859, did not act on the recommendations of the 1858 committee, and he believed that they did not question the management of their banks.[95] Under his guidance a bill was introduced to the House of Commons which intended to deal with the savings banks issue, but it only attempted to widen the scope of investments for savings bank funds.[96] Gladstone's savings bank bill was defeated due to opposition from the savings banks.

4.5.1 The Post Office Savings Bank - antecedents

The establishment of a national savings bank in the UK is believed to have been first proposed in 1807 by Samuel Whitbread.[97] Whitbread drafted a bill on poor law reforms incorporating the establishment of a savings bank for poor labourers, and with the institution being attached to the Post Office. Whitbread's bill also included the establishment of an insurance programme for the poor.[98] The bill was read twice, but not enacted.[99] It is worthwhile to analyse the motives which underpinned this reform effort, as the inventors of the POSB in the 1860s referred back to it as an example.[100]

The main intention of Whitbread's bill was to reduce the high incidence of the poor rates. This was to be done in a twofold fashion, by reforming the levying of the poor rate to make it more equitable, and by reforming those who might be prone to

[95] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 165.
[96] Ibid, p. 164.
[97] Ibid, p. 148; also Samuel Smiles made a reference to Whitbread: Samuel Smiles, *Thrift* (London, 1876), pp 149-150.
[98] *Hansard 1*, iii (19 February 1807), pp 865-918.
[99] *Hansard 3*, clxii (22 April, 1861) p. 881.
[100] *Hansard* 3, clxii (22 April, 1861), p. 881.

make use of poor relief. His policies for dealing with those who were the consumers of poor relief were methods which he believed gave greater incentives to productive and industrious behaviour. Whitbread stated that:

> The principles on which I would proceed, to effect this most desirable object, are these: to exalt the character of the labouring classes of your community. To give the labourer consequence in his own eyes, and in those of his fellows, to make him a fit companion for himself, and fit to associate with civilised men. To excite him to acquire property, that he may taste its sweets; and to give him inviolable security for that property, when it is acquired…[101]

Whitbread's plan was influenced by Malthusian economics.[102] His savings bank scheme was for the establishment of a savings bank to be directed solely at the lower classes. Whitbread stated that:

> I would propose the establishment of one great national institution, in the nature of a bank, for the use and advantage of the labouring classes alone: that it should be placed in the metropolis, and be under the control and management of proper persons.[103]

To do this he advocated minimum and maximum annual deposit limits, and total deposit limits.[104] The deposits received would be used to purchase government securities.[105] The timing of this bill is also important. Whitbread stated in the summation of his speech that he hoped by establishing such a bank it would give the ordinary people a stake in the country, and thus give them an incentive not to disrupt the status quo, or rather to not participate in revolutionary activities:

> Your kingdom safe from the insult of the enemy, because every man knows the worth of that which he is called upon to defend. In the provision for the security of the savings of the poor I see encouragement to frugality, security to property, and the large mass of people connected with the state and indissolubly bound to its preservation.[106]

From reading the comments following Whitbread's speech, there does not appear to be any ideological opposition. Rather the opposition was to the enormity and difficulty in implementing the wide variety of schemes that he was proposing. These administrative difficulties were deemed a sizeable obstacle to its implementation.[107] Not long after Whitbread's speech an independent savings bank movement developed that shared Whitbread's motives of encouraging working class

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[101] *Hansard 1,* iii (19 February 1807), p. 875.
[102] Ibid p. 874.
[103] Ibid, pp 889-890.
[104] Ibid, p. 890.
[105] Ibid, p. 890.
[106] Ibid, pp 917-918.
[107] Ibid, pp 919-921.

thrift, and this too may have been a factor in a lack of a desire to introduce a state savings bank.

It therefore appears that the national savings bank scheme was not instigated at this time due to logistical difficulties and because of an emerging private savings bank sector. As discussed above, savings banks spread in the early 1810s and were given legislative support and encouragement *ex post facto*. In this environment there was no inexorable need to establish a centralised national savings bank institution.

It must also be noted that Whitbread's plan was not the only such instance of proposals to use the Post Office for the purpose of a savings bank. Horne listed a number of individuals who reached similar conclusions, independent of Whitbread.[108] Many were British, but there were also a number of Irish ideas, most notably from Nelson Hancock,[109] professor of political economy in the University of Dublin. There were also references in the loan fund literature to the potential for using the post office as a financial institution. The proposal raised by P. B. Ryan, discussed above, included the Post Office offering lending services as well.[110]

4.5.2 The 1861 Post Office Savings Bank Act

Smiles attributed the idea of the POSB to four men: Whitbread, Roland-Hill, Sikes, and Gladstone.[111] Whitbread was given credit for the idea of the POSB, Roland-Hill for establishing the money order department in the Post Office, Sikes for lobbying for a POSB, and Gladstone who 'having clearly foreseen the immense benefits of Post Office Savings Banks, brought in a bill and carried it through Parliament in 1861'.[112] As was stated above, Gladstone attempted to introduce a savings bank bill but his efforts were defeated due to opposition from the savings banks. Shortly after this defeat, Gladstone received a letter from Charles William Sikes of Huddersfield recommending the use of the Post Office as a savings bank. Horne summarised the political economy of the savings bank question as follows:

> If the Trustee Savings Banks were determined to oppose him, why should he not use the machinery of the post office to run a state savings bank which would encourage thrift in places where no savings facilities yet existed, bring more money to the exchequer and,

[108] Oliver H. Horne, *A history of savings banks* (London, 1947), pp 168-170.
[109] Ibid, p. 169.
[110] P. B. Ryan, *Provision for the poor of Ireland, without any additional taxation, on the principles of the musical charitable loan society, the 17th & 18th Geo 3rd , cap 12* , (Irish statutes 1778) (2nd ed., Dublin, 1838), p. 67.
[111] Samuel Smiles, *Thrift* (London, 1876), pp 149-150.
[112] Ibid.

> incidentally, either kill or reinvigorate by competition the old savings banks, which had proved such a thorn in the flesh of a succession of Chancellors of the Exchequer?[113]

Sike's proposal returned to the Whitbread plan of using the Post Office to collect savings.

A bill for the establishment of the POSB was introduced in 1861 under the guidance of Gladstone still in the capacity of Chancellor of the Exchequer. Gladstone stated that 'the object which he had in view in dealing with the question was to afford facilities for the deposit of savings of small amounts for those who did not possess them, or possessed them but imperfectly, under the present system of savings banks.'[114] Gladstone also stated that:

> One class of depositors, who desired secrecy in their investments, would prefer the new institutions' while another class, who wished to act under the immediate view of their local superiors, would prefer the existing savings banks… that it would give to large numbers of people in this country facilities for investing their savings which they did not now possess .[115]

The Postmaster General, Lord Stanley of Alderly, stated that the purpose of the POSB was:

> To give greater facilities for the investment of the industrious classes, and to give to savings banks' depositors a government guarantee through the medium of the post office…The existing savings banks were found to be insufficient in number, inadequate in the accommodation they afforded, and insecure as to the repayment of the deposits until the money had passed into the hands of the commissioners for the reduction of the national debt… it was obvious that when a working man formed a good intention to invest his small savings there was a danger lest he should spend his money if there were no savings bank in his neighbourhood, or if some few days might elapse before he could invest it. Great losses had occurred to the depositors in savings banks since savings banks had been established these losses amounted to not less than £290,000.[116]

Lord Stanley of Alderly believed that the proposed Post Office Savings Bank 'will afford the depositors a more complete security, and a much larger amount of accommodation than had been contemplated in any previous proposal'.[117] Taking the comments of both architects of the POSB it would seem that their intention was to extend savings services throughout the UK and to offer a service that had greater security than before. Gladstone referred to the fact that the savings banks were not opened daily, but of the number of savings banks only 'a small proportion were open

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[113] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 167.
[114] *Hansard 3*, clxi (8 February, 1861), p. 262.
[115] *Hansard 3,* clxii (8 April, 1861), pp 277-278.
[116] *Hansard 3*, clxii (22 April, 1861), pp 880-881.
[117] *Seventh report of the Post Master General on the Post Office,* p. 15. [2899] H.C. 1861, xxxi, 197.

for a sufficient number of hours in the week'.[118] Gladstone compared the then existing 600 or so savings banks to the number of money order offices, between 2,000 and 3,000. Gladstone intended to use this existing infrastructure, saying that it was 'machinery ready to hand and admirably adapted for extending the usefulness of the savings bank system'.[119] Gladstone was of the belief that if the POSB was introduced it would result in an increase in savings, 'as readier means of laying by their small savings were afforded them than they now possessed'.[120] This view was later support by Smiles who believed that: 'the practice of economy depends very much upon the facilities provided for the laying by of small sums of money. Let a convenient savings bank be provided, and deposits gradually flow into it.'[121]

The bill to establish the POSB caused a lively debate in both houses of parliament. The principles of encouraging thrift, and giving adequate protection for those who saved, were not opposed. Gladstone believed that opposition to the bill boiled down to two camps, those who believed that the POSB would not succeed, and those who believed that it would succeed but would become too big.[122] To some extent this does summarise the ground for opposition, but some of the points made in opposition to the creation of the POSB are worthy of reference. Opposition in the debates seems to have come mainly from representatives of the existing TSBs, and was thereby biased in favour of their self-interest. Sotheron Estcourt perceived that:

> He [Gladstone] proposed to take the power to establish by the machinery of the Bill a great national bank with branches all over the country, at any one of which branches it would be in the power of any person to deposit any amount of money, and receive in return a certificate or piece of paper, duly stamped at the central office, on the production of which at any subsequent period he would be entitled to have his money back again.[123]

As an appeasement to the opposition from TSBs, interest in the POSB was set at a rate lower than what was the prevailing rate in the TSBs. In regards to deposit account annual and total limits, the POSB was identical to the TSBs.

There were various other grounds for opposition. Questions were raised about the centralisation of funds in London. John Vance, M.P. representing Dublin,[124] objected to the centralisation of deposits in London rather than being centred in the

118 *Hansard 3*, clxi (8 February, 1861), p. 262.
119 Ibid, p. 262.
120 Ibid, p. 262.
121 Samuel Smiles, *Thrift* (London, 1876), p. 147.
122 *Hansard 3*, clxii (8 April, 1861), p. 272.
123 Ibid, p. 262.
124 Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol I, 1832-1885* (Sussex, 1976), p. 388.

provincial capitals as was the case under the existing money order system.[125] But Gladstone objected to this, stating that:

> Nothing could be more absurd than to create three centres of investment and three centres of management of money; but such would be the effect of the amendment, for England, Scotland, and Ireland… whole operation of investment must be central.[126]

Mr Ayrton raised the argument that the creation of a national bank would 'act as a powerful inducement to the working men to entrust their money to the government rather than to their own benefit societies'.[127] This argument was overlooked, and it was the problem which the Raiffeisen co-operatives, discussed in chapter 6, faced in Ireland. Another important argument was that of secrecy. Francis Crossley stated that:

> Working men were often very much afraid to let their masters know that they were saving money from a notion that it would lead to a reduction of their wages, and under the present system the masters were very often concerned in the management of these banks and could know exactly how each man's account stood. By this new arrangement each account would be a secret between the depositor and the postmaster.[128]

This was significant because the trustees of the old savings banks were usually men of local repute, and in Ireland they were normally landlords. The POSB offered savers the chance to hide their financial position from trustees, such as their employers and landlords, so as to avert pay-cuts or rent increases. Smiles argued that secrecy and security were the main advantages of the POSB.[129]

The arguments in the House of Lords centred on the use of the funds received from the POSB. This was mainly an objection to increasing the power of the Chancellor to manipulate the money market as previous Chancellors had been shown to have done with the savings bank funds in the evidence given to the 1858 savings bank commission.[130] There were also issues raised as to what would be done with the savings collected by the POSB. Would it be used in the same way that the funds for the TSBs had been used? That is, would the CRND be responsible for the investment of these funds, which the 1858 commission had recommended be changed. The Marquee of Clanricarde stated that 'it might be right that the government should provide the opportunity of investing their money; but it ought to have been stated exactly what was proposed to be done to effect this, and how the money deposited

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125 *Hansard 3,* clxii (9 April, 1861), p. 350.
126 Ibid, p. 350.
127 *Hansard 3*, clxii, (9 April, 1861), p. 269.
128 *Hansard 3*, clxi (8 February, 1861), p. 265.
129 Samuel Smiles, *Thrift* (London, 1876), p. 150.
130 *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index,* pp v-vi. (441), H.C. 1857-58, xvi, 1.

was to be invested.'[131] Other issues raised in the Lords were to do with the quality of the staff in the post office and whether they would be equal to the task.[132]

4.5.3 POSB – institutional infrastructure

The post office was in an ideal position to offer banking services as it already had an existing infrastructure. *The Economist* complained that the existing TSB system was inadequate as it did not provide an extensive service:

> They [Savings Banks] are least likely to exist where they are most wanted. If it is advisable that the state should receive the money of the poor, it is most advisable, that it should do so in places where there are fewer other persons to take care of it – in the "uncared for parishes". Yet it is precisely here that we very rarely find a Savings Bank. There are no local trustees to start or administer one.[133]

In contrast the post office prior to the establishment of the POSB already had a vast network of post offices. Perry observed that:

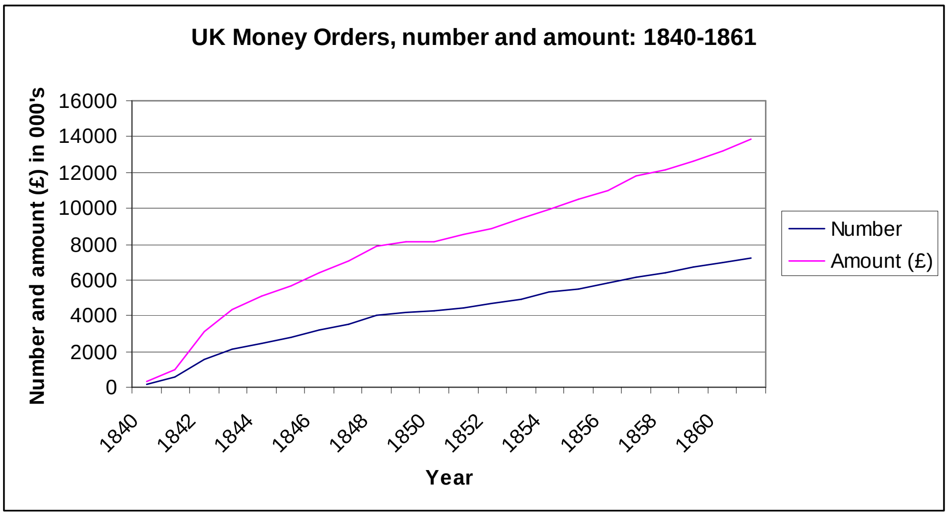
> Clearly the Post Office was well suited to run what became the largest banking system in the country. There were over 14,000 branches by the turn of the century. The operation did not demand special technical or engineering expertise, as did the telegraphs and the telephone. Rather the experience of managing the bookkeeping procedure of the Money Order Office served the department well enough. The savings banks also did not demand a heavy investment in plant and equipment. As the business grew, more clerks were simply hired to tally the figures and verify the accounts. Further, the programme did not necessitate the purchase or nationalisation of a private industry. The Trustee Banks were allowed to coexist with the competing departmental system. Moreover, the department was energetic in explaining the system to the public.[134]

The Post Office was in a highly suitable situation to operate a national savings bank in 1861, primarily due to the fact that since 1839 it had been operating a money transfer service throughout the United Kingdom. Prior to 1839, this service had been carried out informally, and the profits from the informal service were pocketed by employees in the Post Office. An internal reform formalised this service, and extended the money transfer system, known as the money order (MO) system, throughout the UK. Money orders were a way for people to transfer small sums of money. Up until 1860 the limit on such money orders was £5 per transaction; the money order system is discussed in greater detail in chapter 8. The purpose for raising the MO system in this context is to show how a change in the infrastructure of the Post Office had given the Post Office experience of dealing with small sums of money on a large scale. To give an idea of the scale of the MO dealings of the Post Office

[131] *Hansard 3*, clxii (22 April, 1861), pp 889-890.
[132] Ibid, p. 884.
[133] 'The post office savings banks' in *The Economist* (16 February, 1861).
[134] C. R. Perry, *The Victorian post office: the growth of a bureaucracy* (Suffolk, 1992), pp 74-75.

prior to 1861, figure 4.12 shows UK MO activity in the Post Office from 1840 to 1861.

Figure 4.12



Source: Reports of the Postmaster General, various years.

As can be seen in figure 4.12, there was sizeable growth in the number of money orders processed by the Post Office between 1840 and 1861. From 1842 to 1861 there was a 319 per cent increase in the amount that was transferred via the Post Office MO service. Table 4.8 shows the number of MO offices operating throughout the UK. Each one of these offices had the potential of being transformed into a savings bank. Smiles stated that:

> They [MO office] held the money until it was drawn, and paid it out on a proper voucher being presented. The Post Office was, in fact, a bank for the transmission of money, holding it for periods of from twenty-four hours to weeks and months. By enabling it to receive more money from more depositors, and by increasing the time of holding it, allowing the usual interest, it became to all intents and purposes a National Bank of deposit.[135]

[135] Samuel Smiles, *Thrift* (London, 1876), p. 150.

Table 4.8: Number of money Order offices open in the UK, 1854-55 to 1860-61

Year	1854-55	1855-56	1856-57	1857-58	1858-59	1859-60	1860-61
POMO	1872	1935	2095	2233	2360	2481	2594

Source: Reports of the Postmaster General, various years.

Figure 4.12 and table 4.8 taken together are evidence that the Post Office was in a better position to provide a national savings bank in 1861 than it had been in 1807. Walter Bagehot's views on how deposit banks developed were that the prior existence of a money transfer service and of note circulation services was important in gaining public confidence. Bagehot stated that:

> These [money transfer and note circulation] are all uses other than those of deposit banking which banks supplied that afterwards became in our English sense deposit banks. By supplying these uses, they gained the credit that afterwards enabled them to gain a living as deposit banks. Being trusted for one purpose, they came to be trusted for a purpose quite different, ultimately far more important, though at first less keenly pressing.[136]

This argument can be extended to the Post Office. Perhaps a better statistic which stood in favour of the Post Office was the amount of losses due to fraud and malfeasance in the MO office. The figure was trivial, £6,000 in the entire period,[137] and was used as justification for the use of the Post Office as a savings bank. In fact, between 1841 and 1860 only £5,392 was lost through fraud out of a total of £171,916,888 money orders that were sent, or losses of 0.003 per cent.[138] The value of trustworthiness was not one which could be undervalued at the time, especially in light of the TSB troubles of the 1840s and 50s. The government also had experience of running a savings bank after the establishment of the military savings bank in 1842,[139] and these military savings banks predated the Crimean War (1853-1856).

The money invested in TSBs, under the savings bank legislation, was guaranteed by the government. But this guarantee was subject to the government receiving the money in London; the guarantee did not protect against malfeasance at the local office. As *The Economist* observed:

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[136] Walter Bagehot, *Lombard Street: a description of the money market* (London, 1873, new and revised edition, London, 1908), p. 85.
[137] *Hansard 3*, clxii (8 April, 1861), pp 263-264.
[138] *Return of losses and defalcations in money order offices of G.P.O. in U.K, 1841-60*, (148), H.C. 1861, xxxv, 213.
[139] Military Savings Banks Act, 1842 (5 & 6 Vict.) c. 71.

> They profess – at least they are understood – to give a government guarantee for all money, deposited with them, and yet in practice do not give it. This defect does not arise from any legal mistake or confusion. No thing can be clearer than law on this subject, - Nothing is better understood among financiers and economists; but nothing is worse understood by the class of person who have their money in Savings Banks. The law is that the Government is only responsible for whatever sums it actually receives.[140]

A new network of government backed savings banks was created in 1861 with the passing of the Post Office Savings Bank act.[141] The POSB act registered the Post Office as a savings bank under the existing savings bank legislation, except with some notably differences: namely that there was a 100 per cent state guarantee. The POSB accepted a minimum deposit of 1 shilling, with a 1 pence transaction charge. There was an annual deposit limit of £30 and a maximum deposit limit of £150. The interest which the POSB paid to depositors was 2.5 per cent, 'but such interest shall not be calculated on any amount less than one pound or some multiple thereof, and not commence until the first day of the calendar month next following the day of deposit, and shall cease on the first day of the calendar month in which such deposit is withdrawn'.[142] The rate paid to depositors in the POSB was below that paid to depositors in TSBs, shown in column 2 in table 4.2. The reason for this, according to Gladstone, was to avoid 'all suspicions of unfairness'.[143] Ten day's notice was required for the withdrawal of savings.[144] The POSB gave complete secrecy, and the names of depositors were not to be disclosed except only to the Postmaster General.[145] Deposits received by the POSB were to be paid-over to the CRND[146] and 'the monies remitted to the Commissioners for the Reduction of the National Debt under the authority of this Act shall be invested in some or in all of the Securities in which the funds of savings banks established under the existing Laws may be invested'.[147] This appears to be an attempt to resolve the ambiguity surrounding the powers of investment of the CRND. The new POSB competed directly with the pre-existing TSBs and other institutions that provided savings services. But as Perry rightly noted, 'the one great

[140] 'The post office savings banks' in *The Economist* (16 February, 1861).
[141] An Act to grant additional Facilities for depositing small Savings at Interest, with the Security of the Government for due Repayment thereof, 1861 (24 & 25 Vict.), c. 14.
[142] Ibid, section 7.
[143] *Hansard 3*, clxii (8 April, 1861), p. 264.
[144] Post Office Savings Banks Act, 1861, (24 & 25 Vict.) c. 14, section 3.
[145] Ibid, section 4.
[146] Ibid, section 5.
[147] Ibid, section 9.

advantage which the Post Office system possessed over its rivals was its absolute security'.[148]

4.6 Introduction of the POSB in Ireland; impact and implications

TSBs had been a dominant provider of savings services in the early nineteenth century in Ireland. The market dominance of the TSBs as the avenue for people to save was challenged by the creation of the POSB. The post office had been well established across the British Isles and now they provided the service of savings banking. In 1861 the Post Office Savings bank was established in the UK. *The Times* believed that:

> The benefit of the new Post-office Savings-banks will be that every poor man in the country will have a bank within a mile or two where he will be able to put his money, subject to certain regulations. The bank is brought to him, instead of his going miles to the Bank. He is thus a vast gainer in vicinity and convenience, and this makes him a gainer too, in another important respect. He need not wait weeks with his money in his drawer till there is an opportunity of going to the town where the Savings bank is, eight or ten miles off. As soon as two or three shillings have been accumulated he can immediately take a walk to his Bank and deposit them. One shilling even is accumulation enough. "Deposits of one shilling, or of any number of shillings, or of pounds and shillings, will be received from any depositor at the Post-Office Savings Banks."[149]

The POSB facilitated savings and accumulated considerable deposits over the course of the nineteenth century. The POSB was also non-discriminatory in that they were open 'to married women, who are allowed to have their own accounts there in their names, unless the husbands object in writing'.[150]

It must be emphasised that Gladstone & co created the POSB in 1861, not as a response to the crisis in the Irish TSBs, but as a response to the English crisis. The POSB was a national bank; by national it must be stressed that the nation was the UK, and it centralised in London. Therefore, when the POSB was introduced to Ireland it was an exogenous innovation and its introduction in Ireland has been overlooked. For example, in Ó Gráda's *Ireland: a new economic history* the reasons for the introduction of the POSB are not outlined. [151]

[148] C. R. Perry, *The Victorian post office: the growth of a bureaucracy* (Suffolk, 1992), p. 66.
[149] Editorial, 'The benefit of the new Post-Office Savings-banks..' in *The Times* (28 August, 1861) , p. 6, Issue 24021, col. D.
[150] Ibid.
[151] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), pp 239-240.

Goldsmith has suggested that the historical development of a national financial structure is path-dependent.[152] The implications of this view is that new forms of financial institutions would find it difficult to establish themselves based on the pre-existence of a financial structure. In terms of Goldsmith's hypothesis, the events of the 1840s in both Ireland and further afield in the UK were the shocks necessary to enable the POSB to be established and to alter the path of development in the Irish financial structure in the nineteenth century. The crises of the 1840s and 50s led to the establishment of the POSB which became the largest branch banking institution in the UK. The crises in both the TSBs and loan funds in the 1840s would probably have seen them eliminated from the market through competition from the joint stock banks. If this path was not altered it would have seen the emergence of a large joint stock banking structure, but this exogenous shock altered the path of development in the Irish financial structure.

Although not an Irish innovation, the POSB were seen as a welcome addition to the savings bank system in the respect that the Irish TSBs were in a fragile state. Evidence from Robert Decker, trustee and honorary secretary of the Meath Street Savings Bank, to the 1858 Savings Bank Committee stated that the bank had experienced two runs in its history.[153] One run came about in 1848 which lasted for 6 months; the reason that Decker gave for this was contagion caused by the failure of the Cuffe Street Savings Bank in Dublin. A second run came in 1853 which lasted for 3 months,[154] but for this Decker said that 'we are unable to give satisfactory reason for that run'.[155] Decker's evidence went on to say that the public had become aware of the incomplete government security in the TSBs, and the run coincided with the discussion of a savings bank bill in parliament which made it evident that the savings banks did not possess government security.[156] Decker also stated that prior to the Cuffe Street Savings Bank crash there was a common belief that the TSBs had government security.[157] The run was alleviated when the Meath Street bank published a letter it had received from the CRND. When Decker was asked if the bank had

[152] Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 376.
[153] *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index*, questions 3491 and 3502, p. 232. (441), H.C. 1857-58, xvi, 1.
[154] Ibid, questions 3504-3505, p. 232.
[155] Ibid, question 3503, p. 232.
[156] Ibid, question 3508, p. 232.
[157] Ibid, p.232.

experienced any other runs he answered in the negative, but said the savings bank had been experiencing the 'general' trend in Ireland, that being the annual number of withdrawals exceeding the number of deposits.[158] On the occasion of both runs in 1848 and 1853, the Meath Street Savings Bank did not uncover any errors in its bookkeeping practices that would suggest fraud,[159] so the run in 1853, and the continued withdrawals thereafter, can be seen as a general loss of confidence in the savings bank system in Ireland. The Cork Savings Bank also experienced a run in the aftermath of the 1848 frauds, and also in the 1850s as a result of fraud in the Tipperary Joint stock bank.[160] Ó Gráda's analysis of the Thurles Savings Bank found that it was also affected by contagion.[161] This is perhaps an important piece of information regarding the declining number of depositors in both TSBs and loan funds as people are being made aware of the shortfalls in perceived government security in these institutions.

The 1858 commission on savings banks was essentially an internal enquiry into the savings bank system, and at times did not appear to be in touch with the reality of the situation. An example of this can be seen in the line of questioning directed towards Decker which seems to have been more concerned with proving that the TSBs would not contribute to the insolvency of the UK. For example, one of the questions was if 'the risk to the government was nothing?'[162] It appears as though the priority of the commission was to convince the government that their TSB system would not make the state financially insolvent, rather than focusing on the more immediate problem of the evaporation of confidence.

This is the context in which the POSB was introduced in Ireland in 1862, with 300 branches opening throughout the country, and by 1864 the number of branches had risen to 510.[163] To give a sense of scale to this event, table 4.9 compares the number of branches of various financial institutions operating in 1862.

[158] Ibid, questions 3514-3515, p. 232.
[159] Ibid,, questions 3517-3518, p. 233.
[160] Ibid, question 3730, p. 246.
[161] Cormac Ó Gráda, 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' in *Irish Economic and Social History* (forthcoming).
[162] *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index*, questions 3525, p. 233. (441), H.C. 1857-58, xvi.
[163] *Tenth report of the Postmaster General on the Post Office*, [9267] H.C. 1864, xxx, 571.

Table 4.9: Banking institutions and number of branches/units in 1862

Name of institution	Number of branches/units
POSB	300
Joint Stock Banks	196
TSBs	53
Loan funds	105

Sources: Appendix i, in the *Eight report of the Postmaster General on the Post Office,* [2984], H.C. 1862, xxvii, 393. and *Thom's Directory,* 1862.

As can be seen, the number of POSB branches in 1862 was approximately 6 times the number of TSBs, and 3 times the number of loan funds. The joint stock banks appear to be the institution with the nearest number of branches. But taken individually, as in table 4.10, no individual bank matches the scale of the POSB branch network in Ireland.

Table 4.10: Joint stock Bank branches and POSB in 1862

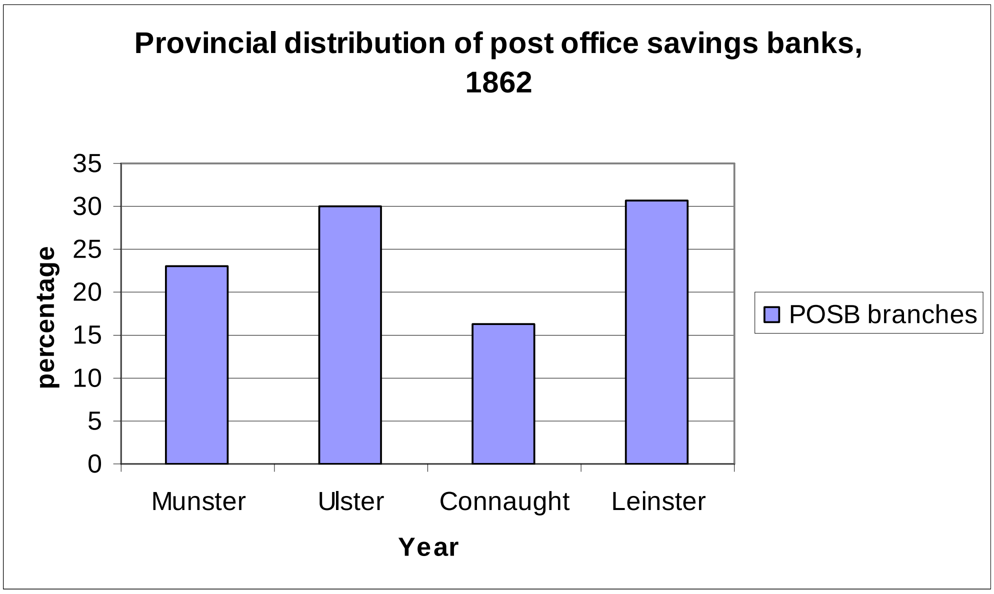
Institution	Number of branches
POSB	300
National Bank	52
Provincial Bank of Ireland	43
Bank of Ireland	26
Belfast Banking company	25
Ulster Bank	25
Northern Banking company	20
Union Bank of Ireland	4
Hibernian Joint stock bank	3
English & Irish bank	1
Royal Bank	-

Sources: Appendix i, in the *Eight report of the Postmaster General on the Post Office,* [2984], H.C. 1862, xxvii, 393. and *Thom's Directory,* 1862.

Given that the majority of the banks were clustered together in major towns,[164] unsurprising given that they were for-profit firms and were in competition with each other, the capacity of the joint stock banking sector to reach the poorer rural areas was reduced. The POSB essentially filled a niche in the Irish banking system, with the 300 branches being distributed throughout the island. All 32 counties had access to a POSB in 1862, and this was not the case with the TSBs.

[164] This is seen in the list of joint stock banks from *Thom's Directory*; shown in appendix 3 maps 3.1 to 3.6.

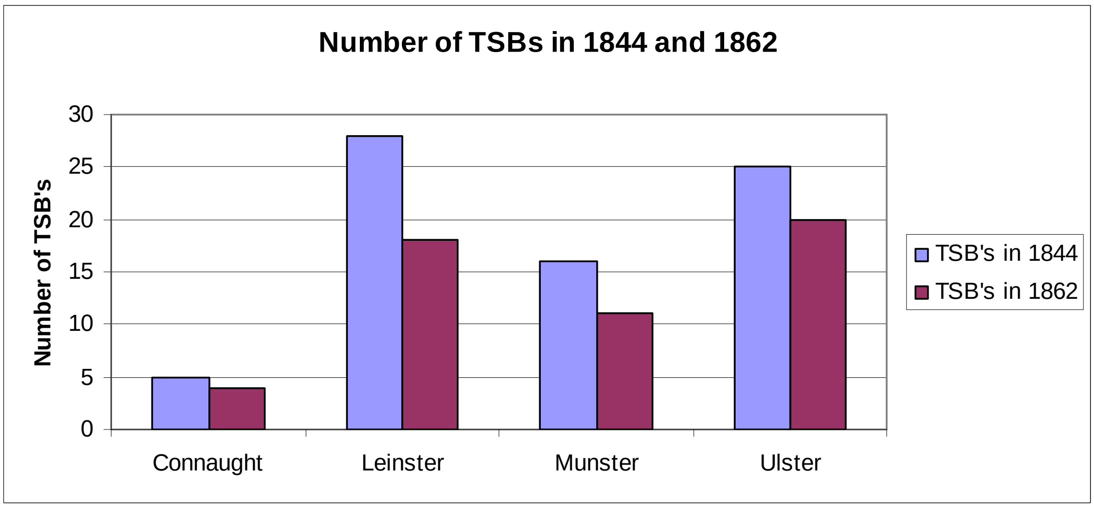
Figure 4.13



Sources: Appendix i, in *Eight report of the Postmaster General on the Post Office*, [2984], H.C. 1862, xxvii, 393.

Figure 4.13 shows the provincial distribution of the POSB branches in 1862. As with the other financial institutions, the distribution was greatest in Leinster and Ulster. But unlike the TSBs, the POSB operated a number of branches in Connaught. Figure 4.14 shows the provincial distribution of TSBs, in 1844 at the peak of the TSBs, and the number of TSBs in 1862. The two years have been chosen to show how the distribution of TSBs changed as a result of the crises in the late 1840s, and to make a comparison with the introduction of the POSB in 1862.

Figure 4.14



Sources: John Tidd Pratt, *A summary of the savings banks in England, Scotland, Wales, and Ireland* (London, 1846), and *Thom's Directory 1863*.

Between 1844 and 1862 there was a reduction in the number of TSBs in all provinces, but with Leinster experiencing the largest percentage decrease. Carlow, Donegal, Kerry, Leitrim and Longford did not have any TSBs operating within their boundaries. The case of Kerry is explained by the defalcation in its two savings banks in the 1840s, and the other counties did not have TSBs in 1844. In contrast, the POSB opened 5 branches in Carlow, 3 in Donegal, 7 in Kerry, 6 in Leitrim, and 3 in Longford. There were POSB branches opened in Killarney and Tralee, the sites of the two of the major savings bank frauds in 1848.[165] In the debate on the Post Office Savings Bank bill in 1861, the M. P. for Kerry,[166] Henry Arthur Herbert, was very supportive of the bill, especially in view of the failures of savings banks in his constituency. He stated that:

> The Right hon. Gentleman [Gladstone], therefore, had adopted a very wise course, as the old system apparently could not be mended, to give the people their choice between that and a new one. No doubt at the present time savings banks were very well managed, and the chance of failure was the exception and not the rule; but so long as loss was possible under the present system depositors ought to have a choice between it and a system under which loss would not be possible, and he hoped that the experiment would succeed.[167]

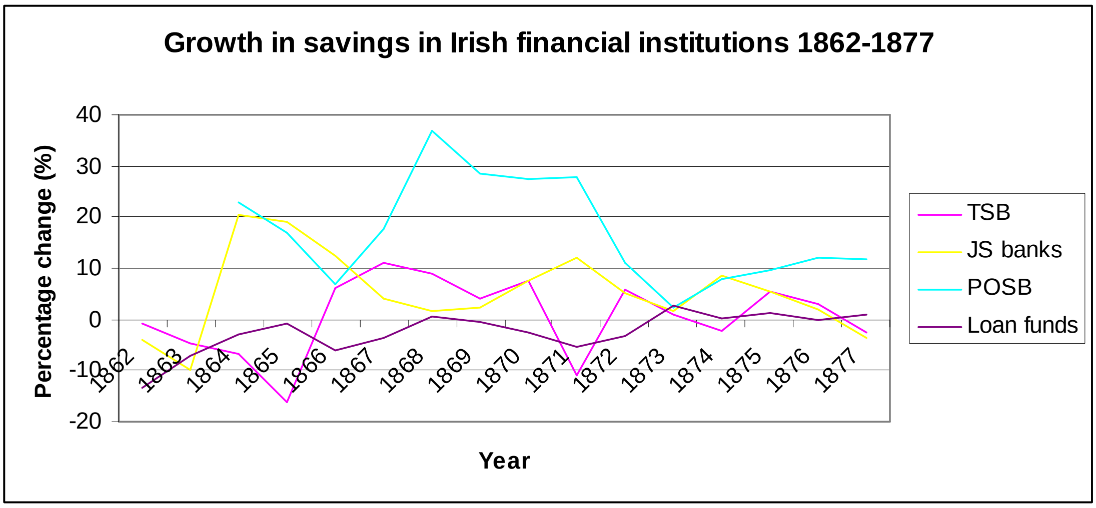
The greater geographic distribution of the POSB, and its continued growth throughout the nineteenth century, meant that for savers the POSB had the capacity to reduce the transaction costs of saving, as in travelling expenses, and also the opportunity cost of saving, in the form of lost earnings. This would have been done by decreasing the average distance that would-be savers would have to travel to make deposits. The increasing growth of the POSB would continually have decreased this distance, and the ratio of population to the POSB decreased over time.

A number of TSBs closed over time, and their savings were transferred to the POSB. One of the most high-profile of these closures in Ireland was in Gorey, Co. Wexford. The Trustees of the savings bank decided to transfer money as soon as the POSB was established. This and other cases of trustees transferring funds to the POSB was noted by the Postmaster General who stated that ‘the trustees of which banks having in view the superior facilities and the complete security afforded by the Post Office Banks, have determined to close the Banks which they had hitherto

[165] Appendix i, in the *Eight report of the Postmaster General on the Post Office*, [2984], H.C. 1862, xxvii, 393.
[166] Michael Stenton and Stephen Lees, *Who’s who of British members of Parliament: vol I, 1832-1885* (Sussex, 1976), pp 188-189.
[167] *Hansard 3*, clxii, (8 April, 1861), pp 278-279.

maintained at some inconvenience to themselves, for the benefit of their poorer neighbours'.[168]

Figure 4.15



Source: O'Rourke, 1998 and Loan Fund Board reports.

Figure 4.15 shows the growth rates in savings in the POSB, JS banks, TSBs and Loan funds from 1862-1877. Growth rates in the TSBs, JS banks, and loan funds were negative in the early 1860s. This negative growth in savings coincided with a recessionary period. During the period shown in the graph JS banks and the TSBs recovered from the early 1860s and experienced positive growth for the remainder of the period, with the TSBs suffering a decrease in the early 1870s. The loan funds continually experienced negative growth for most of the period as their capital continued to decrease. The POSB from its introduction experienced positive growth throughout the period 1862 to 1877. Table 4.11 shows the situation in 1877.

Table 4.11: Savings deposits in financial institutions in Ireland in 1877, real and nominal amounts

Institution	Nominal Deposit balances(£)	Real Deposit balances (£)
JS Banks	33,050,000	30,209,507
TSBs	2,153,000	1,967,960
POSB	1,124,000	1,027,397
Loan funds	141,567	129,400

Sources: *Thom's Directory* 1877, and Liam Kennedy, 'The cost of living in Ireland, 1698-1998' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 249-276.

[168] *Eight report of the Postmaster General on the Post Office*, p. 14. [2984], H.C. 1862, xxvii, 393.

The JS banks held the overwhelming majority of savings in the country in the post-famine period. These were followed by the TSBs and the POSB. The capital[169] held by loan funds continued to decline and by 1877 it was 32 per cent of the value that it had reached in 1845. An important tipping point was the events that took place in 1877, and this saw a change in the structure of the savings bank system in Ireland. The major changes that took place in the Irish savings sector took place between the years 1877 and 1882. It was during this period that savings in the POSB experienced constant positive growth and by 1884 the POSB had overtaken the old TSBs as the largest savings bank and the second largest deposit holding institution on the island. The POSB was to maintain this dominant position within the Irish small savings market for the remainder of this period of study.

The period 1877 to 1882 is synonymous with the 'Land War', a period of social strife in Ireland. The social problems were caused by bad harvests in the years 1877 and 1878, coupled with falling grain prices resulting from an increase in international competition in grain. The subsequent economic deterioration led to numerous social agitations, most notably the creation of the 'land league' under the stewardship of Michael Davitt and Charles Stewart Parnell. The land legislation in the 1880s can be seen as a product of such social agitation, but what has less frequently been referred to in Irish historiography is the impact of the 'Land War' period on microfinance institutions, and the POSB in particular. Meehan observed that:

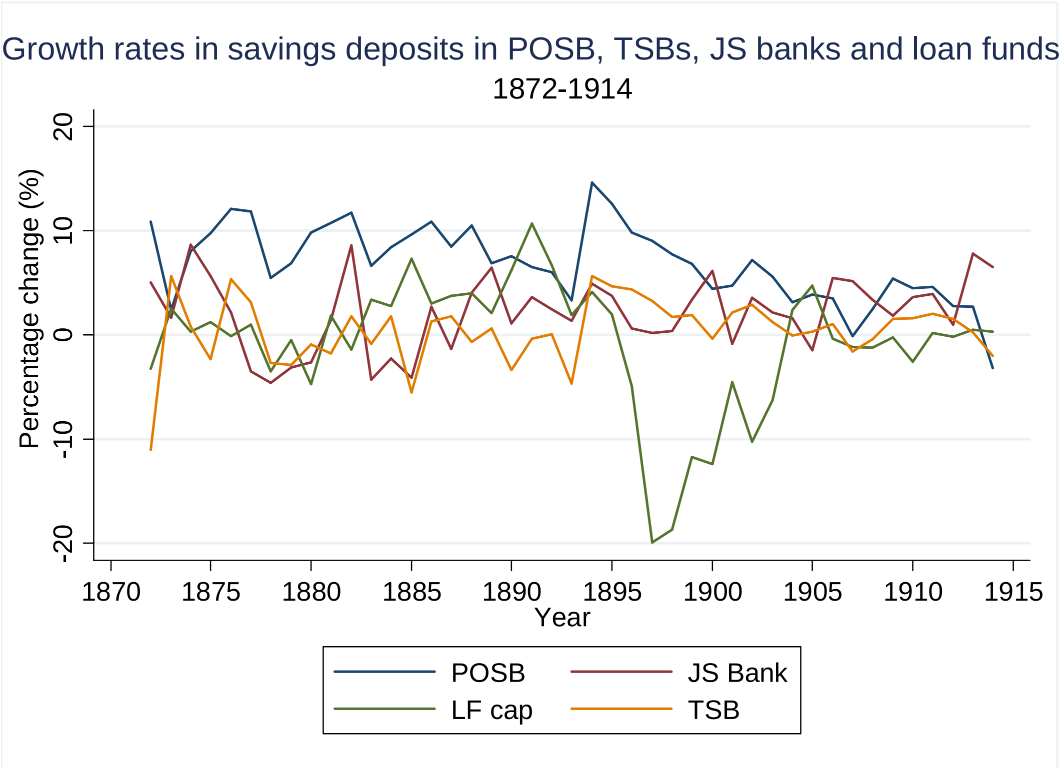
> The Trustee Savings Banks originated in 1817. By 1836 their number had risen to thirty six; but owing to various causes, principally perhaps the institution of the Post Office Savings Bank in 1861, there was a subsequent decline, and by the 1920s there were eleven in operation, five in the Irish Free State and six in the Six Counties area.[170]

But Meehan did not explain why or when the TSBs were superseded by the POSB. Before discussing the POSB in 1877, it must be noted that by 1877 there were 660 POSB branches in Ireland. The continued growth of the savings in the POSB in Ireland during the depression of the late 1870s was seen as 'a subject of peculiar interest' by the Postmaster General, Henry Fawcett. [171]

Analysis of the growth rates in savings in Irish banking institutions from 1870 to 1914 will give an impression of the effect of the depression of the late 1870s.

[169] I have assumed loan fund capital to be synonymous with savings.
[170] James Meenan, *The Irish economy since 1922* (Liverpool, 1970), p. 216.
[171] *Twenty seventh report of the Postmaster General on the post office*, p. 6. [c.3006] H.C. 1881, xxix, 584.

Figure 4.16



Source: Appendices in Kevin H. O'Rourke, 'Monetary data and proxy GDP estimates: Ireland 1840-1921' in *Irish Economic and Social History*, xxv (1998), pp 22 -51 (hereafter O'Rourke, 1998), and LFB reports.

Table 4.12 shows the growth rates in various institutions from 1877 to 1885. Both figure 4.16 and table 4.12 indicate that the POSB experienced positive growth rate in deposits during the entire period in question, and most importantly in the period 1877 to 1885, the period of the 'Land War'.

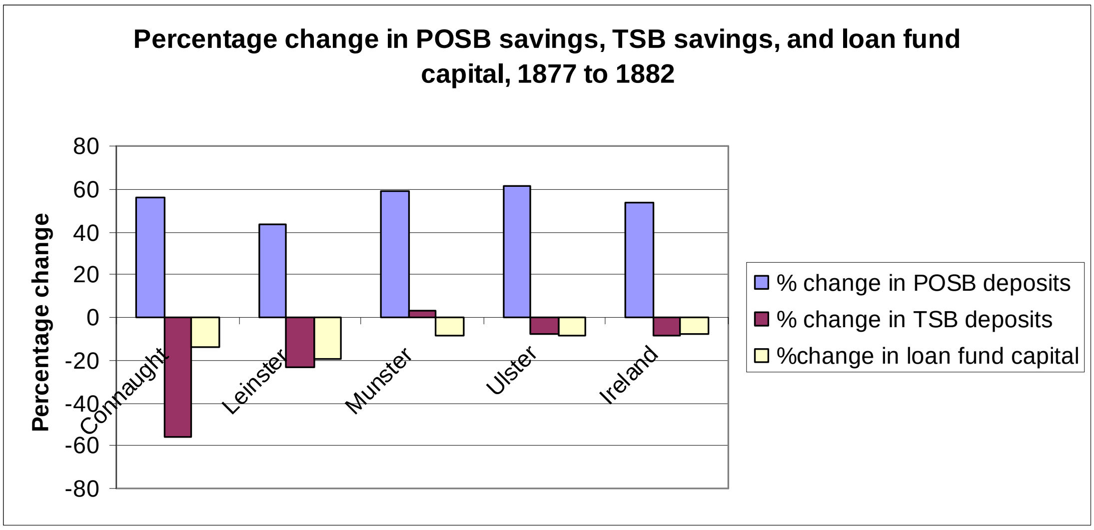
Table 4.12: Growth rates in savings in POSB, TSB, JS Banks, and Loan funds, 1877-1885

Year	POSB	TSB	JS Banks	Loan funds
1877	11.83	-2.70	-3.48	0.99
1878	5.49	-2.87	-4.59	-3.49
1879	6.86	-0.91	-3.15	-0.47
1880	9.81	-1.78	-2.60	-4.70
1881	10.73	1.76	1.40	1.87
1882	11.72	-0.87	8.57	-1.39
1883	6.60	1.80	-4.29	3.39
1884	8.38	-5.53	-2.28	2.78
1885	9.62	1.31	-4.10	7.33

Source: O'Rourke, 1998 and Loan Fund Board reports.

Figure 4.19 shows the provincial distribution of the percentage change in savings in the POSB, TSBs and loan funds from 1877 to 1882. Figure 4.17 shows that the increases in the POSB savings took place in all four provinces. This is including Connaught, the region most adversely affected by the economic depression. The TSBs suffered their largest decrease in Connaught, and the LFB loan funds experienced declines in all four provinces.

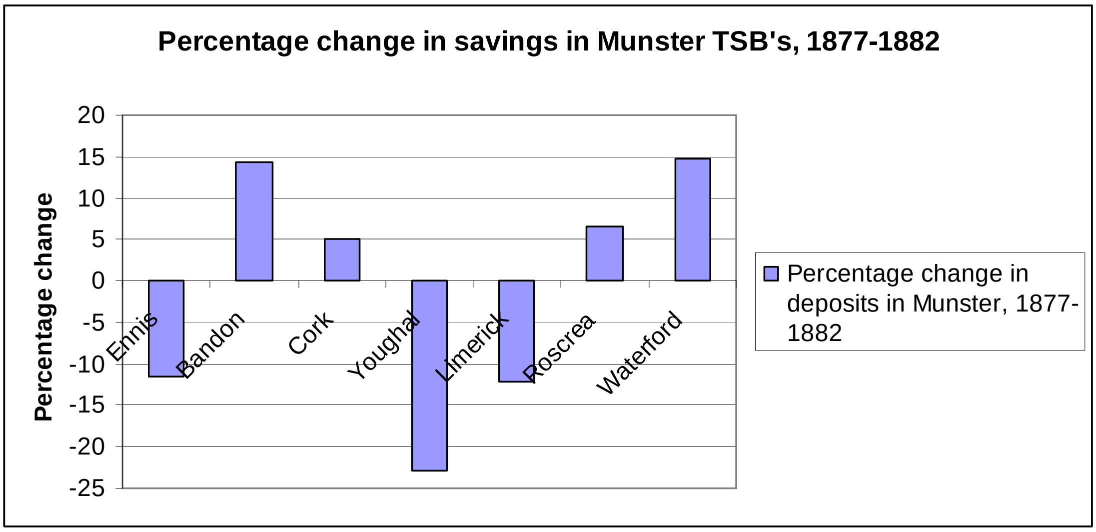
Figure 4.17



Sources: Reports of the Postmaster General, *Thom's Directory*, and Loan Fund Board reports.

Figure 4.18 showed positive percentage change for TSBs in Munster during the period 1877 to 1882, and it is an attempt to locate where this increase originated.

Figure 4.18



Source: *Thom's Directory*, various years.

Figure 4.18 shows how the savings in Munster TSBs decreased in a number of areas, but shows increases in Bandon, Cork, Roscrea and Waterford. Further local research would be required to determine the causes of these increases.

The question must be asked what happened in the late 1870s that saw the continued positive growth in the POSB, when other banking institutions experienced negative growth. Firstly, it must be noted that a fraud was uncovered in the Hillsborough Savings Bank in 1875.[172] But it seems as though the effects of this fraud were isolated, and so it does not explain the growth of the POSB. During the depression period there seems to be anecdotal evidence to support a claim that money was being transferred from the other institutions into the POSB. The Postmaster General Henry Fawcett, noting the growth in the savings held by the POSB, stated that:

> …these circumstances show a desire on the part of investors to obtain direct state security for their money, which appears to be further manifested by the increased amount deposited in the Post Office Savings Bank.[173]

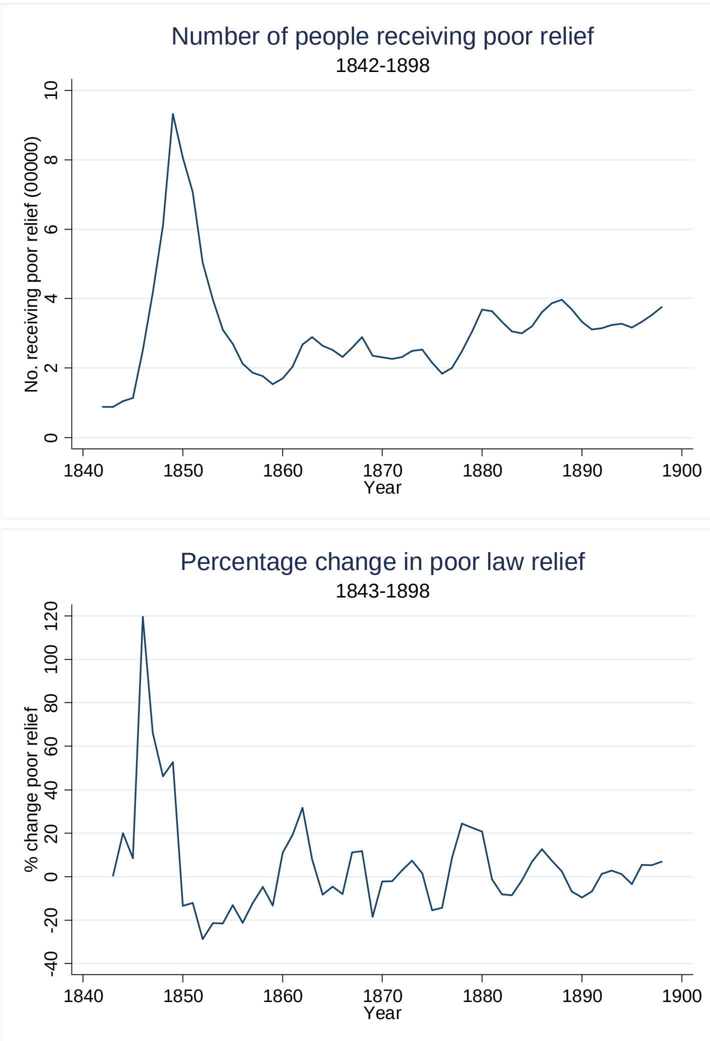
The implications of such transfers had both short- and long-term effects. In the short-term it resulted in decreased investment. Evidence of this was uncovered by Sean

[172] *Return of the names of the savings banks in the United Kingdom that have failed, stopped payment, or been discontinued since the 14th June 1852;--and, of the amount of loss (as far as it can be ascertained) that has been sustained by depositors in each of these establishments (in continuation of Parliamentary Paper, no. 471, of session 1852)*, p. 6, H.C. 1888 (427), xci, 607.
[173] *Twenty sixth report of the Postmaster General on the Post Office*, p. 48. [c. 2670] H.C. 1880, xix, 1.

Lucey,[174] who found that farmers in the Firies and Ballyhar region in Kerry, who usually invested in their farms, and hired labourers, transferred their money to the POSB instead. Similar instances led to an increase in unemployment and numbers seeking poor relief.[175] The political situation in Ireland at the time seems to have influenced decision-making on the part of friendly societies as well. A letter from an officer in a friendly society was published in the thirty third report of the Postmaster General which stated that:

> "At the present state of political agitation in this country it is not safe to invest any monies in any funds or bank whatever, therefore the trustees have desired me to apply to the post office savings bank."[176]

Figure 4.19



Source: *Thom's Directory*, various years

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[174] Sean Donnacha Lucey, 'Land and popular politics in county Kerry, 1872-86', NUI Maynooth Department of History, PhD thesis, 2007, p. 51.

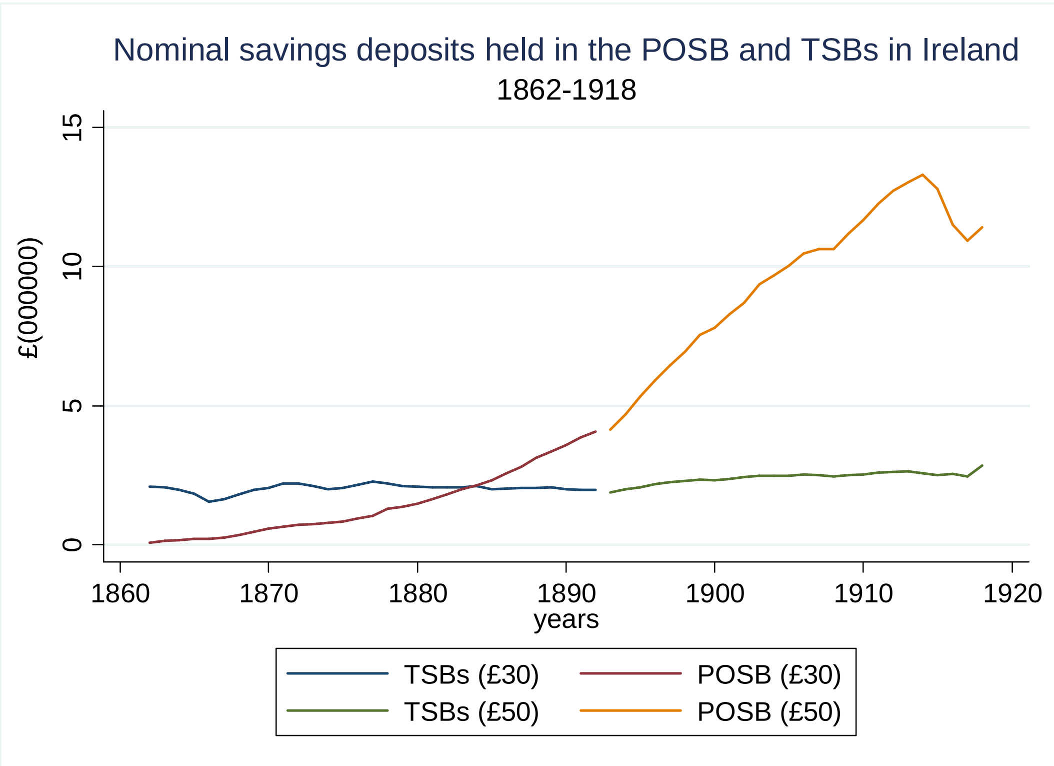
[175] Ibid, p. 51.

[176] *Thirty third report of the Postmaster General on the Post Office*, p. 37. [c. 5211] H.C. 1887, xxvii, 519.

Figure 4.19 shows the number of people receiving poor relief and the percentage change in the number of people receiving poor relief from 1842 to 1898. The number of people receiving poor relief grew by 50 per cent between 1877 and 1882. In light of this it is remarkable that the POSB was able to sustain high levels of growth in savings held by it.

In the long term, the growth of savings in the POSB during the depression of the late 1870s and 1880s established a pattern whereby people continued to use the POSB based on tradition, habit, and the fact that the POSB was tested and did not fail. This meant that the saving deposits in the POSB were set to benefit from the operation of the principle of path dependence. This is an important context for which any new entrant into the market for savings would need to be aware of, as it would be difficult to dislodge such an incumbent. The Raiffeisen co-operatives, established in 1894, came only 10 years after the POSB had firmly established their dominance in the small savings market.[177]

Figure 4.20



Source: O’Rourke, 1998; and Savings Bank Act, 1893, 1893 (56 & 57 Vict.) c. 69, paragraph i.

[177] These are discussed in chapter 6.

Deposit limits were increased from £30 per annum to £50 per annum for both the POSB and TSBs by the 1893 Savings Bank Act.[178] This saw an increase in savings directed towards the POSB rather than towards institutions with financial intermediary capacity. Figure 4.20 has divided the period 1862 to 1918 into two periods to reflect the increase in the annual deposit limit. The effect of the change in the deposit limit is also seen in figure 4.16 where it is visible that both the POSB and TSBs have spikes in 1893. As a result savings in the POSB were exported to London and were invested in government securities. There are possible explanations for this. The main explanation stems from the fact that the POSB and TSBs paid higher rates on demand deposits than the joint stock banks. Also Irish savers seemed to have a preference for security above higher returns, as there were possibilities for higher yielding investments in rural Ireland such as savings accounts in Raiffeisen credit co-operatives, or shares in co-operative creameries.

4.7 Outreach and impact; Post Office Savings Bank and TSBs in Ireland

This section will analyse the outreach and impact of the POSB in Ireland from 1862 to 1915. Savings profiles, comparisons with real and nominal wages, penetration ratios, annual deposits and withdrawals, and location of savings and depositors, will be used as proxy variables for outreach and impact. Savings profiles will give us an indication as to who saved in the savings institutions, so that we can see how they were used by different socio-economic groups. Real and nominal wage levels are a useful barometer with which to compare savings balances, and also to compare annual deposits and withdrawals. Analysis of savings banks in Ireland is somewhat hampered due to data limitations; for example there is limited evidence of annual deposits and withdrawals from savings banks. To overcome these limitations, where stated, the approach taken in this section will be to use UK data as a proxy for the events in Ireland.

Firstly, it would be interesting to know who actually used the TSBs and the POSB. The best source of information we have regarding the TSBs comes from the 1858 inquiry into savings banks.[179] Appendix 5 from the savings bank inquiry gave a return for 404 savings banks in the UK, as 172 savings banks did not submit returns.

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[178] Savings Bank Act, 1893 (56 & 57 Vict.) c. 69, paragraph i.

[179] Appendix 5, in *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index,* pp 336-338. (441), H.C. 1857-58, xvi, 1.

It is not exactly clear how many of the Irish savings banks submitted returns, but it is possible to deduce how representative the figures in table 4.13 are by comparing the returns in table 4.13 with the totals for 1852. The report stated that the returns for Ireland were based on 44,690 accounts that had savings of £1,225,572. Comparing these figures with 1852 shows that they represent 85.70 per cent of the depositors in 1852 and the amount is 84.67 per cent of that in 1852.[180] Therefore, the figures shown in table 4.13 are not unrepresentative of the TSBs in 1852. Table 4.13 shows us that the largest grouping of account holders in TSBs in Ireland were classified as tradesmen and small farmers - these also held the largest share of deposits. The other groupings had high average deposit balances, with the lowest average balance being held by dressmakers and labourers. What is interesting about table 4.13 and should be taken into consideration when looking at the tables relating to the POSB is the role of women as depositors. In only a few classifications are women listed separately, but in most cases the classifications are for the male occupation or their wife. This suggests that in many cases although women were involved in the financial transaction, they were doing so as an agent of a family unit rather than acting on their own behalf.

[180] The number of depositors in 1852 was 52,142 and the amount deposited was £1,447,315. These figures were obtained from *Thom's Directory*, 1861, p. 734.

Table 4.13: Percentage distribution of the accounts and amount, and the average deposit by depositor grouping, c. 1852

Ireland			
	% Number	% Amount	Average amount (£)
Gentlemen, or persons of independent means or their wives	3.01	3.65	33.17
Professional men and their wives	0.77	1.06	37.41
Persons engaged in education, male and female	1.51	1.49	27.07
Tradesmen and their assistants, small farmers, clerks, mechanics, and artisans (not described as journeymen and their wives)	39.97	43.68	29.97
Soldiers, mariners, boatmen, fishermen, and their wives	2.87	3.78	36.15
Policemen, letter carriers, revenue officers, pensioners, railway men, and their wives	0.62	0.89	39.09
Labourers, farm servants, journeymen, mechanics, and their wives	7.23	4.82	18.27
Domestic servants, chairwomen, nurses, and laundresses	14.77	10.96	20.35
Dressmakers, milliners, shop-women, and female artisans	1.12	0.67	16.55
Females, described only as married women, widows or spinsters	18.19	19.11	28.80
Minors having accounts in their own names, including apprentices	8.32	8.29	27.30
Trust accounts, principally for minors, including all joint accounts	1.03	1.06	28.11
Miscellaneous, and persons without any given descriptions	0.56	0.55	26.77
All			27.42

Source: Appendix 5, in *Report from the Select Committee on Savings Banks; together with the proceedings of the committee, minutes of evidence, appendix, and index*, pp 336-338. (441), H.C. 1857-58, xvi, 1.

Further information such as table 4.13 on depositor profiles in TSBs are difficult to find. One of the few surviving records of a TSB is the Thurles savings bank, but it ceased operations in the 1870s.

The Postmaster General reports often included random samples of the depositors in the POSB. Table 4.14 is a table from the eleventh report of the

Postmaster General.[181] It is the estimated occupation of savers in the POSB based on a random sample of 11,000 accounts opened on 31 March 1865. Although the sample selection methods are highly questionable, it does give an impression as to who was using the POSB at this moment in time. The Postmaster General report did not distinguish from where in the UK the sample was taken. Therefore, it would not be wise to draw too much inference from table 4.14.

Table 4.14: Estimated occupation, number and proportion of savers in the POSB circa 31 March 1865

Occupation	Number of depositors	Percentage of depositors
Females, male minors, and trustees	285,769	54.50
Occupation, professional men, and their clerks or assistants	31,353	5.98
Males engaged in education	5,692	1.09
Tradesmen and their male assistants, farmers, and clerks of all kinds, except clerks to professional men, and clerks in general offices	53,756	10.25
Mechanics and artisans, journeymen mechanics, and artisans, domestic servants, policemen, labourers, pensioners, boatmen, fishermen, and merchant seamen	140,518	26.80
Persons employed in the revenue departments	2,570	0.49
Persons in the army or navy	4,682	0.89
Total	524,340	100

Source: *Eleventh report of the Postmaster General on the post office*, p. 14. [3558], H.C. 1865, xxvii, 583.

Another random sample was provided in the twenty-fifth report of the Postmaster General.[182] The random sample from the twenty-fifth report was based on 25 small offices in agricultural districts. Table 4.15 would be a better indication of conditions in Ireland where the majority of POSB branches were located in rural areas. But again the sample selection methods used in the collection of these data was not provided in the report.

[181] *Eleventh report of the Postmaster General on the Post Office*, p. 14. [3558], H.C. 1865, xxvii, 583.
[182] *Twenty fifth report of the Postmaster General on the Post Office*, p. 54 [c. 2405], xxi, 197.

Table 4.15: Classes who use the Post Office Savings Bank in agricultural districts, circa 1879

Class	Distribution of depositors	Average balance (£)
Female servants	15.74	14
No occupation	12.10	13
Artisans	11.69	15
Minors over seven	11.22	7
Married women	10.75	21
Tradesmen	8.11	16
Clerks	6.38	11
Labourers	5.48	21
Unmarried women	3.83	16
Minors under seven	3.75	5
Male servants	2.81	22
Public officials	2.15	40
Soldiers and sailors	2.13	18
Professional men	2.10	20
Milliners	1.77	11

Source: *Twenty fifth report of the Postmaster General on the Post Office*, p. 54 [c. 2405], xxi, 197.

Table 4.16, derived from the twenty-sixth report of the Postmaster General,[183] shows the distribution of 1,550 savers by class in the west of Ireland in 1879. Table 4.16 is also a random sample of depositors, and sample selection criteria were not given. Of the three tables related to the profile of depositors, it is the only one which solely represents depositors in Ireland, albeit confined to the West.

[183]*Twenty sixth report of the Postmaster General on the Post Office*, p. 48. [c. 2670], H.C. 1880, xix, 1.

Table 4.16: Distribution of savers in the POSB in the West of Ireland, circa 1879

Class	Percentage of depositors
No occupation	12.26
Female servants	11.03
Married women	10.26
Constabulary	10.06
Unmarried women	5.94
Farmers	5.87
Tradesmen	5.42
Minors over seven	5.29
Labourers	5.23
Professional men	4.77
Miscellaneous	4.06
Artisans	3.35
Minors under seven	3.23
Male servants	2.77
Soldiers and sailors	2.65
Occupation not given	2.26
Clerks	1.94
Public officials	1.74
Gentlemen	0.90
Milliners and dressmakers	0.77
Charitable and provident societies	0.13
Friendly societies	0.06

Source: *Twenty sixth report of the Postmaster General on the Post Office*, p. 48. [c. 2670], H.C. 1880, xix, 1.

So what can be discerned from tables 4.14 to 4.17? In truth, not a lot. To derive conclusions based on these tables alone would lead to spurious claims about the use of the POSB. The danger of using these statistics was pointed out in 1884 by an article in the *Journal of the Statistical Society of London*.[184] The article was written in response to a claim that the number of working class depositors had fallen off, based on the statistics in the Postmaster General reports. It was stated in the article that:

> Instead of there being a parliamentary return, there appear to be in existence only certain private documents communicated by the postmaster-general in his department to an individual gentleman at his request, and somewhat irregularly published, and each analysing at different periods 10,000 accounts of depositors in savings banks; but neither for the form nor method of procuring the information, nor for the comparison between the statements at different times, can the department be held responsible.[185]

[184] Anonymous, 'Savings Bank statistics' in *Journal of the Statistical society of London*, xlvii, no 4 (December, 1884), pp 691-694.
[185] Ibid, p. 692.

The article stated that due to the sampling methodology used, no two depositor profiles provided in the Postmaster General reports could be used to make comparisons between the rise or fall in a particular grouping.[186] The article concluded that:

> The return being thus totally useless for any purpose of comparison, the public are as free as they were before to use the fact of the steady increase of the savings bank deposits as a sign of the prosperity of the working and lower middle classes of the country. These classes are known to form the bulk of the depositors (a fact so far corroborated by all these returns), though there are no means of knowing the exact proportions compared with other classes, in which they deposit.[187]

Analysis of the average size of deposits in the POSB and the TSB in Ireland and the UK shows that the average savings balances in the TSBs were higher than those in the POSB, and that the average savings balances were higher in Ireland than in counterpart institutions in the UK. The data for the number of depositors in the Irish POSB are derived from various years of the reports of the Postmaster General, but the series was not consistent. The Postmaster General reports did not consistently give data on the number of depositors in the POSB by constituent polities in the UK before 1886, and data for the year 1895 were not included in the report. Some additional data is available from extracts of the number of depositors in Ireland, but these were not published continuously during the period. An explanation for the higher savings rates in the Irish POSB than in the UK was given in the eighteenth report of the Postmaster General. Monsell, the Postmaster General, stated that:

> I am disposed to think that the difference is partly owing to the rate of interest given for deposits as small as 10*l* by the Chartered Banks of Scotland; and by the greater facilities, in both England and Scotland, than are as yet to be generally found in Ireland, for investing moderate sums of money in various commercial enterprises.[188]

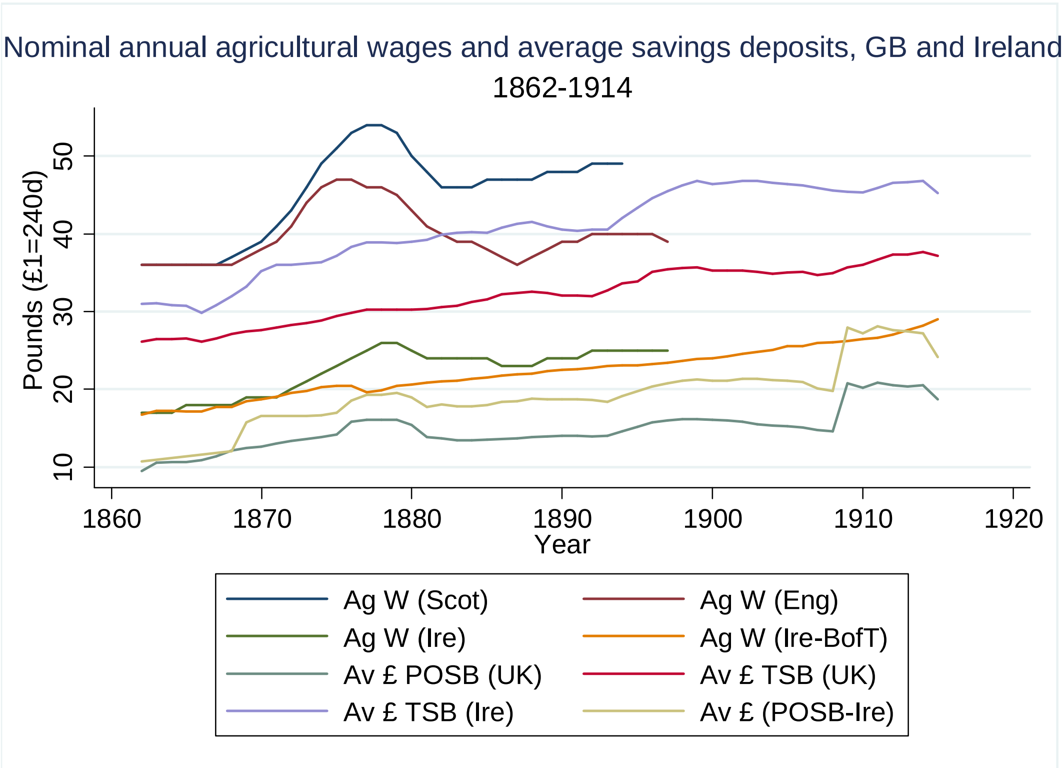
Hancock disagreed with Monsell's statement and in a letter to the Postmaster General stated that Ireland had the same banking system as Scotland.[189] However, given Hancock's argument, if Ireland had the same banking system as Scotland why were the average balances in the Irish POSB higher than those in Scotland? Hancock's argument does not stand up to scrutiny. In fact, given that Ireland has the same banking system as Scotland it highlights the failure of the Irish joint stock banks

[186] Ibid, p. 692.
[187] Ibid, p. 693.
[188] *Eighteenth report of the Postmaster General on the Post Office*, p. 16 [c. 645] , H.C. 1872, xviii, 483.
[189] *Twenty-second report of the Postmaster General on the Post Office*, p. 12. [c. 1575], H.C. 1876, xxi, 77.

to attract deposits as the Scottish joint stock banks had done, or shows that Scottish banks were the main savings outlets.

Figure 4.21 is a comparison of average balances in the POSB and the TSB in the UK and in Ireland, and the annual agricultural wage in the UK and Ireland. The use of the annual agricultural wage in this context is to give a sense of scale to the annual figures.

Figure 4.21



Sources: (a) Wages – A. L. Bowley (1899), Board of Trade, 1905 and 1914, (B) UK POSB and TSB figures- (Horne, 1947), (c) Irish TSB – *Thom's Directory* (d) POSB figures – *Thom's Directory* , Postmaster General Reports and *Return relating to Post Office Savings Banks* , H.C. 1871 (280), xxxvii, 357; H.C. 1878-79 (255), xlii, 547; H.C. 1881, (24) lvii, 335; H.C. 1881, (362), lvii, 383; H.C. 1882, (347), xxxvii, 361.;H.C. 1884, xlvii, 487; H.C. 1886, (19), xxxviii, 367; H.C. 1886, (149), xxxviii, 429; H.C. 1887, (197), xliv, 417; H.C. 1888, (201), lxv, 325; H.C. 1889, (177), xlvii, 351; H.C. 1890, (246), xli, 407; H.C. 1895, (387), lxi, 371; H.C. 1909, (119), lxxix, 781; H.C. 1913, (272), lvii, 915; H.C. 1921, (71), xix, 437.

Figure 4.22 shows the real and nominal savings in the POSB and the TSB in Ireland, and compares them with real and nominal values of the agricultural wage. The average deposits held in the POSB are less than those held in the TSBs, and also less than the agricultural wage. This is an indication of the outreach of the POSB. Ó Gráda stated that 'the generous deposit rate offered by the post office also attracted many savers from further up the socio-economic ladder'.[190] If this is true for the POSB, then it would also be true for those saving in the TSBs. Anecdotal evidence of the type of people saving in the TSBs can be found in the 1902 report on savings bank funds,[191] from the evidence of Charles H. Fitt, secretary of the savings bank at Limerick. The Limerick savings bank was open two days a week, on a Monday from 11 to 1, and on Wednesday from 1 to 2:30.[192] When Fitt was asked 'would not more frequent opening be more attractive to the people, especially in the evening?' he replied: 'No, it would not: we have not a manufacturing class of depositors with us.'[193] Fitt was then asked to describe the class of depositors in the savings bank. He stated:

> They were mostly composed of shopkeepers and small farmers: we have a good many of those, because we just join the County Clare and have a great many farmers from the County Clare side; small farmers that farm six, eight, and ten acres, artisans and tradesmen, also several workmen's societies such as pork, butchers, bakers, coopers, sandmen, & c. deposit with us. (sic.)[194]

When further questioned about the small farmers who saved there, Fitt stated that:

> I should say that we have between 200 and 300 small farmers in County Clare the north side of County Limerick, and some from the west side of County Limerick; they would be all small farmers who deal with us and invest their money with us.[195]

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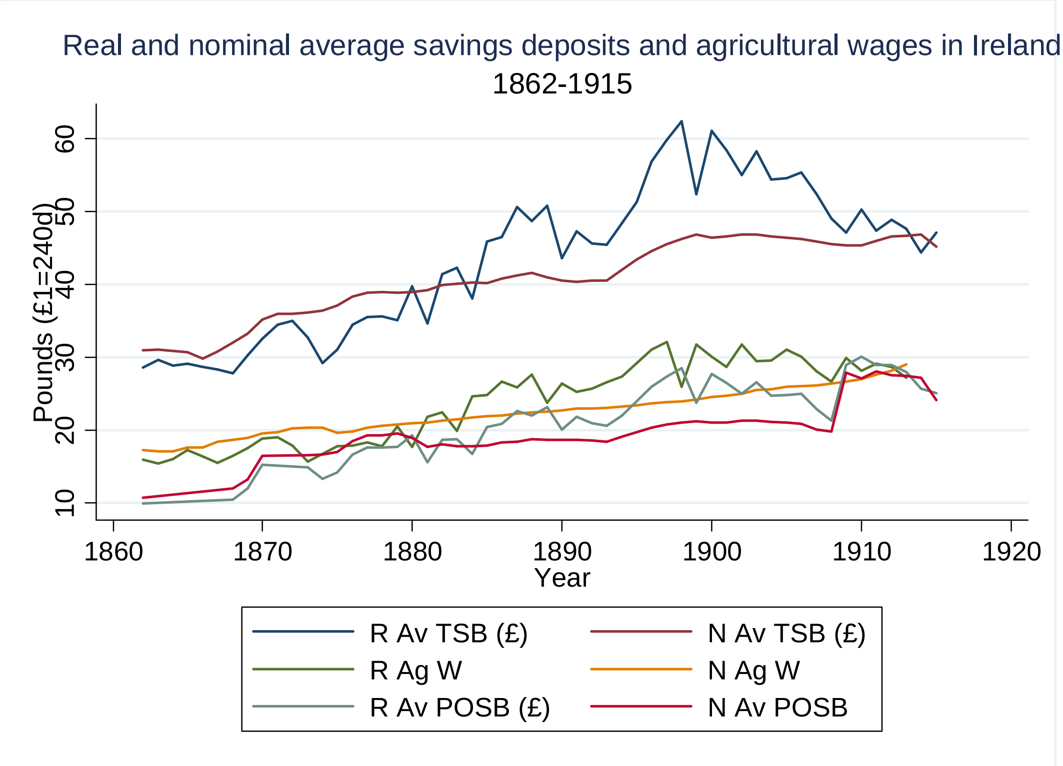
[190] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 239.
[191] *Report from the Select Committee on Savings Banks Funds; with the Proceedings, Evidence, Appendix, and Index*, H.C. 1902 (282), ix, 1.
[192] Ibid, questions 2869-2870, p. 134.
[193] Ibid, question 2872, p. 134.
[194] Ibid, question 2875, p. 134.
[195] Ibid, question 2969, p. 138.

Figure 4.22



Sources: see figure 4.21 and (Kennedy, 2003).

Fitt gave evidence as to the affect of restrictions in the savings banks, as once the £200 ceiling was reached some people preferred to stop depositing in the savings bank.[196] The attraction of the savings banks was clear, as the local joint stock banks, the Bank of Ireland and the Munster & Leinster Bank, were paying 1.5 and 2 per cent respectively on deposits,[197] whereas the savings banks, both POSB and TSB, were paying 2.5 per cent. Fitt also claimed that the rate paid by his savings bank was higher than that paid by the POSB.[198] This was due to the fact that the POSB did not start paying interest on accounts until after a month. Fitt's claim is corroborated by a statement in 1896 by Robert Hanbury, the secretary to the Treasury, in the House of Commons.[199]

Table 4.17 shows the trends in penetration of savings banks, including postal savings banks. The table is taken from Goldsmith's *Financial structure and*

[196] *Report from the Select Committee on Savings Banks Funds; with the Proceedings, Evidence, Appendix, and Index*, questions 2949, p. 137, H.C. 1902 (282), ix, 1.
[197] Ibid, question 2915, p. 135.
[198] Ibid, questions 2903, p. 135.
[199] *Hansard 4*, xxxvii (19 March,1896), p. 1341.

development of 1969, with some additional information on Ireland included in the table.

Table 4.17: Trends in penetration of savings banks - Number of accounts [a] as per cent of population

	1850	1871/75	1910	1963
Australia			36	100
Belgium		2.5	39	94
Denmark	2.5[b]	17.4	50	96
France	1.6	5.6	36	59
Germany	1.6	8.4	33	56
Great Britain	40	9.7	30	61
India			0.5	26
Ireland [c]	0.75	1.8	11.3	
Italy	0.3	2.5	22	
Japan			37	198
Netherlands		2.8	32	81
New Zealand			44	112
Norway	[b]	12.6	42	92
Russia-USSR		0.1	5	24
Spain			3	43
Sweden	[b]	13.1	39	160
Switzerland	2.0	23.3	53	
USA	1.1	4.0	10	12

Notes: a- Includes accounts with Postal Saving organisation
b- Figures refer to Denmark, Norway, and Sweden together
c- Information for Ireland not included in Goldsmith's original table

Sources: Table 8.2, Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 348, and information for Ireland has been derived from *Thom's Directory*, Postmaster General reports, and census of Ireland, various years.

Goldsmith made five observations about the data on savings bank penetration:

> First, the penetration of thrift accounts has increased spectacularly during the last century…secondly, the penetration of savings accounts in the economy has been particularly rapid during the half century preceding World War I…Thirdly, the degree of penetration of thrift accounts in the United States is low as compared to developed countries…Fourthly, although the number of less developed countries included in table 8.2 is too low to permit any generalisation, it is suggested – and is corroborated by collateral fragmentary information - that the penetration ratio of savings as well as of all thrift accounts in these countries is very low… Fifthly, a scatter diagram shows a rough correlation between the proportion of population having a savings account and the level of real gross national product in 1963…(sic)[200]

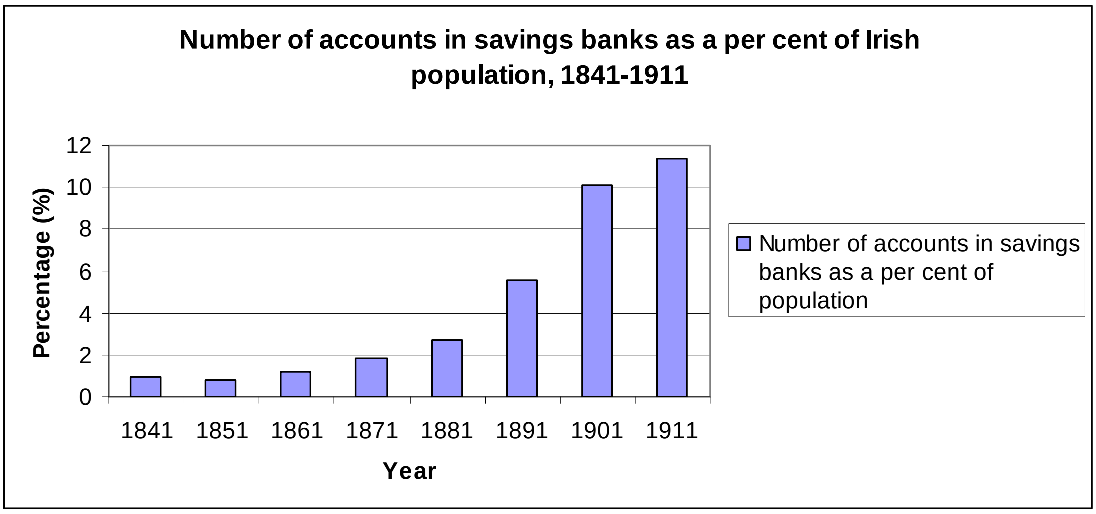
Goldsmith's observations seem to apply to the case of Ireland. Firstly, the penetration of thrift accounts increased after 1850 with the introduction of the POSB

[200] Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), pp 349-350.

to Ireland. Secondly, the rapid growth took place before the First World War. Regarding Goldsmith's fifth point, the penetration of thrift accounts in Ireland is relatively low in comparison with other countries. But, it must be noted that Ireland also had a developed joint stock banking system that began opening thrift accounts in the early twentieth century,[201] and these are not included in the tables. The same is true of the USA. It is not possible to make a definitive statement regarding the final point Goldsmith made, as there are no statistics for Irish real GNP before the 1920s.

Figures 4.23 to 4.26 are a continuation of this line of thought, by comparing Irish and UK penetration rates.[202] Figures 4.23 and 4.24 show the number of accounts in savings banks, both TSB and POSB, as a percentage of population in Ireland and in the UK. Throughout the period the UK has higher penetration rates than Ireland. The UK experienced growth in penetration rates that coincided with positive population growth. Ireland on the other hand saw its growth in penetration rates coincide with continued negative population growth.

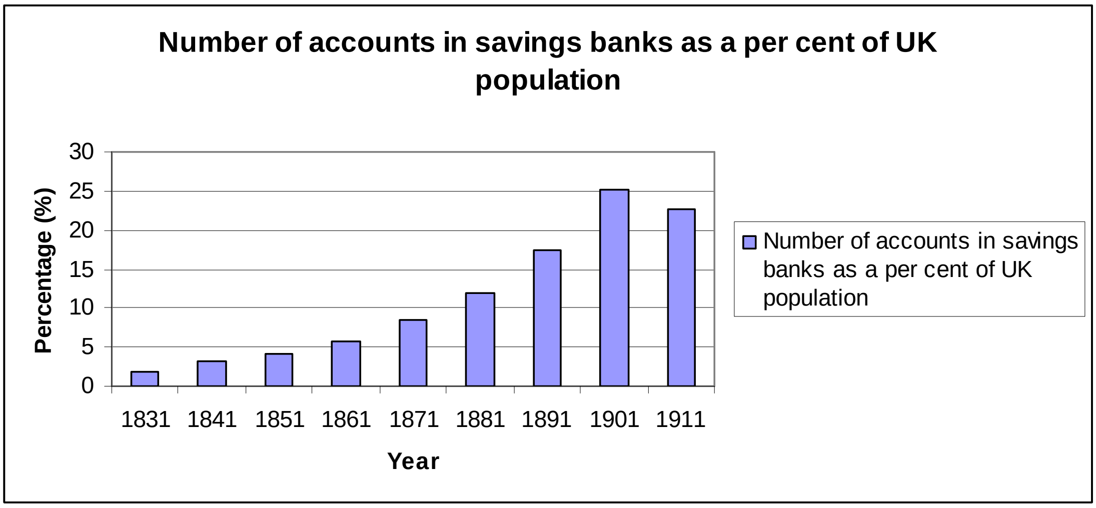
Figure 4.23



Sources: *Thom's Directory*, Postmaster General reports, and census of Ireland, various years.

[201] Charles Eason, 'The trustee savings banks of Great Britain and Ireland, from 1817 to 1928', a paper read before the *Statistical and Social Inquiry Society of Ireland* (15 November, 1929), p. 11.
[202] The POSB figures always referred to the UK as a whole, and so too did the figures for the TSB that appeared in Horne.

Figure 4.24

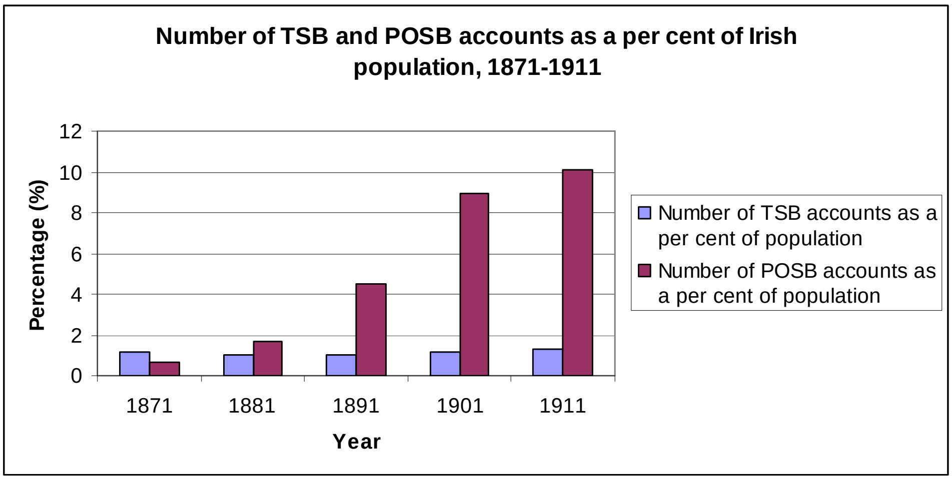


Sources: *Thom's Directory*, Postmaster General reports, and census of Ireland, various years.

Figures 4.25 and 4.26 show the penetration rates of the savings banks treated as separate bodies. The trend of the POSB comprising a greater share of the ratio is common to both Ireland and the UK. This seems to suggest that the POSB was responsible for the growth in savings bank penetration. Figures 4.26 and 4.27 also appear to validate the statement made by Edward John Stanley, Postmaster General, that:

> … the Post Office Savings Banks have reached a larger proportion of small depositors than the old Savings Banks have been able to attract. This gratifying result is, doubtless, attributable to the superior facilities given by the Post Office Banks, and especially to the fact that they are open daily and for several hours, and that they are situated almost at the door of the depositor.[203]

Figure 4.25



Sources: *Thom's Directory*, Postmaster General reports, and census of Ireland, various years.

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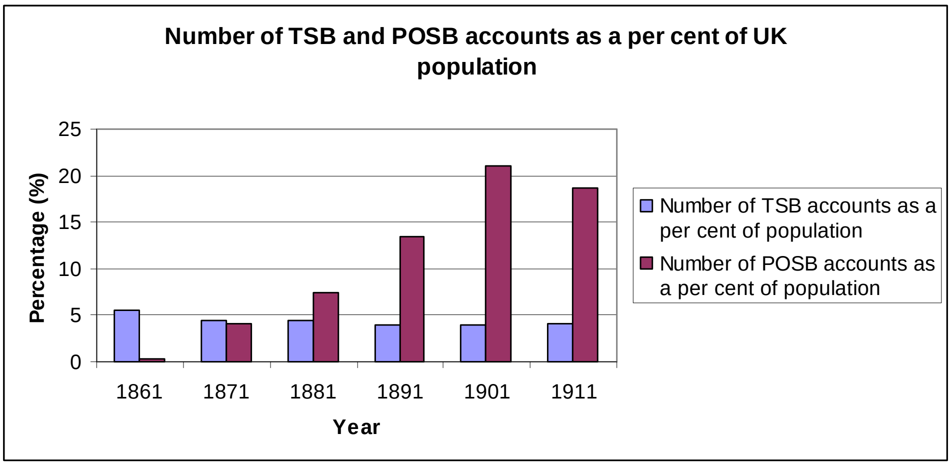
[203] *Eight report of the Postmaster General on the Post Office*, p. 14. [2984], H.C. 1862, xxvii, 393.

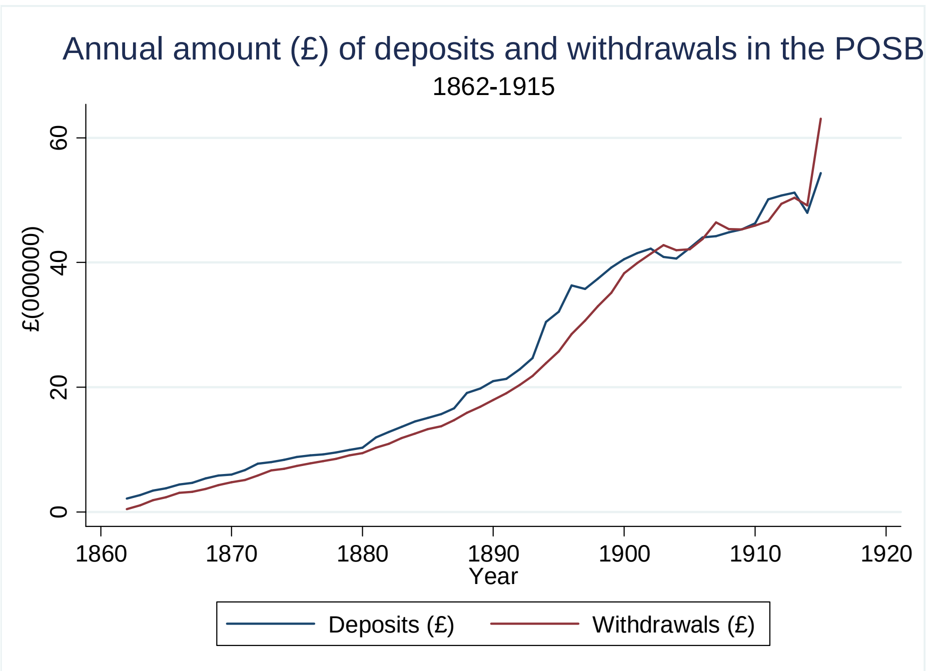
Figure 4.26



Sources: *Thom's Directory*, Postmaster General reports, and census of Ireland, various years.

A limitation of this study is that it uses stock data, in the form of annual balances in accounts, rather than the flow, the amount of deposits and withdrawals. Information on the annual number of deposits and withdrawals is available for the POSB, but it is only for the POSB as a whole and does not make allowances for the constituent parts of the UK. Figure 4.27 shows the number of deposits and withdrawals in the POSB from 1862 to 1916.

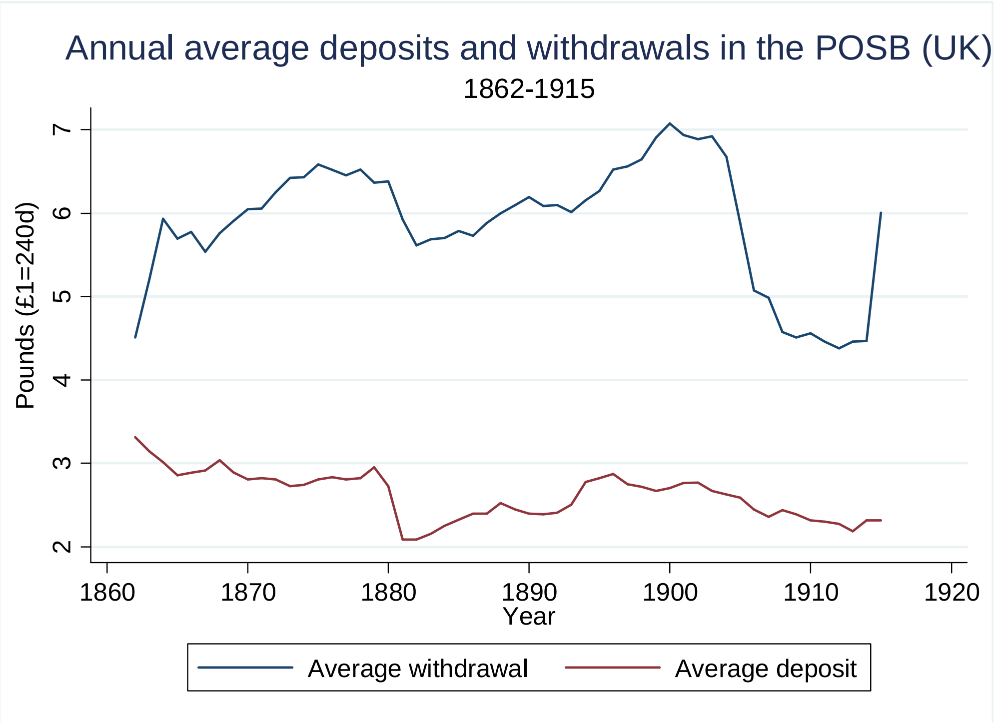
Figure 4.27



Source: Postmaster General reports, various years.

Figure 4.28 shows the average amount of deposits and withdrawals.

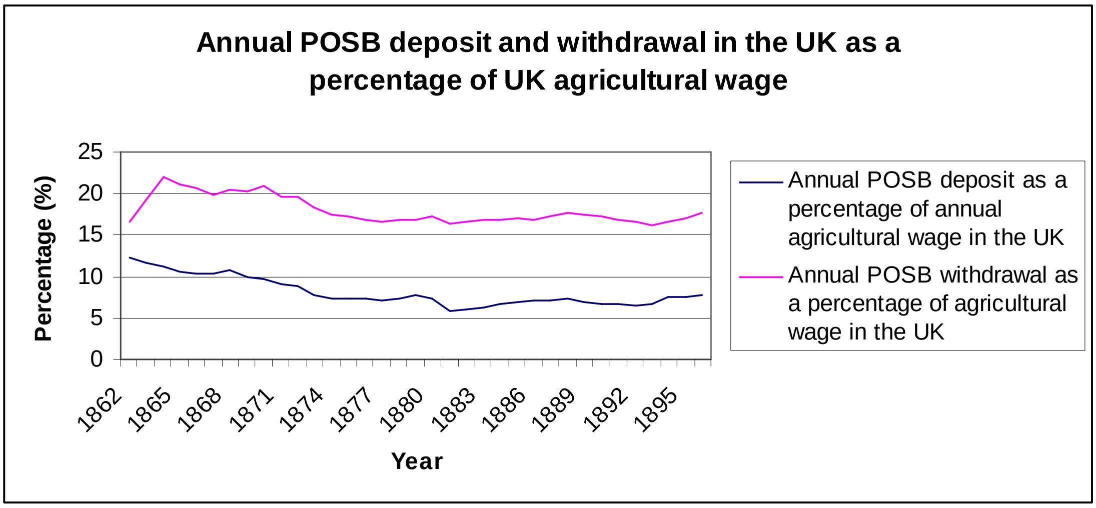
Figure 4.28



Source: Postmaster General reports, various years.

Figure 4.29 shows the average deposits and withdrawals in the POSB as a percentage of the UK agricultural wage.

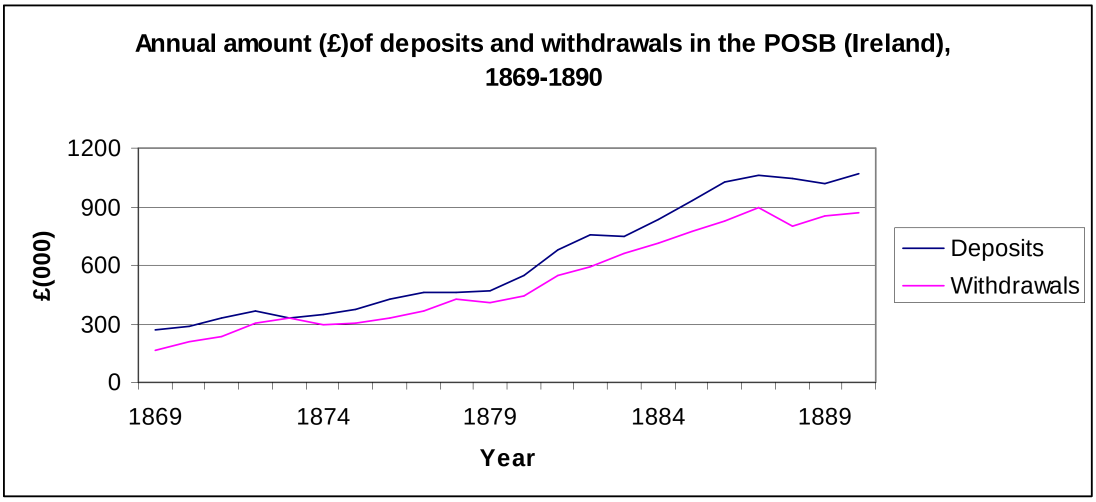
Figure 4.29



Source: Postmaster General reports, various years.

The information in figures 4.27 to 4.29 can be used as proxies for Ireland. For example, the slope of the lines in figure 4.27 would be what one would expect to see in an Irish scenario. We do, in fact, have some information on the annual amounts deposited and withdrawn in the POSB in Ireland, shown in figure 4.30. The slopes do look similar to those shown above for the UK as a whole, but unfortunately we do not possess disaggregated information for the other variables.

Figure 4.30



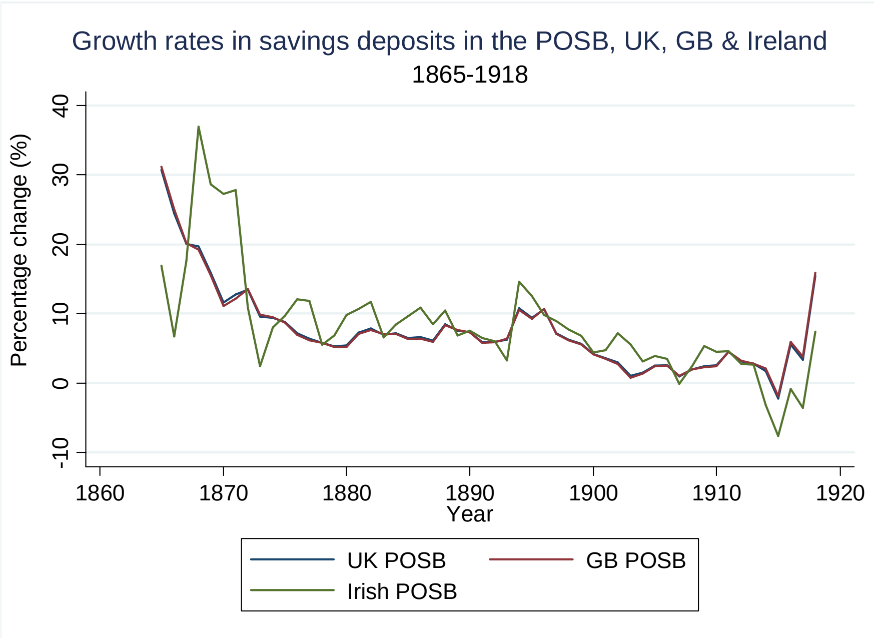
Source: Thomas Wrigley Grimshaw, *Facts and figures about Ireland* (Dublin, 1893).

Figure 4.28 shows that the annual average deposit was smaller than the average annual withdrawal, and it would have been the same for Ireland. This is logical, as many deposits would be first-time savers, evidenced by the fact that the number of depositors grows over time. On the other hand, the size of withdrawals would be greater because the people withdrawing would on average have large balances to withdraw. Figure 4.29 is assuming that the average deposits and withdrawals in the UK were involved in agriculture. This assumption may not appear to be realistic, but the aim of figure 4.29 is to give the annual average deposits and withdrawals a context. So what would the Irish version of figure 4.29 look like? Given that wages were lower in Ireland, and that deposits sizes were probably higher,[204] it would be safe to say that in Ireland the annual deposits would probably be a higher proportion of the agricultural wage. Figure 4.31 is an informal test of whether it is appropriate to use the UK flow data as a proxy for Irish flows. Figure 4.31 shows the growth rates of savings in GB, the UK and Irish savings deposits in the POSB. Although the magnitude is not identical, the trend in both is consistent. This would suggest that

[204] Figures for the average deposit size in 1862 show that in Ireland the average deposit size was £3 19 5, and the UK average was £3 12 8 - *Eight report of the Postmaster General on the Post Office*, p. 14. [2984], H.C. 1862, xxvii, 393.

using UK flow data as a proxy for Irish flow would not lead to erroneous conclusions about the Irish case.

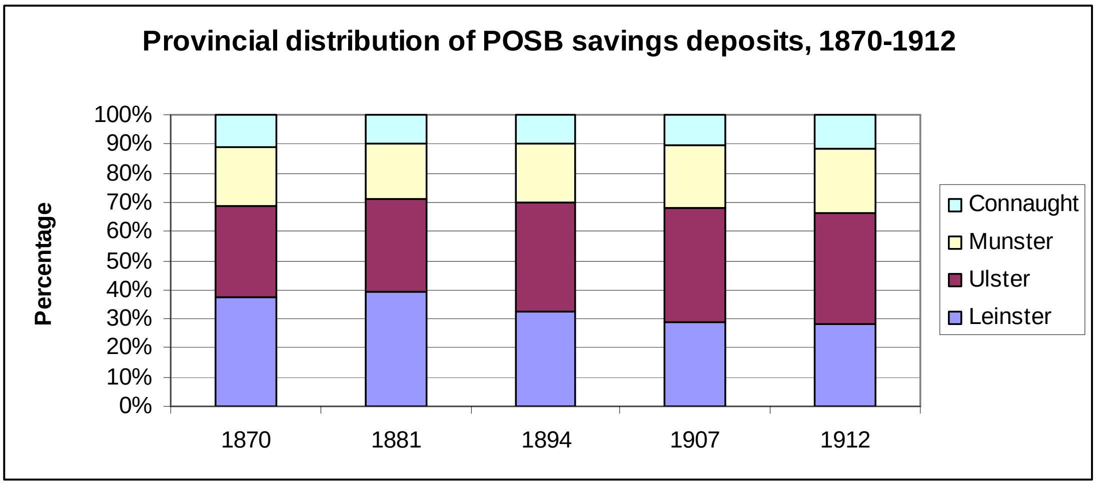
Figure 4.31



Sources: Reports of the Postmaster General and O'Rourke, 1998.

The distribution of savings deposits in the POSB is shown in figure 4.32. Initially Leinster held the largest share of POSB deposits, but it was overtaken by Ulster towards the end of the nineteenth century. Both Munster and Connaught increased their share of the distribution of savings deposits in the POSB.

Figure 4.32



Source: *Return relating to Post Office Savings Banks* , H.C. 1871 (280), xxxvii, 357; H.C. 1882, (347), xxxvii, 361; H.C. 1895, (387), lxi, 371; H.C. 1913, (272), lvii, 915.

Given that the savings banks were primarily intended for urban populations it is worth looking at the proportion of savings accounts and savings deposits held by Antrim and Dublin, the counties where the two largest cities in Ireland are located. Tables 4.18a and 4.18b show the percentage distribution of depositors and savings deposits in Belfast and Dublin for the POSB and TSBs. As can be seen, the two larges cities made up a significant proportion of the depositors and made up a large portion of the savings deposits in the POSB. Surprisingly, this pattern is not reflected in the statistics for the TSBs, with Dublin having a lower proportion of the savings deposits and Belfast having a larger proportion. The most likely explanation for this is the fact that there was a cultural bias against TSBs in Dublin due to the frauds in the 1840s.

Table 4.18a: Percentage of POSB depositors and savings deposits from Dublin and Antrim, 1870-1912

	Dublin		**Antrim**	
Year	**Depositors**	**Savings deposits**	**Depositors**	**Savings deposits**
	%	%	%	%
1870	24.04	18.84	13.96	12.28
1881	27.27	21.33	14.61	12.93
1894	25.36	17.61	15.56	14.76
1907	24.34	14.97	16.09	14.95
1912	23.94	14.56	15.97	14.28

Source: *Return relating to Post Office Savings Banks* , H.C. 1871 (280), xxxvii, 357; H.C. 1882, (347), xxxvii, 361; H.C. 1895, (387), lxi, 371; H.C. 1913, (272), lvii, 915.

Table 4.18b: Percentage of TSB depositors and savings deposits from Dublin and Belfast, 1870-1912

	Dublin		**Belfast**	
Year	**Depositors**	**Savings deposits**	**Depositors**	**Savings deposits**
	%	%	%	%
1870	21.41	14.78	9.32	7.94
1881	19.22	12.17	11.81	10.55
1894	20.03	12.44	20.71	17.20
1907	15.69	9.57	37.21	31.39
1912	15.12	8.88	39.26	34.13

Source: *Thom's Directory*, various years

By the end of the nineteenth century the TSBs deposits were confined to urban areas. By comparison the majority of the POSB deposits were derived from rural Ireland.

4.8. Inherent limitations of the British Savings Banks and the subsidisation of savings

The *raison d'être* of the British savings bank movement, and the thrift movement espoused by Samuel Smiles,[205] had been to encourage working class and low income members of society to save more of their income and thus to be self-reliant in times of distress. This philosophy does not seem to have been self-criticised, even by the historians of the movement. As was shown in the earlier sections of this chapter the TSBs were loss-making enterprises, and so too was the POSB. It seems that self-help did not necessarily mean self-sustainability.

Classical economists were aware of the limitation of the savings bank institutions. John Stuart Mill was sympathetic to the aims of the savings banks, but he had some philosophical objections to the use of the savings banks to purchase Consols and suggested that the government establish a national savings and loan bank.[206] Another critic of the savings banks, including the POSB, was William Samuel Jevons. Jevons wrote in the *Money and the mechanism of exchange* that:

> The post office savings bank system as established by Mr. Gladstone is an admirable institution; it has been very successful, and has done great service in increasing providence. But it is troublesome and costly in working, and leaves no profit to the state. Already the Scotch banks serve almost in the capacity of savings banks by receiving small fixed deposits; and it is well worthy of consideration whether, by the assistance of the Cheque Bank, almost all the English banks might not be converted savings banks, to the advantage of every one.[207]

The Cheque bank that Jevons refers to is the use of cheques to make payments which Jevons thought could be applied to a savings bank system to make it affordable for joint stock banks to compete with the POSB. Another article written by Jevons[208] in 1875 referred to the POSB, and was written in the context of a bill that intended to increase the annual limit from £30 to £100, and the total limit from £150 to £250. Jevons, like Mill, acknowledged the fact that the savings banks had been intended to be ‘eleemosynary institutions’, but he was critical of the fact that the government was

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[205] Samuel Smiles, *Thrift* (London, 1875).

[206] John Stuart Mill, *Principles of political economy* (1848, reissued 1998, Oxford), book v, ch vii, paragraph 3, pp 244-255.

[207] William Stanley Jevons, *Money and the mechanism of exchange* (New York, 1876), chapter xxii, available at Library of economics and liberty: http://www.econlib.org/library/

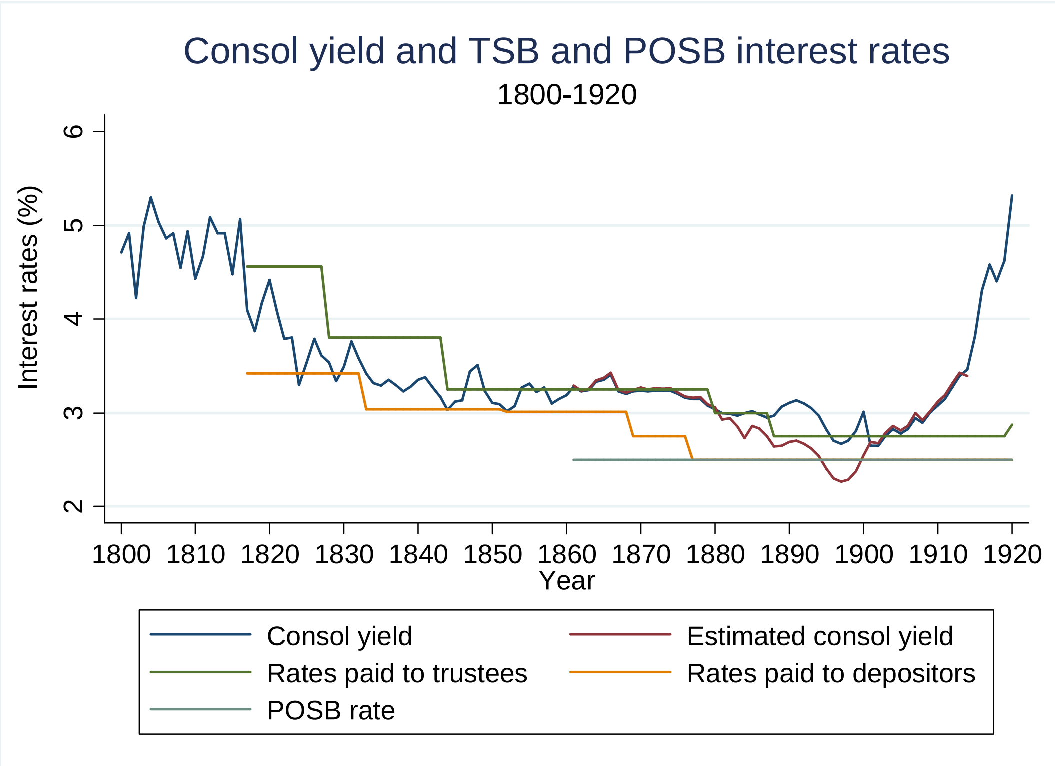
[208] William Stanley Jevons, ‘Postal notes, money orders, and bank cheques’, in William Stanley Jevons, *Methods of Social Reform and Other Papers* (London, 1883), Online Library of liberty, [http://oll.libertyfund.org].

receiving demand deposits and investing them in long term-securities, with the risk of substantial losses to the state.[209]

In the early nineteenth century, most criticism of the savings bank movement came mainly from the viewpoint that the government should not be subsidising the thrift movement by offering overly generous interest rates. This continued to be a theme throughout the nineteenth century. The rate of interest which the government paid to the TSBs was fixed, and that received by depositors was also fixed, whereas the price of Consols fluctuated daily. Figure 4.33 shows Consol yield from 1800 to 1921, an estimated Consol yield for the period 1850 to 1914, and the interest rates of TSBs and the POSB. Klovland stated that:

> For many decades before World War I the price of Consols was the single most important asset price in the world economy. Since then, the yield on Consols, calculated by dividing the coupon rate by the market price, has been the obvious benchmark rate of interest used in comparisons of the rate of return on capital assets.[210]

Figure 4.33



Sources: (a) estimated consol yields: Jan Tore Klovland, 'Pitfalls in the estimation of the yield on British Consols, 1850-1914' in *The Journal of Economic History*, liv, no. 1 (Mar., 1994), pp 164-187.

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[209] William Stanley Jevons, 'Postal notes, money orders, and bank cheques', in William Stanley Jevons, *Methods of Social Reform and Other Papers* (London, 1883), Online Library of liberty, [http://oll.libertyfund.org]

[210] Jan Tore Klovland, 'Pitfalls in the estimation of the yield on British Consols, 1850-1914' in *The Journal of Economic History*, liv, no. 1 (Mar., 1994), p. 165.

(b) Consol yield (non-corrected): calculated from tables in Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005). (c) Interest paid to trustees: see table 4.2

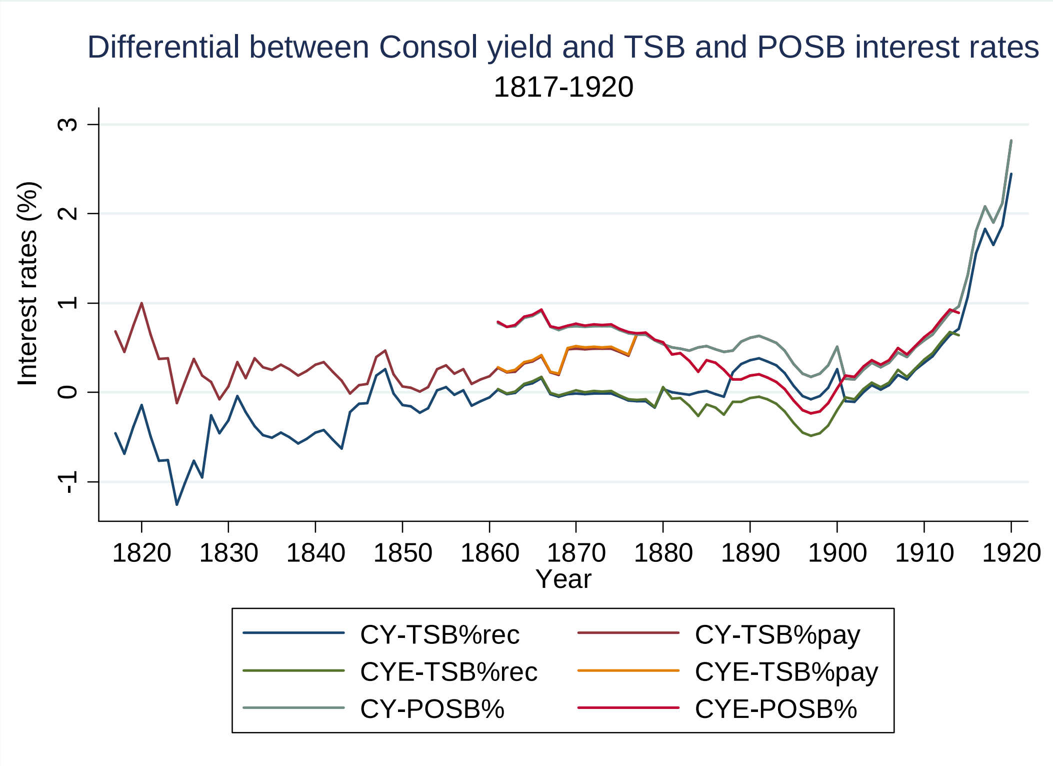
The importance of the information in figure 4.33 is that it shows the various interest rates at the time. The POSB rate was fixed; so too were the rates payable to TSBs but they were periodically revised, as was shown in table 4.2.

Figure 4.33 shows the long-run trend in UK Consol yields and the maximum rates paid to TSBs. Figure 4.33 indicates the significant problematic areas and supports the statements made by Hancock in section 4.3. As the Consol yield was continuously below the maximum rate paid to TSB trustees in the early nineteenth century, the government was forced to make up the difference. The reductions in the interest rates paid to trustees underestimated the downward trend in Consol yields during this period, and thus the government was making a loss on the TSB system, i.e. subsidising savings. If we look closely at figure 4.33 we can see that the rate paid to the TSBs was greater than the rate paid to depositors in the TSBs in the early nineteenth century. This indicates that the TSBs themselves were making profits; but as the rates paid to the TSBs were greater than the yields on Consols these profits were being subsidised by the state, as indicated in figure 4.33.

If we analyse the TSB and POSB interest rates in terms of differentials between Consol yield and the maximum rates paid to TSBs and to depositors in TSBs and the POSB, shown in figure 4.34, we can see that in the early years of the nineteenth century the differential between Consol yield and rates paid to TSBs was negative, but that the Consol yield was higher than the rate paid to depositors. This would suggest that TSB deposits would have been attractive investments at the start of the nineteenth century, but that from the mid-nineteenth century Consols provided a higher return to investors. The key issue here is the accessibility of Consols to low-income investors. They essentially were inaccessible until a scheme was launched for the purchase of Consols through the POSB in the 1880s.[211] Also geography could have played a role in increasing transaction costs associated with purchasing Consols and hence made TSB deposits a more attractive investment.

[211] From 1881 onwards the Post Office sold government stock directly through the Post Office for sums between £10 and £100: *Twenty seventh report of the Postmaster General on the Post Office*, p. 5 [c.3006], H.C. 1881, xxix, 583.

Figure 4.34



Note: the differential has been calculated by subtracting the TSB rate from the Consol yield (i.e. CY-TSB %)
CY= consol yield
TSB% rec = TSB rate received from CRND
TSB %pay = TSB rate paid to depositors
CYE= Klovland's estimated Consol yield
Sources: See figure 4.33.

The key to the question of savings banks funds was how they were used. Consols were the main securities that the CRND purchased, with deposits received from both savings bank institutions (TSBs and POSB). The problem with Consols was that the price, and thereby the yield, fluctuated with market conditions. Consols had a coupon rate of 3 per cent for most of the nineteenth century, but in 1888 Goschen, the then Chancellor of the Exchequer, attempted to consolidate the UK National debt.[212] Goschen's consolidation involved the gradual conversion of UK Consols from 3 per cent to 2.5 per cent Consols. The problem from the perspective of the savings banks was that the national debt consolidation, coupled with increased demand for Consols coincidently caused by the expansion of annual limits in the savings bank accounts, pushed down the yield on Consols. Figure 4.33 shows two representations of the Consol yield during this period. One is a crude version which makes no allowance for

[212] Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed., New Jersey, 2005), p. 189.

the change in the Consol coupon rate;[213] the other is an estimated version taken from Klovland. Both yield rates show that the decrease in yield would have led to losses to the government from the savings bank business. Klovland's estimate is a more accurate depiction of Consol yields and shows the seriousness of the situation. The decrease in Consol yields meant that for a stretch of five years, from 1895 to 1900, given that the Consol yield rate was less that the POSB deposit rate, the POSB was a loss-making institution. As Walter Bagehot pointed out, 'if you hold millions of other people's money at interest, arithmetic teaches you that you will be ruined if you make nothing of it, even if the interest you pay is not high'.[214]

These loss making years did cause some contemporary anxiety, if gauged by the questions asked in the House of Commons. For example, in 1896 there was concern that the rate of interest paid to the POSB and TSB would be reduced. G. C. T. Bartley, founder of the National Penny Bank Limited,[215] questioned Michael Hicks Beach, Chancellor of the Exchequer, about the issue, but received no indication of the action that would be taken. Hicks-Beach simply stated that the issue was being addressed by an internal committee in the department and the action would await the committee's report.[216] The Chancellor's reassurances did not assuage G. C. T. Bartley. A week after his question regarding whether or not the Government intended reducing the rate of interest payable to the POSB and TSB, he called for a commission of some description on the issue. Bartley stated that:

> …considering the great importance of the subject of the financial position of the country to the Post Office Savings Banks and the Trustee Savings Banks, owing to the very great rise in the price of Consols, the government will accept the Motion put down for a Committee of this house to investigate the subject.[217]

J. G. Weir was concerned that the government would reduce interest on deposits and asked: 'whether in view of the fact that the Post Office Savings Bank was established for the encouragement of thrift among the masses, he [secretary of the treasury] will give the house some assurance that the rate of interest shall not be reduced, at all events, so far as accounts showing a balance of less than one hundred

[213] I calculated this from data in Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005).
[214] Walter Bagehot, *Lombard Street: a description of the money market* (London, 1873, new and revised edition, London, 1908), p. 122.
[215] Michael Stenton and Stephen Lees, *Who's who of British members of Parliament: vol II 1886-1918* (Sussex, 1978), p. 24.
[216] *Hansard 4*, xxxvii (20 February, 1896), p. 447.
[217] Ibid, (23 February, 1896), pp 944-945.

pounds are concerned?'[218] But the graver concern seems to have been over the potential for indebtedness of the UK government. Mr B. L. Cohen asked the Chancellor what measures would be taken to 'provide for depreciation in the value of securities held on account of the post office savings bank.'[219]

It was this context that led to some alternative evaluations of the question of savings banks, in particular by Henry W. Wolff. His writing on credit co-operatives, and more importantly an article on savings banks, shows an awareness of the problem.[220] Wolff tried to use the savings bank deficits to make the case for an alternative in the form of co-operative people's banks. It is worth noting Wolff's views, as he is an important character in terms of co-operative banking in Ireland and his work is discussed in chapter 6.

The problem regarding losses made by the TSB and POSB accounts due to the fluctuation in yield prices was only of short duration. The trend from 1900 was of increasing Consol yields. This was caused by an increase in government debt following the Boer War (1899-1902) and more so after the First World War.[221] After this short period, 1895-1900, the question of the use of savings bank funds was not an immediate concern.

It is useful to highlight that not all contemporary thought was oblivious to the problem created by one-dimensional financial institutions that only offered savings services. The funds were lent to the government and not to depositors or individuals. For example, during the debate of the 1887 Post Office Savings Bank and Government Annuities Bill,[222] when there was some discussion on increasing the annual deposit limit from £30 to £50.[223] The most poignant response to the increased limit clause came from Lubbock who said that the joint stock banks had no interest in the matter; in this view he stated, 'I speak for myself, and I believe, for other bankers'.[224] Lubbock had no objection to the lower classes saving *per se*, but he found two faults with the existing system. Firstly, he foresaw the difficulties that the government would cause, and face, if it increased the limits from £30 to £50. In 1887

[218]*Hansard 4*, xxxvii (20 February, 1896), p. 709.
[219]Ibid (27 February, 1896), p. 1230.
[220] Henry W. Wolff, 'Savings banks at home and abroad' in *Journal of the Royal Statistical Society*, lx, no. 2 (June, 1897).
[221] Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005), pp 437-438.
[222] *A bill to amend the acts relating to Post Office savings banks and to the purchase of small government annuities, and to assure payments of money after death*, H.C. 1887, (344), v, 357.
[223] Ibid, clause 1.
[224]*Hansard 4*, xxxvii (27 February, 1896), p. 821.

the POSB in the UK already held a sizeable number of deposits. His second point was that:

> The Trustee Savings Bank and the Post Office Savings Bank only do one part of the banker's business. Banking business consists of different parts. One is to collect funds paid into the bank, and the other – an equally important duty – is to lend money out to customers on favourable terms. But the result of these banks is to drain enormous sums from different localities in the counties, and to bring them up to London to be invested in Government securities.[225]

Lubbock recognised that there could be implications of encouraging the growth of such institutions. He pointed out that the existence of the POSB could crowd out a nascent intermediary institution by the fact that it almost controlled the savings element of banking. He stated:

> I maintain that savings banks have not been an unmixed benefit to this country. One effect has been to discourage the creation of workmen's banks, and local banks, which would otherwise have been established. In Germany no fewer than 900 workmen's banks have been established, and hold large sums of money. They have proved a great convenience and extremely useful to the community. Some years ago it was in contemplation to establish banks of this kind in this county; but it was found to be practically impossible, on account of the fact that the government did so very much of the banking business.[226]

These views, raised by Lubbock in 1887, were not considered in 1896 when the savings bank system began experiencing some difficulties. In 1896 Mr Heinniker Heaton asked if the POSB would introduce a cheque system to facilitate payments from POSB accounts, and Mr. J. G. Weir asked if there would be a money order system attached to accounts to facilitate payments from POSB accounts. The response from Mr Hanbury, representing the Post Office, was:

> …the Postmaster General is not prepared to introduce any such machinery as is suggested for facilitating the withdrawal of deposits from the Post Office Savings Bank. It must be remembered that the Post Office Savings Bank was established in order to encourage thrift, and the Government has no intention of converting it into a banking institution.[227]

4.9 Conclusion

This chapter outlined the main developments in the Irish savings banks. From the outset the chapter placed an emphasis on Smilesian self-help and thrift. The relevance of Smilesian thought in an Irish context can be seen in role of the Congested Districts Board (CDB), which aimed to inoculate a culture of self-help, paradoxically through

[225] Ibid, p. 821.
[226] Ibid, p. 822.
[227] *Hansard 3*, xxxvii (21 February, 1896), pp 810-811.

the medium of state-aid, in the west of Ireland.[228] In writing a history of the achievements of the CDB Micks, an inspector and Secretary of the CDB, placed emphasis on the increased deposits in the POSB as an indicator of the success of the CDB.[229]

The chapter showed that the TSBs were a dominant competitor in savings markets before the famine, but they declined thereafter due primarily to endogenous shocks. The continued weakness in the Irish TSB system and contemporary difficulties in the UK led to the establishment of the POSB in 1861. The POSB went on to become the dominant institution of 'thrift' in Ireland. Table 4.19 summarises the changes in the savings bank system by showing the percentage change in variables of both TSBs and the POSB in decadal intervals from 1861 to 1911.

Table 4.19: Inter-decadal percentage change in the units/branches, savings deposits and depositors in TSBs and the POSB, 1861-1911

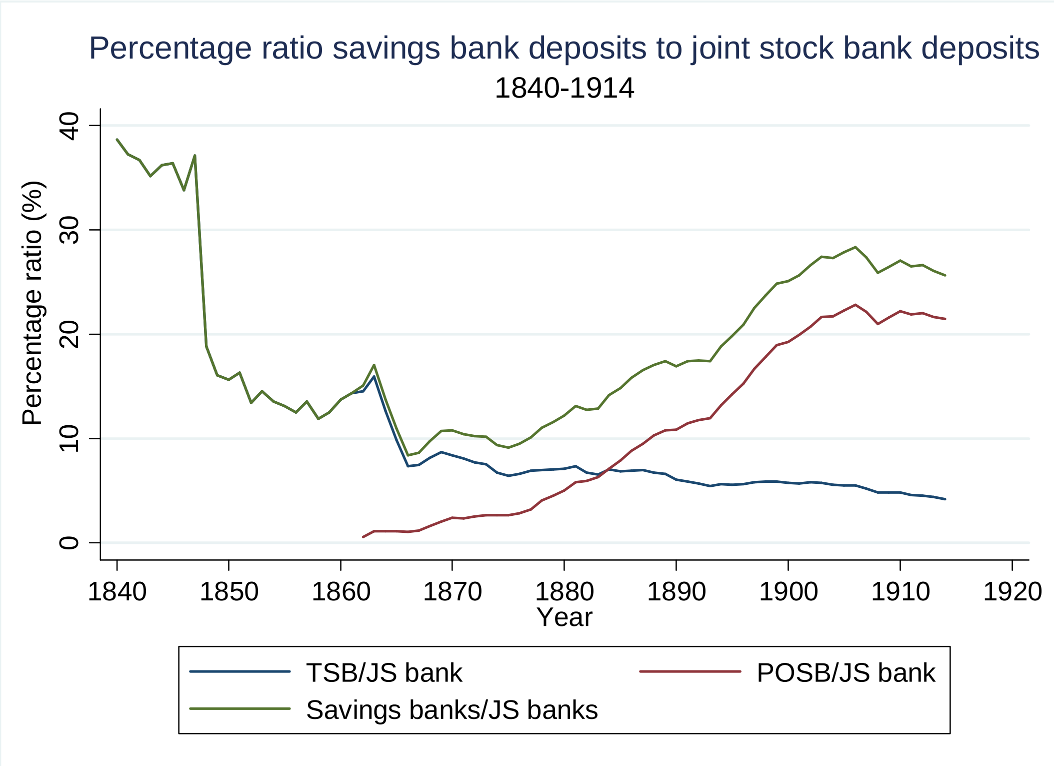
	TSBs			POSB		
Decennial period	**Units (1)**	**Savings Deposits (2)**	**Number of depositors (3)**	**Branches (4)**	**Savings deposits (5)**	**Number of depositors (6)**
	%	%	%	%	%	%
1861-1871	-25.45	3.18	-10.17	72.33	843.04	421.37
1871-1881	-24.39	-6.39	-15.34	14.51	131.28	153.66
1881-1891	-38.71	-4.32	-7.72	20.95	130.18	118.41
1891-1901	-31.58	19.86	3.89	0.00	112.76	88.54
1901-1911	-7.69	8.83	10.67	40.92	47.89	11.02

Note: The POSB was established in 1862, so the first rows in columns 4, 5 and 6 are percentage changes from 1862 to 1871. Also note that there was no information for the number of depositors in 1871, so 1870 was used for the calculations in rows 1 and 2 for column 6.
Sources: *Thom's Directory,* and Postmaster General reports, various years.

[228] *Thirteenth annual report of the Congested Districts Board for Ireland*, p. 104, H.C. 1905, [Cd. 2275], lxii, 229.
[229] William L. Micks, *An account of the constitution, administration and dissolution of the Congested Districts Board for Ireland from 1891 to 1923* (Dublin, 1925), p. 211.

In order to gauge the relative importance of the TSBs and the POSB as savings institutions, it would be worthwhile to compare it to the joint stock banks, and the savings deposits that they held.

Figure 4.35



Source: O'Rourke, 1998.

Figure 4.35 shows how the ratios of the savings banks to the deposits held by the joint stock banks were not insignificant amounts, and the information presented in this chapter is reflected in figure 4.35. Before the famine period the TSBs held a significant share of the deposit market in Ireland, but following the discovery of frauds in 1848 the TSB share of deposits fell dramatically and continued to decline. The POSB from its establishment in 1862 continued to grow relative to the joint stock bank deposits. The savings banks combined grew to a ratio of 28 per cent of the deposits held by the joint stock banks in 1905.

The 1914 report on agricultural credit in Ireland acknowledged the role of the savings banks. Stating that 'although the Post Office and Trustee Savings Banks cannot be considered as credit institutions in the strictest sense of the term, they have in several respects an important relation to the subject of rural credit in Ireland'.[230] The report believed that 'the large sums on deposit in the country Post Offices prove that there are ample funds in these localities for the purposes of agricultural credit if the confidence of the small depositor could be attracted'.[231] The differentiation between the POSB and the TSBs is trivial in this issue, as both institutions collected savings that were used by the state to purchase Consols. The 1914 report noticed this, and stated that 'a grave economic injury is done to Ireland by the transfer of £15,000,000 of the savings of her population to England for investment in government securities'.[232] That being said they offered no alternative to this, or a way to re-direct the flow of savings, only to establish co-operative societies and hope for the best. The report recommended that:

> The most immediately feasible and generally satisfactory method, in our opinion, of turning to account reproductively a part of the large amount now on deposit in Irish Post Office Savings Banks, especially in rural districts, is the organisation of a sound scheme of co-operative credit on the lines proposed in our Report. This would lead, we believe, to a gradual and beneficial transfer of a portion of the funds of the Post Office Savings Banks to Credit Societies, and would after a time furnish the latter with sufficient capital (when taken in conjunction with Bank overdrafts) to meet all the reasonable current borrowing requirements of the medium and small agricultural classes.[233]

This policy did not address the fact that the POSB had a competitive advantage in the form of complete government security for any losses, something which no other financial institution, including the co-operative credit societies, had unless the government offered a state guarantee for deposits. Another problem with the savings banks, both POSB and TSB, was that they helped breed a culture of financial secrecy, one which would not have been conducive to a successful co-operative banking programme. For example, Mr Charles Fitt in his evidence to the 1902 savings bank fund committee stated that 'our depositors are a curious class; they do not like the idea of people knowing what they have in the bank'.[234]

Evidence from the work of Ledgerwood suggests that there is a demand for both savings and loan products from microfinance institutions,[235] and it is possible that

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[230] *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 38, H.C. 1914 [Cd. 7375], xiii, 1.
[231] Ibid, p. 50.
[232] Ibid, p. 50.
[233] Ibid, p. 50.
[234] *Report from the Select Committee on Savings Banks Funds; with the Proceedings, Evidence, Appendix, and Index*, question 2923, p. 136, H.C. 1902 (282), ix, 1.
[235] Table I.1 in Joanna Ledgerwood and Victoria White, *Transforming microfinance institutions: providing full financial services to the poor* (Washington, 2006), p. xxxiii.

different economic conditions determine the demand for both. The demand for savings and loan products was also evident in Ireland in the nineteenth century, with different people having different needs. The joint stock banks that were discussed in chapter 3 offered both services to people, and the largest microfinance institutions in nineteenth century Ireland catered to those who had a demand for savings products. From the statements of the committee on agricultural credit we can get the impression that contemporaries believed that there was a shortage of credit in Ireland. Admittedly, using a committee on agricultural credit introduces an element of bias into this analysis, but perhaps the committee misinterpreted the savings banks. Perhaps the real demand in Ireland was for savings services. It is ironic that while there were complaints of capital shortages in rural Ireland, at the same time many small Irish farmers had their savings in institutions whose infrastructure ensured that this capital would not be re-invested in the Irish economy. Perhaps the bias in the source material that suggests 'credit' shortages is more a reflection of people believing that they would have been able to get access to cheap government loans or grants if they exaggerated their inaccessibility to credit. The counterfactual to this statement is that if there was no demand for savings, we would not see any growth in the POSB savings deposits, or in the savings deposits held by the joint stock banks.

Many modern-day microfinance institutions have had problems similar to the POSB and TSB in nineteenth century Ireland in that they were one-dimensional financial institutions and concentrate on one type of financial service. But the focus of modern institutions was on credit rather than savings services, and many have attempted to transform themselves into financial institutions to also offer savings services.[236] Ledgerwood and White stated that the reasons for transforming a microfinance institution are that it would enable the microfinance institution:

> To offer additional products and services (particularly savings) to their clients and to gain access to capital (both debt and equity), and in so doing, expand their outreach…In addition, savings services represent a critical component of any household's financial management strategy. In fact, it is often argued that providing access to savings services is a much more valuable service to poor people (including those not able to access credit either because of lack of debt capacity or poor product offerings by the MFI) than credit. The path out of poverty lies in building assets, not accumulating debt. In addition, other services – specialised housing loans, money transfers, and microinsurance – are greatly valued by clients and may only be possible through licensed financial intermediaries.'[237]

[236] Ibid.
[237] Ibid, pp xxix- xxx.

The case could be argued that in Ireland the savings institutions were too one-dimensional and could have supplied a better service if they had provided loans as well as savings services. Contemporary savings banks in Europe and America developed differently, and in some cases were lending institutions. For example, savings banks in Denmark, Germany and Sweden all had a capacity to make loans to individuals,[238] but this does not take into consideration the late development of joint stock banking in these countries. In contrast, Ireland had an established joint stock banking sector dating from the 1820s. The existence of state-administered savings banks in Ireland suggests that there may have been some market distortions in Ireland.

Lending to individuals is riskier than lending to the government, but a practical policy could have been arranged whereby screening and monitoring would take place, and a significant amount of savings should have been made available for small loans within the Irish economy. Given that it was government policy to provide small loan facilities in Ireland towards the end of the nineteenth century and early twentieth century,[239] perhaps such a facility could have been provided more cost effectively within the one institution.

This chapter has shown that the savings banks, TSB and POSB, were loss making institutions. Therefore, this indicates that savings were subsidised in Ireland. In fact, the interest rates offered by the savings banks were greater than the prevailing market rates. As was outlined in chapter 3, the interest rates set by the joint stock banks followed the rates set by the Bank of England. These were competitive market rates, and were usually lower than the 2.5 per cent that the savings banks were paying for deposits. The lower rates paid by the banks was also due to the fact that savings were short-term demand deposits, and the low rate is a reflection of the short-term nature of the investment; if the savings deposits were held for longer terms the banks could have offered higher rates. Savings were also held as demand deposits in the savings banks, but the state paid a fixed rate on these deposits. A highly significant feature of the savings banks was also the fact that they had a semblance of a

[238] Timothy W. Guinnane, and Ingrid Henriksen, ‘Why were credit cooperatives unimportant in Denmark’ in *Scandinavian economic history review*, xlvi, no. 2 (1998); Toni Pierenkemper and Richard Tilly, *The German economy during the nineteenth century* (2004, New York), p. 115; Hakan Lindgren and Jans Sjorgren, ‘Banking systems as “ideal types” and as political economy: the Swedish case, 1820-1914’ in Douglas J. Forsyth and Daniel Verdier (eds), *The origin of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 129.

[239] State bodies providing short-term loans were the Congested Districts Board, the Department of Agriculture and Technical Instruction. The Board of Works provided short-, medium- and long-term loans.

government guarantee. The perception that the TSBs were safe was lost after the frauds in the 1840s, but the POSB offered a 100 per cent guarantee and this is something which explains its growth in the 1870s and 80s. Therefore, the savings banks, most notably the POSB, had competitive advantages over the joint stock banks in terms of both security and higher interest rates. The savings banks had constraints on savings, such as the annual and total restrictions, but these were not binding. An obvious way for someone to overcome the annual restrictions was to deposit money in a family name. The research of Cormac Ó Gráda suggests that this was a common practice.

Could other financial institutions have profitably entered the savings market if there was no government-supported savings banks? Most likely not, as the savings banks attracted savers by paying high interest rates and by providing guaranteed security. Also, the fact that the POSB had the largest branch network on the island should not be discounted. In addition, the Post Office had the advantage of economies of scope and was able to cross-subsidise some of its other loss making services. As branch banking was costly, and the income from lending would not have generated the required risk-adjusted returns, the joint stock banks would not have been able to profitably enter the market.

The increase in the annual limits of the savings banks is also a significant factor in explaining the growth of the savings banks deposits relative to the joint stock banks at the end of the nineteenth and the beginning of the twentieth centuries. The joint stock banks seem to be irritated by the increase in the savings bank limits. For example, the chairman of the National Bank, Mr. Slattery, stated in a speech in 1900 that 'the advantages of state banking are placed within the reach of a class for which they were never originally intended'.[240] In modern financial theory it has been found that people will accept negative interest rates in order to get access to secure financial services (i.e. pay to save),[241] but the market in nineteenth century Ireland was distorted by legislatively encouraged and imposed institutional imports from Great Britain. The joint stock banks argued that this rate was 'far beyond the local value of

[240] 'The Banking operations of the Post-Office' in *Journal of the Institute of Bankers in Ireland*, ii, no. 4 (October, 1900), (Dublin, 1900), p. 233.
[241] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington DC, 1998), p. 156.

money',[242] and wished that the rate of interest of the POSB and TSBs be reduced.[243] Thrifty savers in nineteenth century Ireland were given 2.5 per cent interest, secured by a one hundred per cent state guarantee, something a competitive market could not have matched.

[242] 'The Banking operations of the Post-Office' in *Journal of the Institute of Bankers in Ireland*, ii, no. 4 (October, 1900), (Dublin, 1900), p. 233.
[243] For example see: *Journal of the Institute of Bankers in Ireland*, ii, no. 3 (July, 1900), (Dublin, 1900), pp 165-166.

Microfinance institutions in nineteenth century Ireland

Volume 2 of 2

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October, 2009

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Abbreviations

A&C	Agricultural and Commercial Bank of Ireland
AOS	Agricultural Organisation Society
CDB	Congested Districts Board
CMS	Charitable musical society
CRND	Commissioners for the Reduction of the National Debt
DATI	Department of Agriculture and Technical Instruction
IAOS	Irish Agricultural Organisation Society
LFB	Loan Fund Board
LRC	London Relief Committee
FS	Friendly Society
MO	Money Order
NAI	National Archive of Ireland
NLI	National Library of Ireland
PB	Penny Bank
POSB	Post Office Savings Bank
RLF	Reproductive Loan Fund
TCD	Trinity College Dublin
TSB	Trustee Savings Bank

5 Urban experiences of nineteenth century microfinance

5.1 Introduction

Nineteenth century Ireland witnessed a growth in the proportion of the population classified as urban; in 1841 the urban population constituted 14.86 per cent of the total population, but by 1911 it had increased to 34.69 per cent.[1] Therefore, it would be an inexcusable oversight, given the growth in urban population, to ignore some urban experiences in relation to microfinance institutions. The urban segment of Irish society is often overlooked in historical studies because of the heuristic bias of Irish historical source material, in particular parliamentary inquiries, which mainly focused on rural activity.

The microfinance institutions heretofore discussed in this thesis were predominantly rural institutions. The LFB loan funds discussed in chapters 1 and 2 had a few urban loan funds, but these comprised a small proportion of the total number of loan funds. For example, of the 268 loan funds registered with the LFB in 1841 only one was found in Belfast and Dublin city respectively, and two in Cork city.[2] The RLFs were also located in rural areas in Connaught and Munster. The savings banks discussed in chapter 4 also had a strong rural presence. The TSBs, although predominantly an urban institution in the latter nineteenth century, were found in rural locations, and the POSB was also active in rural areas.

The aim of this chapter is not to give a detailed account of urban experiences of microfinance; rather to illustrate the fact that there was a strong element of institutional imitation occurring in nineteenth century Ireland. The institutional imitations were undertaken at the behest of social elites, with social, as opposed to economic, goals being their *raison d'être*. The urban experiences also show us that indigenous innovation was possible, but that the structures of these institutions did not encourage permanence. The urban experiences highlighted in this chapter are relevant in that they shed light on the microfinance institutions discussed elsewhere in this thesis.

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[1] The term urban has been used here. The census definition of urban was any town with a population over 1,500 people at a census date, the remainder of the population being considered rural: *Report of Commission on Emigration and other population problems*, 1948-1954 (Department of social welfare , Dublin , 1954), R. 84 (Pr. 2541), majority report, p 7.

[2] *Fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, [392], H.C. 1842, xxiv, 247.

This chapter will give a brief introduction to three distinct microfinance institutions that operated in urban environments in the nineteenth century. These were Monts-de-Piété, Penny Banks (PB) and Friendly Society (FS) loan funds. Each case is separate but provides us with useful information that helps understand the history of other institutions discussed in this thesis.

Firstly, this chapter will give an outline of pawnbroking in Ireland. Pawnbroking is an understudied nineteenth century experience receiving little if any scholarly attention. A book has recently been written by Jim Fitzpatrick,[3] but the field is still ripe for further study. This chapter will contribute to the literature by focusing on attempts to imitate Continental pawnbroking institutions, Monts-de-Piété, in Ireland. The case of the Monts-de-Piété is an example of an unsuccessful institutional import, but it is interesting on two accounts. Firstly, it gives us an understanding of the pawnbroking sector in Ireland. Secondly, the Monts-de-Piété provide us with an example of an attempt to imitate Continental microfinance institutions. The Monts-de-Piété experience illustrates limitations to institutional imitation and this bears comparison to the credit co-operative experience discussed in chapter 6. The Monts-de-Piété are also interesting in terms of this thesis as many of the printed pamphlets advocating loan funds did not distinguish between loan funds and Monts-de-Piété. So the comparative success of loan funds *vis-à-vis* Monts-de-Piété may give us a greater understanding of nineteenth century microcredit.

The chapter will then introduce PBs, another microfinance institution whose experience is under-represented in Irish historiography. The section on PBs will initially introduce the existing literature on PBs in Great Britain, and then show how the Irish experience conformed to this. The section on PBs will illustrate the efforts of the Society of Saint Vincent de Paul (SVP) to establish PBs. The case of the SVP PBs is interesting on two accounts: firstly, it shows how the SVP attempted to imitate savings institutions that were prevalent in Britain and secondly, it illustrates the effects of social memory on microfinance institutions. The evidence from the SVP PBs suggests that the failures of the TSBs in Dublin in the 1840s, discussed in chapter 4, had a long-lasting effect, and this is useful information that may indicate a broader psychological impact of microfinance failure.

[3] Jim Fitzpatrick, *Three brass balls: the story of the Irish pawnshop* (Cork, 2001).

The chapter will also introduce Friendly Society (FS) loan funds into the historiography on loan funds in Ireland.[4] The FS loan funds were registered with the Registrar of Friendly Societies in Ireland and operated under a different body of legislation to the LFB loan funds that were discussed in chapters one and two. These FS loan funds were institutions that operated outside the autonomy of the LFB as a regulator. As a result, they were not legally required to submit themselves to the inspection of the LFB nor to purchase stationery from the LFB; therefore they do not appear in the LFB annual reports. The FS loan funds were mutual financial intermediaries that were concentrated in urban centres, mainly Dublin, as opposed to the rural constitution of the paternalistic LFB loan funds. The FS loan funds are interesting in terms of this thesis because they are an example of mutual financial institutions and indigenous microfinance innovations. They are important in terms of an experiment to imitate German mutual rural banks in the late 1890s, discussed in chapter 6, and they provide a useful parallel to the existing knowledge of rural LFB loan funds.

5.2.1 Pawnbroking and Monts-de-Piété in Ireland[5]

In the 1830s attempts were made to imitate-French style Mont-de-Piété pawnbroking institutions. Before discussing these institutions it is necessary to first outline the nature of pawnbroking in nineteenth century Ireland. Pawnbrokers have traditionally been referred to as a 'poor man's bank'.[6] Pawnbrokers gave short-term loans that were secured by pledges; in other words collateralised loans. The traditional practice was to make loans of up to 80 per cent of the value of durable goods, namely plate and jewellery, and a lower percentage, in the region of 66 per cent or less, for non-durable goods such as clothes. The borrowers would then be issued with a document and if the loan, with interest, was repaid within a set period of time the pledged item would be redeemed. If not, the pledged item would be forfeited to the pawnbroker who would then proceed to auction it in order to recoup losses from the loan.

[4] These were loan funds not referenced by Hollis and Sweetman.
[5] In this section Mont-de-Piété refers to the singular, and Monts-de-Piété refers to the plural.
[6] Jim Fitzpatrick, *Three brass balls: the story of the Irish pawnshop* (Cork, 2001), p. 4; and Margaret Atwood, *Payback: debt and the shadow side of wealth* (London, 2008), p. 55.

In Ireland the laws regulating pawnbroking were enacted in the late eighteenth century,[7] and these, for the most part, remained unchanged until they were reformed in the mid-twentieth century.[8] The lack of reform is surprising given the high level of legislative interest in the early nineteenth century.[9] Pawnbroking in Ireland was always regulated under separate legislation to the pawnbroking establishments in Great Britain, perhaps as a result of initial legislation being passed under the Irish parliament. Following parliamentary enquiries in the late nineteenth century pawnbroking laws were reformed in Great Britain, but the act did 'not extend to Ireland'.[10]

As was stated in the introduction, pawnbroking in Ireland has received little scholarly attention. The main secondary reference is the work of Jim Fitzpatrick.[11] Fitzpatrick is a journalist and his work is mainly a romanticised, Orwellian-style,[12] vision of pawnbroking with little analysis undertaken. Pawnbroking also receives brief references in social history works, for example in the social history work of Catriona Clear. But Clear's work does not make much contribution to the literature, as she mainly cites that there were 856 pawnbrokers in 1861, 1,013 in 1891 and 828 in 1911, and makes the statement that 'pawning meant that those with the least money paid over and over again for their meagre goods'.[13] Cormac Ó Gráda has looked at the role of pawnbrokers during the famine years to see if allegations that pawnbrokers profited from the famine bore any truth. He analysed the lending habits of pawnbrokers during the famine and found that there was a decrease in loans made.[14] Ó Gráda, from looking at individual accounts and analysing pawnbroker loans, stated that neither 'support[ed] the claim that the famine was a golden opportunity for pawnbrokers'.[15] The scarcity of scholarly work relating to pawnbrokers is an indicator to suggest that there is a lacuna to be addressed in the literature.

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[7] Pawnbrokers Act, 1786 (26 Geo. 3) c. 43 [I]; Pawnbrokers Act, 1788 (28 Geo. 3) c. 49 [I].
[8] Pawnbrokers Act 1964, 31/1964 [Éire].
[9] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*. H.C. 1837-38, (677), xvii, 173.
[10] Pawnbrokers Act, 1872 (35 & 36 Vict.), c. 93, section 2.
[11] Jim Fitzpatrick, *Three brass balls: the story of the Irish pawnshop* (Cork, 2001).
[12] George Orwell's romantic depiction of pawnbroking can be seen in George Orwell, *Down and out in Paris and London* (London, 1933).
[13] Catriona Clear, *Social change and everyday life in Ireland, 1850-1922* (Manchester, 2007), pp 31-32.
[14] Cormac Ó Gráda, *Black'47 and beyond: the great Irish famine* (New Jersey, 1999), p. 154.
[15] Ibid, p, 154.

The main sources for nineteenth century pawnbroking in Ireland come from a number of parliamentary enquiries. There was an inquiry in 1838.[16] This was followed by a report written by W. Neilson Hancock,[17] and then there was a general UK parliamentary inquiry in 1871.[18] From these inquiries we can get an understanding of the basic *modus operandi* and regulation of pawnbroking in Ireland.

Pawnbroking was a regulated industry with would-be pawnbrokers having to purchase a licence and provide two sureties, bondsmen. This was supposed to be a check on the pawnbrokers to ensure that only people of 'honest repute' obtained licences.[19] Under legislation the maximum loan from a pawnbroker was set at £10.[20] In terms of this thesis the amount is significant, as it suggests where the ceiling on loan fund loans discussed in chapter 1 originated from. But in the case of the pawnbrokers there were ways to evade the law, and thus loans could be for amounts greater than £10.[21] The terms of a loan from a pawnbroker were short in nature, with longer terms obtainable for more valuable pledges. Three months was the usual term for non-durable goods. This is rational as non-durable goods would depreciate in value the longer they are kept in storage. The Irish term structure differed to the rest of the UK. Hancock stated in his 1868 report that:

> In Great Britain no pledge can be sold before twelve months have elapsed. In Ireland pledges on which loans not exceeding 20s have been made may be sold in six months, those on which loans over 20s and not exceeding 40s have been made may be sold in nine months, and those on which sums over 40s have been lent may be sold in twelve months.[22]

The interest that pawnbrokers were able to charge on loans was determined by legislation. The 1838 pawnbroking report stated that the object of the law had been:

> To enable the pawnbroker to make a specified and limited charge for the duplicate [lost document of the pledged item], and to demand a certain maximum scale of interest when the goods are released, in lieu of all other charges for warehousing, risk of loss, &c.,

[16] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index,* H.C. 1837-38, (677), xvii, 173.
[17] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland,* H.C. 1867-68, [3985], xxxii, 345.
[18] *Report from the Select Committee on Pawnbrokers; together with the proceedings of the committee, minutes of evidence, and appendix,* H.C. 1870, (377), viii, 391; *Report from the Select Committee on Pawnbrokers; with the proceedings of the committee,* H.C. 1871, (419), xi, 377; *Report from the Select Committee on Pawnbrokers Bill; together with the proceedings of the committee and minutes of evidence,* H.C. 1872,(288), xii,1.
[19] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index,* p. xii, H.C. 1837-38, (677), xvii, 173.
[20] Ibid, p. xv.
[21] Ibid, p. xv.
[22] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland,* paragraph 12, p. 27, H.C. 1867-68, [3985], xxxii, 345.

> which rate of interest varies according to the sum lent, and which is proportionally higher on small than on large sums. (sic.)[23]

Pawnbroking was in many respects dependent on a secondary market in order for the value of forfeited pledges to be redeemed. In Ireland forfeited goods were sold at public auctions.[24] The law stated that the owners of the pledges were to be given notice of the auctions but Hancock believed that this practice was unnecessary as defaulting borrowers rarely attended the auctions.[25] The main buyers at the auctions were reported to have been dealers in second-hand goods.[26] This is an important piece of information, because it shows that the pawnbrokers were constrained in what they could do with the pledges. If they wanted to insure against loss they would only have made loans on pledges that had some market, in this case auction, value. Fitzpatrick observed: 'Pawnbrokers, if they wished to remain in business, relied on people pawning and redeeming. That was the nature of the business.'[27]

Pawnbrokers have often been associated with crime as they were the main institution where the proceeds of criminal activity could be laundered. This was a constant complaint. Under the 1788 pawnbroking act pawnbrokers who were found guilty of dealing in stolen goods would 'immediately be deprived of his or her licence to carry on the said business, and be disqualified from ever acting in or exercising the trade or business of a pawn-broker.'[28] The police only had the right to search a pawnbroking premise if they acquired a search warrant,[29] and they continually demanded greater rights to search pawnbroking premises.[30] It should also be noted that pawnbrokers were subject to an annual levy of £100 and this was paid directly to the police force; Ireland was the only country in the UK where this was practiced.[31] The pawnbrokers who were registered in Ireland were private bodies, but, under the eighteenth century legislation, all pawnbrokers were required to submit monthly returns to the Marshal of Dublin, who in turn was required to submit an annual

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[23] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, p, iv, H.C. 1837-38, (677), xvii, 173.
[24] Ibid, paragraph 13, p. 30.
[25] Ibid, paragraph 13, p. 30.
[26] Ibid, paragraph 13, pp 29-30.
[27] Jim Fitzpatrick, *Three brass balls: the story of the Irish pawnshop* (Cork, 2001), p. 86.
[28] Pawnbrokers Act, 1788 (28 Geo. 3) c. 49 [I], section 5.
[29] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland*, paragraph 5, p. 10, H.C. 1867-68, [3985], xxxii, 345.
[30] See letter from Commissioners of Dublin Metropolitan Police in *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland*, p. 97, H.C. 1867-68, [3985], xxxii, 345.
[31] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland*, paragraph 9, p. 16, H.C. 1867-68, [3985], xxxii, 345.

abstract to parliament. From these returns we can get an understanding of what the pawnbroking sector was like in the early nineteenth century. Unfortunately, these returns do not seem to have taken place on a regular basis, but from isolated returns we can get a sense of the number of pawnbrokers operating in Ireland and the scale of their activities. The available data is shown in table 5.1. It must be noted though that the returns from 1832 to 1837 were obtained from an appendix in the report on pawnbroking in Ireland. The data from the early years seem to be under-reported based on the fact that there was a newly appointed Marshal of Dublin. It is not until 1837 that we get a somewhat more detailed and accurate picture of the pawnbroking sector. John Judkin Butler, the Marshal of Dublin and register of pawnbrokers, stated that:

> I certify the foregoing is a correct and perfect list (acquired by personally visiting almost every town in Ireland within the last twelve months)[32] of those pawnbrokers who have lodged certificates of their having perfected the necessary securities as required by the statute, and that it contains a true account of the returns received by me for this (my sixth) year from the pawnbrokers of Ireland.[33]

Table 5.1: Pawnbroking returns, 1832-1844

	1832	**1833**	**1834**	**1835**	**1836**	**1837**	**1844**
Pawnbrokers	39	131	84	225	250	445	467
Incomplete returns	18	18	17	4	2	66	20
Tickets							
Aggregate	303,701	3,269,975	2,761,743	6,522,403	6,308,045	9,846,788	11,810,007
Mean	11,681	28,189	38,898	29,118	25,682	25,845	26,421
Standard deviation	8,291	29,059	35,049	29,896	26,995	25,842	25,590
Sums lent	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Aggregate	56,300	476,024	392,135	882,856	847,127	1,191,327	1,601,978
Mean	1655.87	3,748.22	4,901.68	3,976.83	3,392.96	3,143.34	3,583.84
Standard deviation	14,00.88	4,375.11	6,035.34	4,916.63	4,403.54	3,637.69	4,130.43
Mean loan size	£	£	£	£	£	£	£
Mean	0.18	0.14	0.13	0.14	0.13	0.13	0.13
Standard deviation	0.22	0.16	0.06	0.13	0.08	0.11	0.06

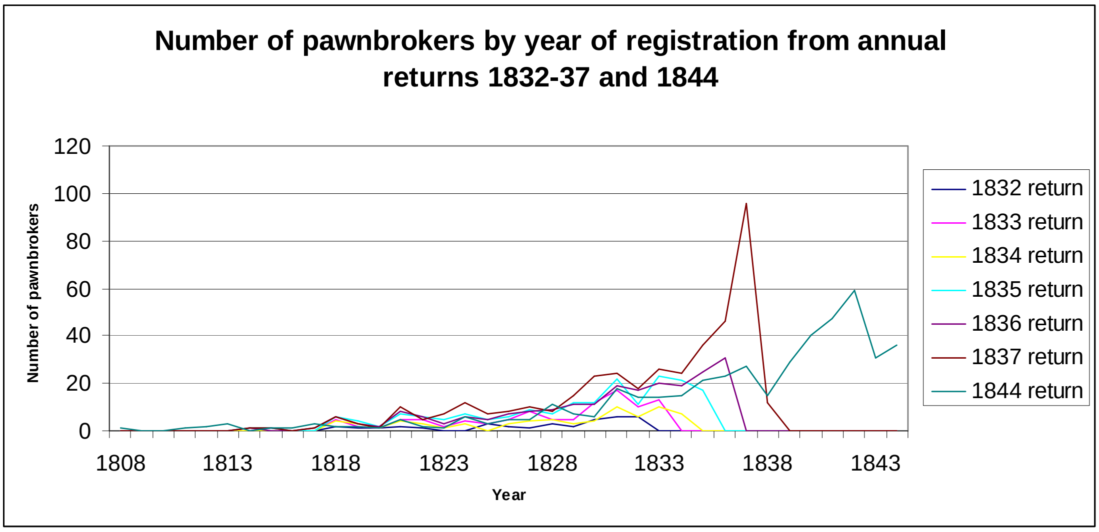
[32] The towns where each pawnbroker is listed in the report, but it is unclear if these were all the towns that were personally visited; *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, p. 163, H.C. 1837-38, (677), xvii, 173.
[33] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, p. 163, H.C. 1837-38, (677), xvii, 173.

Sources: *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, pp 147-163 H.C. 1837-38, (677), xvii, 173; and *Return from the marshal of the city of Dublin of the pawnbrokers of Ireland, for the year ending 31 December 1844*, H.C. 1845, (141), xlv, 329.

Given the incomplete nature of the returns on pawnbroking, it is perhaps best to focus on the mean and standard deviation values rather than on aggregate values. The main statistics to focus on from table 5.1 are the mean and standard deviation of loan sizes. As can be seen these were quite small in size, around 2 shillings. This is important when taking the Monts-de-Piété into consideration. But these are also useful values for comparing with the LFB loan funds that were discussed in chapter 1. As a good proportion of pawnbroking institutions were located in small towns in Ireland, what table 5.1 suggests is that the people who used pawnbroking institutions in the early nineteenth century did not have many tangible assets. Therefore, if we compare loan sizes from the loan funds in chapter 1, we can see that the average loan from an LFB loan fund would have been almost 20 times the size of a loan from a pawnbroker. This is quite a high figure and indicates the potential impact that a loan fund, if properly administered, could have had.

Another piece of information that is available from the pawnbroking statistics is the date of registration of each pawnbroking institution. If we look at the year of registration from the pawnbroker returns from 1832-37 and 1844 we can get an idea of what the life cycle of a pawnbroker was. In all the returns the year of registration was highest for years closest to the date of the return.

Figure 5.1



Source: see table 5.1.

If we look at the year of registration of pawnbrokers in 1837 and 1844 we see that there was a low survival rate of pawnbrokers that were included in the returns for 1837. Yet in 1844 there was still a large number of pawnbrokers, something which suggests a high turnover of pawnbrokers. The reason for this is most likely due to the fact that individuals were required to register as pawnbrokers, and figure 5.1 is picking up some information on the lifecycle of individual pawnbrokers. Therefore, we should expect to see more new pawnbrokers registered closer to the date of the return. There were barriers to entry into the pawnbroking market, namely an adequate capital base to both purchase a licence and to make loans. But what figure 5.1 suggests is that the pawnbroking field was fairly competitive. This is an important point, as the Monts-de-Piété were introduced on the assumption that there was a lack of competition in the pawnbroking sector.

5.2.2 Mont-de-Piété in Ireland

Monts-de-Piété were a type of pawnbroking institution that were found in Continental Europe. The main examples of these institutions were found in France, both the Netherlands and Belgium,[34] and the Italian states.[35] The key distinction between the Mont-de-Piété variant of pawnbroking and those in the UK was the fact that Monts-de-Piété were public institutions whereas pawnbrokers in the UK were privately run enterprises. In the cases where Monts-de-Piété were most successful in the nineteenth century, this seems to be due to the fact that they had monopoly status.[36] A parliamentary report, in 1894, on foreign pawnbroking institutions stated that French Monts-de-Piété were:

> Created in most instances by the local authorities and intended to supply the place of private pawnbrokers, and to prevent the abuses and extortion to which the poorer classes are subjected when necessity obliges them to borrow on personal belongings.[37]

It was also stated that in France private pawnbroking was illegal, although there were reports of illicit pawnshops.[38]

[34] Monts-de-Piété were found in both prior to the separation of the Netherlands in 1831.
[35] *Reports from H. M. Representative abroad on system of pawnbroking in foreign countries,* [c. 7559], H.C. 1894, xc, 381.
[36] Ibid, p. 47.
[37] Ibid, p. 47.
[38] Ibid, p. 47. This statement is also supported by modern scholarship on the Paris Mont-de-Piété; Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991).

A Mont-de-Piété is a charitable pawnshop where people who pawn goods are charged a rate of interest lower than the prevailing market rate, and where the associated loan terms are also more lenient. Essentially they were designed to combat 'usury'. The Mont-de-Piété system is intended to assist borrowers by giving them access to cheap money, cheaper than if they used a normal pawnbroker. An additional feature of the Mont-de-Piété system was that profits derived from it were to be applied to charitable purposes, such as building and maintaining hospitals. The Irish Monts-de-Piété were related to the LFB loan funds discussed in chapter 1 and they were also subject to the same loan fund laws as applied to loan funds, including the restriction of loans to a maximum of £10.[39]

Matthew Barrington (1788-1861), a lawyer and philanthropist,[40] established a Mont-de-Piété in Limerick in 1837 and was the first person to establish a pawnbrokers' along Mont-de-Piété lines in Ireland. Barrington drew inspiration for his Mont-de-Piété from similar institutions in contemporary Europe. In his pamphlets on the subject he cited their historical developments in Italy and their spread to the Netherlands. He was keen to state that the Monts-de-Piété had received papal approval.[41] It is quite probable that this was to avoid any Catholic charges of usury. The contemporaneous LFB loan funds, discussed in chapter 1, were accused of being usurious in the classical sense whereby the charging of interest was deemed sinful.[42] Barrington stated that the Mont-de-Piété model had been given official status by the Code of Napoleon in 1804.[43]

Barrington's account of the historical origins of Monts-de-Piété is fairly accurate, but his statements regarding the French experience do not hold up when it is compared to a recent history of the Parisian Mont-de-Piété.[44] It is important to outline some of the early developments of the Parisian Mont-de-Piété as this was the institution Barrington *et al.* attempted to imitate.

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[39] Loan Societies (Ireland) Act, 1836 (6 & 7 Will. 4), c. 55, section 13.
[40] Helen Andrews, 'Sir Matthew Barrington (1788-1861)' in James McGuire and James Quinn (eds), *Dictionary of Irish biography* (Cambridge, 2009), pp 310-311.
[41] M. Barrington, *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city* (Dublin, 1836), p. 8.
[42] For example see: William M'Cormick, P.P., *Loan funding indefensible* (Nobber, 1841).
[43] M. Barrington, *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city* (Dublin, 1836), pp 11-12.
[44] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991).

The Parisian Mont-de-Piété was first established in 1777 under a royal decree in an effort to combat usury and under this decree it was given a monopoly status in the field of pawnbroking.[45] The Mont-de-Piété was not intended solely for the poor, and Danieri stated that 'the Mont-de-Piété expected to received objects from a wide range of clients, from the very rich to the very poor'.[46] Following the French Revolution, in 1789, the Mont-de-Piété was distrusted as an institution of the *Ancien Régime*[47] and in an attempt to promote *laissez-faire* economic policies it lost its monopoly status in 1793.[48] Following the removal of barriers to entry the Mont-de-Piété faced competition from private lending houses.[49] Political interference in the affairs of the institution restricted its lending activity to small amounts in order to assist the poor and occasionally allowed pawns to be freely redeemed.[50] The Mont-de-Piété was also affected by the inflationary effects of the period; it issued loans in specie but was obliged to accept repayment in nominal fiat currency.[51] The net effect of competition and political interference saw the Mont-de-Piété close in 1796.[52] It was re-opened the following year, but struggled to compete with the private institutions.[53] It was forced to implement a maximum loan policy, and this excluded it from making more remunerative loans.[54]

Political concern over the level of interest rates saw an increased support for the Mont-de-Piété and it was recognised as a public institution under the 1804 act referred to by Barrington above. But he seems to have overlooked the fact that an additional law passed in 1805 'ordered the closing of currently existing' private pawnbrokers, hence giving the Monts-de-Piété monopoly status.[55] The Mont-de-Piété experienced a significant growth in business after 1804, and Danieri stated that:

> The situation at the Mont-de-Piété had never been better. In Year XIII operations increased unprecedentedly, especially in the last months of the year. Much of this was the result of the closure of private pawnbrokers, which, by the terms of the decree that ordered their closure, could deposit their pawns at the Mont-de-Piété. The closure of private pawnshops led to such a recrudescence in business that annual operations nearly doubled between Year XIII and 1806.[56]

[45] Ibid, p. 42.
[46] Ibid, p. 46.
[47] Ibid, p. 63 and 65.
[48] Ibid, p. 65.
[49] Ibid, pp73-74.
[50] Ibid, pp 60-61.
[51] Ibid, p.71.
[52] Ibid, p. 72.
[53] Ibid, p. 74 and 76.
[54] Ibid, p.74
[55] Ibid, p. 85.
[56] Ibid, p. 87.

Monopoly status is an important consideration in analysing the success of these institutions. The Dutch Banken van Leening institutions that were referred to in chapter 1 were similar in structure to the French Monts-de-Piété and also had monopoly status.

Barrington opened the Limerick Mont-de-Piété on 13 March 1837.[57] His scheme had some influential supporters, as can be seen from the list of debenture holders shown in table 5.2. An interesting supporter, in terms of this thesis, is John Abel Smith who was one of the founders of the RLF discussed in chapter 1.

Table 5.2: List of debenture holders in Barrington's Mont-de-Piété, Limerick city c. 1835

The Marquis of Lansdowne	William Roche, Esq., M.P.
The Earl of Clare	Joseph D. Jackson, Esq., M.P.
The Earl of Limerick	Samuel Gurney, Esq. Lombard-Street, London
The Lord Bishop of Limerick	John Wright, Esq., Banker, London
The Rt. Rev. Dr. Ryan, R. C. Bishop of Limerick	William S. O'Brien, Esq., M.P.
The Rt. Hon. T. S. Rice, Chancellor of Exchequer	J. Drummond, Esq. Under Secretary
The Lord Mayor of London, W. T. Copeland, M.P.	Colonel Burgoyne
Sir Aubrey De Vere, Bart	J. J. Bagot, Esq.
Daniel O'Connell, Esq. M.P.	David Roche, Esq., M.P.
Colonel A. Perceval, M.P.	Lady De Vere
The Very Rev. P. McNamara, R. C. Dean of Limerick	Mrs. Fry
John Abel Smith, Esq., M.P	

Source: Barrington, M., *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city* (Dublin, 1836), p. 28.

In a petition to the UK parliament c. 1838 Barrington stated that he was 'determined on making a trial' of the Mont-de-Piété system in the city of Limerick, and that 'success has been most complete'.[58] Barrington's example was replicated in a number of other locations throughout the island, mainly in urban centres. The number of Monts-de-Piété peaked in 1841 when there were 8 in operation.[59]

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[57] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, question 531, p. 34, H.C. 1837-38, (677), xvii, 173.

[58] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, p. 228, H.C. 1837-38, (677), xvii, 173.

[59] *Eight Annual Report of the Commissioners of the Loan Fund Board of Ireland*, H.C. 1846, (218), xxii, 385.

There is some useful information available regarding the Limerick Mont-de-Piété thanks primarily to Matthew Barrington. He was responsible for petitioning parliament to make an inquiry into pawnbroking in Ireland, something which was acknowledged in the report of the inquiry:

> It has been principally owing to Mr. Matthew Barrington, of Limerick, that the subject of pawnbroking has attracted the attention which is at present directed towards it in Ireland.[60]

As a result of Barrington's lobbying for an inquiry he and a number of people directly associated with the Limerick Mont-de-Piété were given an opportunity to give evidence to the 1837 pawnbroking inquiry. The evidence provided by these individuals is useful in understanding how the Limerick Mont-de-Piété operated. The evidence is also important as people were in contact with Barrington regarding establishing other Monts-de-Piété.[61]

Barrington stated that there were two reasons for setting up a Mont-de-Piété in Ireland: firstly, because he believed that the pawnbroking laws were 'either evaded or totally inoperative' and secondly, as a means to raise money for his hospital.[62] The second reason may be more influential, and evidence of this can be seen from the title of Barrington's pamphlet *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city*.[63] Barrington's hospital in Limerick was founded in 1830 and opened in 1831 by Joseph Barrington, with his 'sons Matthew, Daniel, Croker and Samuel'.[64] Coincidently, the Mont-de-Piété was located within the grounds of the hospital.[65] So perhaps Barrington saw in a Mont-de-Piété a way to raise funds to support the hospital.

Archibald Douglas, an inspector and secretary of the Limerick Mont-de-Piété, stated that it was the policy of the management to hire an experienced pawnbroker to be the manager of the Mont-de-Piété.[66] This experienced pawnbroker was John William Hobbs Haynes who also gave evidence at the enquiry, and he stated that

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[60] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, p. iv, H.C. 1837-38, (677), xvii, 173.
[61] Ibid, questions764-765, p. 50.
[62] Ibid, questions 656 and 660, pp 41-42.
[63] M. Barrington, *An address to the inhabitants of Limerick on the opening of the Mont de Piété, or charitable pawn office, for the support of Barrington's hospital, in that city* (Dublin, 1836).
[64] Maurice Lenihan, *Limerick; its history and antiquities* (Dublin, 1866), p. 478.
[65] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, question 490, p. 31, H.C. 1837-38, (677), xvii, 173.
[66] Ibid, question 505, pp 32-33.

Barrington recruited him to be conductor of the Limerick Mont-de-Piété.[67] This is an interesting piece of evidence in itself as it shows that the Limerick Mont-de-Piété was not lacking in skilled management. Haynes's father-in-law also happened to be a pawnbroker, but one who made loans on 'high quality goods', where they were higher profits.[68]

Haynes stated that the policy of the Limerick Mont-de-Piété was to lend 'small amounts', and that they deliberately targeted poorer borrowers.[69] The policy was to lend 33 per cent of the value of soft goods, and 80 per cent of the value of hard goods.[70] This was in line with standard pawnbroking practice. The establishment seems to have been well staffed; there were 12 clerks employed in the Mont-de-Piété,[71] something to indicate that there was a heavy workload, but also high costs. Archibald Douglas, an inspector and secretary of the Limerick Mont-de-Piété, gave evidence of how the Mont-de-Piété was capitalised. Unlike private pawnbrokers, the Mont-de-Piété was able to issue debentures to raise its capital. These debentures were guaranteed by the assets of the institution and paid 6 per cent.[72] Therefore, the Mont-de-Piété, unlike the private pawnbrokers, was a financial intermediary. The board of the Mont-de-Piété was made up of the debenture holders, namely the figures listed in table 5.2. A problem with this management structure was the fact that many of these debenture holders were non-residents of Limerick city.

Barrington thought the Mont-de-Piété system was more suitable to poorer borrowers than the loan fund system, discussed in chapter 1, that was being established contemporaneously. He believed that people who could not get security for loans 'had no other resource but the pawn office, unless they steal or commit a crime'.[73] When asked if he thought the Mont-de-Piété system was better for a person who 'may have an urgent necessity for money' than a borrower awaiting the formalities of a loan fund enquiry, Barrington replied:

> Yes; and it is of great advantage to labourers in purchasing provisions in the morning, and taking advantage of the early market, and re-paying the loan in the evening when they get their wages, and not dealing with the hucksters.[74]

[67] Ibid,, questions 156-158, p. 19.
[68] Ibid, question 241, p. 15.
[69] Ibid, questions 238 and 243, pp 14-15.
[70] Ibid, questions 406 and 408, p. 24.
[71] Ibid, question 370, p. 22.
[72] Ibid, question 476, p. 30.
[73] Ibid, question 705, p. 46.
[74] Ibid, question 706, p. 46.

The only problem with a Mont-de-Piété is that it assumes that a borrower has assets to pledge. The low average loan sizes from pawnbroking institutions in table 5.1 suggests that this may not be the case. From the evidence to the committee we also get some evidence of who was using the Mont-de-Piété, but this evidence must be approached cautiously as Barrington *et al.* were lobbying for Monts-de-Piété to be established on a nationwide basis. Haynes stated it was 'huxters in Limerick' who used the Mont-de-Piété. These were small urban traders who sold small quantities of goods in the city. They pledged their bed linen and the money they received from dealing they used to repay the loan and redeem their pledge.[75] Barrington stated that most articles were only pledged for one day and then redeemed, something which suggests they were used by poor people.[76] Given the evidence on the number of loans from private pawnbrokers in table 5.1, it may have also been the case that loans were redeemed frequently in private pawnbroking operations as well.

5.2.3 The failure of Monts-de-Piété in Ireland

Within less than twenty years after the introduction of Monts-de-Piété in Ireland all such imitations failed,[77] something to suggest that Barrington spoke too soon when he said that the imitation had been a complete success. The aim of this section is to determine why the Monts-de-Piété failed.

One obvious starting point would be the effect of the famine. Was the famine responsible for the failure? Were the institutions unable to firmly establish themselves because of a large exogenous shock? Monts-de-Piété were first registered under the 1836 loan fund legislation,[78] and as such they were required to register with the LFB and submit annual returns. Unfortunately, the LFB did not make any distinction between loan funds and Monts-de-Piété in its individual returns in its initial reports, but from 1841 onwards the LFB gave a summary of the operations of the Monts-de-Piété.

Figure 5.2 shows the circulation[79] in Monts-de-Piété from 1841 to 1853 and what is surprising here is that the circulation was decreasing before the famine.

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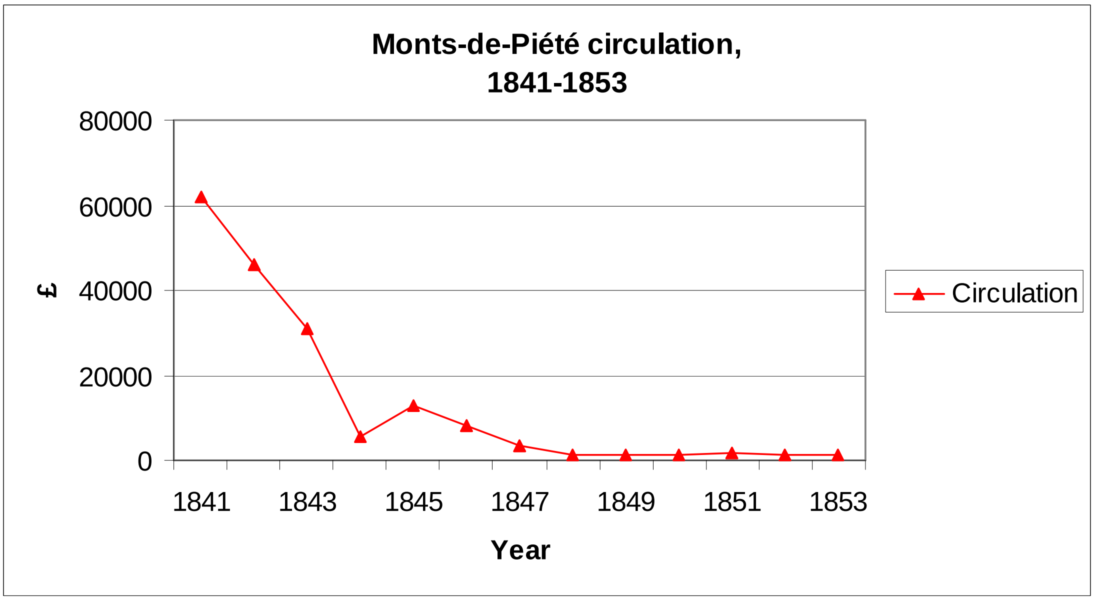
[75] Ibid, questions 250-251, pp 15-16.
[76] Ibid, question 714, p. 47.
[77] The last recorded Mont-de-Piété in LFB reports was 1853; *Eighteenth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, [2085], H.C. 1856,xix,165.
[78] Loan Societies (Ireland) Act, 1836, (6 & 7 Will. 4), c. 55, paragraph 21.
[79] Circulation is the term used by the LFB, it refers to the amount of loans in pounds made by the Monts-de-Piété.

Unfortunately, there is not much information for the period before 1841 so it is difficult to see what the level of Mont-de-Piété activity was like before this period. But it is interesting how the decline in Mont-de-Piété circulation preceded the famine. As was noted above, Ó Gráda found a decline in pawnbroker loans during the famine, but as the loan circulation in Monts-de-Piété decreased before the famine it may be safe to conjecture that it was not the famine that caused their decline. Piesse noted in 1841 that:

> Monts de Piété have been established at Limerick, Newcastle, Cork, Belfast, Dungannon, Tanderagee, and Portadown, but no one place have they repaid the expense of outfit. The establishment at Limerick is still supported by the munificence of a private individual, without whose assistance it must have long since fallen to the ground.[80]

Piesse's statement is an indication that these operations, not just in Limerick, were receiving private subsidisation from their patrons.

Figure 5.2

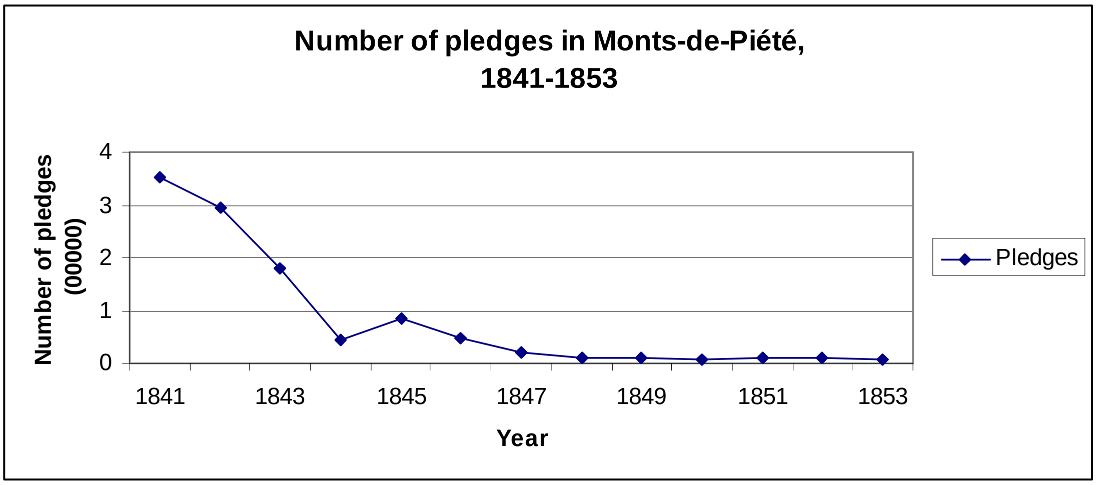


Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 5.3 shows the number of pledges made in Monts-de-Piété between 1841 and 1853. Again figure 5.3 shows that the number of pledges decreased before the famine. So again this would indicate that the decline in the Monts-de-Piété was independent of the famine and its consequences.

[80] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), pp 44-45.

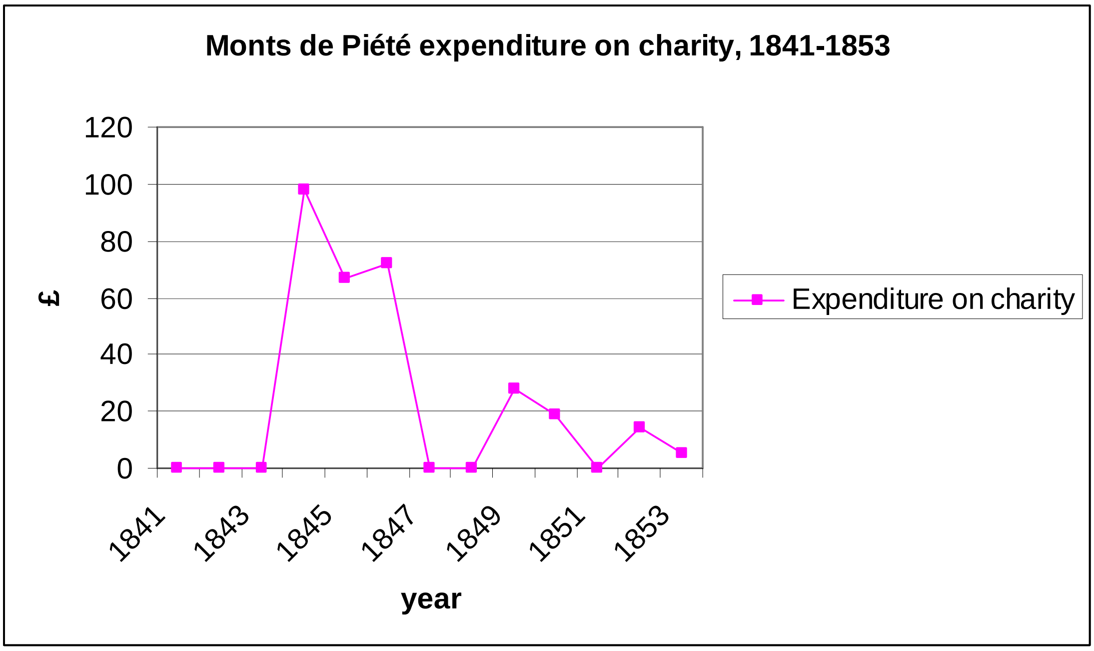
Figure 5.3



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Coincidently, when the LFB separated the loan funds and Monts-de-Piété and classified their activities separately, the Monts-de-Piété were spending very little of their surplus profits on charity. Perhaps this is an indication that they overestimated the profitability of the pawn market.

Figure 5.4



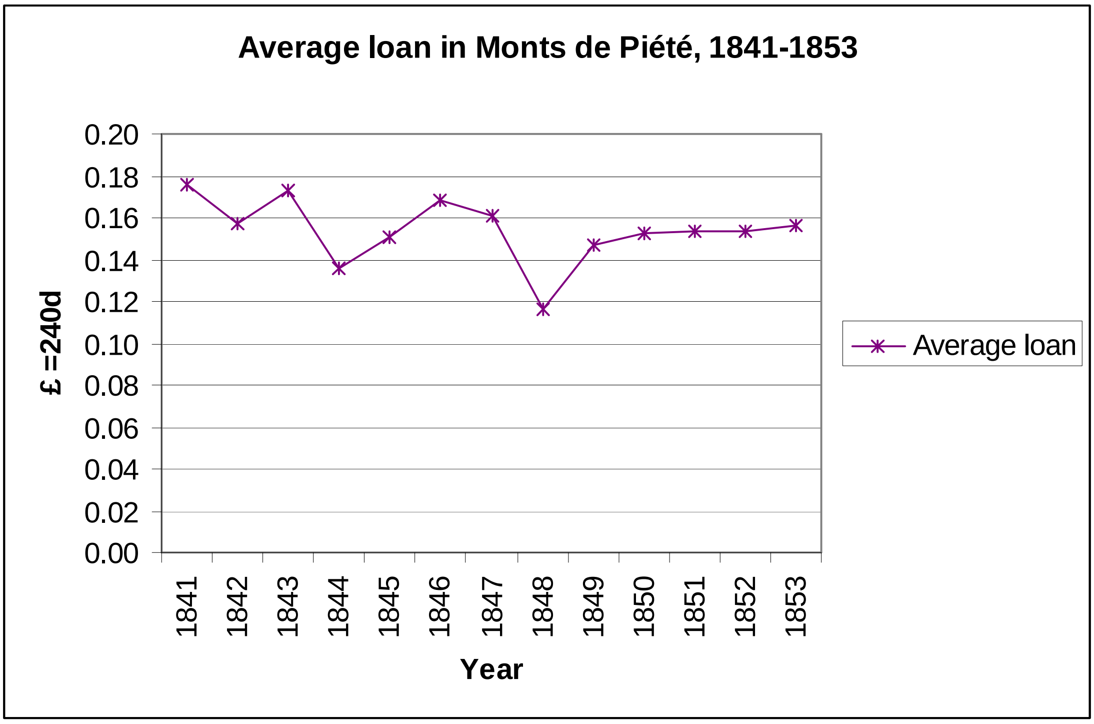
Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

Figure 5.4 shows the expenditure on charity by Monts-de-Piété between 1841 and 1853. In Paris the profits of the Mont-de-Piété were used to support the *Hôpital*

General and other municipal welfare works.[81] But as can be seen the expenditure was not great in Ireland and did not match the high expectations of Barrington and Connery. Both believed that the profits would be able to finance public hospitals and public dispensaries. But such irregular spending would not be evidence that this was possible.

Figure 5.5 shows the average loan obtained from Monts-de-Piété during the period 1841-1853. It is evident from this graph that the average loan size was very small. This perhaps gives a better indication of the business undertaken by the Monts-de-Piété. They were urban based and receiving goods on pledge that were of little value. The low average loan size would indicate that the people who were using the services of the Monts-de-Piété were very poor, if using Bowley's agricultural wage index as a barometer. The wages in the early 1840s were £6 per annum. The Monts-de-Piété had a deliberate policy of charging less interest on small loans than private pawnbrokers and also to exempt borrowers from the cost of tickets. So it is highly likely that they received a high number of small borrowers as a result.

Figure 5.5



Source: Annual reports of the Commissioners of the Loan Fund Board, various years.

[81] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), p. 2.

If we take into consideration the average loan sizes from the private pawnbrokers that were shown in table 5.1 we can see that the Monts-de-Piété had a similar average loan size. If we assume that £0.14 was the average loan size from a private pawnbroker, then it may be the case that the Monts-de-Piété gave loans greater than the average issued by private pawnbrokers. But the key difference is that they were receiving less income per loan that the private pawnbrokers. This was due to the policy of charging less interest on loans, and also because Monts-de-Piété specifically targeted poorer borrowers.

The Mont-de-Piété system failed to establish itself in Ireland. There is one key reason that can adequately explain this failure: the Monts-de-Piété were not public institutions as they had been elsewhere. This had two major implications for the success of an imitation of the Mont-de-Piété system. Firstly, they did not have monopoly status in Ireland and there was already an existing private pawnbroking market on the island. This point was also raised by Hancock who noted that the Monts-de-Piété had to face competition in Ireland,[82] and Hancock subsequently repeated this statement in his report on pawnbroking in 1867.[83] Secondly, they did not have a state guarantee on their debentures.

An interesting fact regarding the Monts-de-Piété is that the imitators had spent time in France to study the Mont-de-Piété system. In evidence to the 1838 pawnbroking committee it was stated that the Limerick Mont-de-Piété was actually 'entirely' modelled on the Paris Mont-de-Piété.[84] Archibald Douglas stated that the Limerick Mont-de-Piété 'adhered to it [French system] very closely, altering it only in such parts as we conceived were not suited to the locality in which we were to operate'.[85] From the evidence we can observe two key differences between the French Mont-de-Piété system and the Irish imitation. The most noticeable is the fact that the French Monts-de-Piété had a monopoly status. When Haynes was asked how many pawnbroking institutions there were in Paris he stated that there was 'only one, there are not any private pawnbrokers in Paris'.[86] The line of questioning of the committee

[82] W. Neilson Hancock, 'The usury laws and the trade of lending money to the poor in Ireland', a paper read before *The Dublin Statistical Society* on 18 February, 1850 (Dublin, 1850), p. 3.
[83] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland*, paragraph3, p. 6, H.C. 1867-68, [3985], xxxii, 345.
[84] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, question 465, p. 30, H.C. 1837-38, (677), xvii, 173
[85] Ibid, question 507, p. 33.
[86] Ibid, question 466, p. 30.

does not seem to have grasped the fact that the Paris Mont-de-Piété had monopoly status, but instead seemed to focus on whether one institution was 'competent to the business of an immense city'.[87] The question that should have been asked was: can a Mont-de-Piété survive without monopoly status? The evidence from Ireland suggests that the answer would be negative. The experience of the Parisian Mont-de-Piété during the early years of the French Revolution, discussed above, suggests likewise.

Another key point about the evidence of Haynes is that it does not convey a knowledge of the existence of a group of agencies called *commissionaires,* private intermediaries used by the Mont-de-Piété. They intermediated between borrowers and the Mont-de-Piété, they operated in areas in close proximity to borrowers (i.e. better *ex post* monitoring capabilities), had longer opening hours, and were funded by commissions on loans and redemptions. The *commissionaires* play a key role in understanding the functioning of the Mont-de-Piété in Paris at this time. Between 1831 and 1839 they actually 'pawned nearly 90 per cent of items at the Mont-de-Piété, and redeemed at least 50 percent'.[88] The role of the *commissionaires* remained intact until they were eventually superseded by the opening of branches by the Mont-de-Piété in 1841 and were abolished in 1887.[89] So what does this tell us about the Irish 'research trip' to Paris? Mainly that it was flawed and that it did not take account of how exactly the institution worked. How was it that they could not have taken account of the fact that the Mont-de-Piété actually operated a large network of agencies? The *commissionaires* would have been the equivalent of a private pawnbrokers in Ireland, but with the notable difference that they were actually *de facto* branches of the Mont-de-Piété.

Henry John Porter was also an advocate of the Mont-de-Piété system and seems to have played a role in establishing one in Portadown.[90] In 1842 he wrote an article on the topic of Monts-de-Piété. The article was an account of his visits to a number of those institutions.[91] But Porter also seems to have overlooked the importance of the

[87] Ibid, question 467, p. 30.
[88] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), pp 196-197.
[89] Ibid, pp 204-205.
[90] *Report of the directors of the Portadown Mont de Piete and loan fund to the Central Board in Dublin; shewing the formation, progress, and winding up of the Portadown loan fund society* (Portadown, 1855), p. 3.
[91] Henry John Porter, 'On the Monts de Piete of Rome, Genoa, Turin, and Paris, and other pawnbroking establishments on the continent' in *Journal of the Statistical Society of London*, iv, no 4 (January, 1842), pp 348-357.

monopoly status of these institutions, and the fact that they were publicly supported. He noted that a Mont-de-Piété in Tuscany was funded by public taxation,[92] but he did not comprehend that such an institution was not replicable in Ireland. Barrington was asked if he thought the Monts-de-Piété would 'be useful in competition with the ordinary pawnbrokers'. Barrington answered: 'Yes; I think they will be useful in competition with them, and be the means of raising funds for charitable institutions.'[93]

Another key difference between Ireland and France was the fact that the bonds issued by the French Mont-de-Piété were guaranteed by the French government,[94] essentially they were publicly tradable municipal bonds. It would have been possible for the Monts-de-Piété to raise more capital based on this fact alone. Evidence of this comes from the fact that the Limerick Mont-de-Piété had to pay a higher interest rate on bonds than similar institutions in France. The Limerick debentures had to pay a higher risk premium, this despite the guarantees provided by Barrington.

Another important reason for the failure of the Monts-de-Piété, and which is in fact a consequence of the first reason cited, is that it seems Barrington overestimated the revenues from pawnbroking, and in turn underestimated the costs of running a pawnbroking institution. An aspect of pawnbroking, constant over time,[95] is that it is not only the 'poor man's bank'. All socio-economic groups pawn goods when they are in financial difficulty and need money immediately; all that is required to obtain money is tangible security. Pawnbrokers receive greater interest payments on more valuable pledges, and if a pledge is forfeited, for the pawnbrokers, it is the more valuable goods when sold at auction that make money and make the business profitable. If a pawnbroker does not receive valuable goods on pledge it is difficult to run a business on commercial lines.

There were two difficulties that the Irish Monts-de-Piété faced. The first was the fact that they deliberately targeted the poor, and did not target their services towards groups that may have provided greater revenue. Secondly, Barrington's crusade to clean up pawn broking made it difficult for the Monts-de-Piété to engage in the legal evasions necessary to pawn higher value goods. Another difficulty faced by the

[92] Ibid, p. 352.

[93] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, question 766, p. 50, H.C. 1837-38, (677), xvii, 173.

[94] *Reports from H. M. Representative abroad on system of pawnbroking in foreign countries*, p. 49. [c. 7559], H.C. 1894, xc, 381.

[95] Pawnbrokers are useful in times of illiquidity: 'Pawnbroker H&T enjoys profits surge', in *The Guardian* (26 August 2009), www.guardian.co.uk

Monts-de-Piété was, as they were very transparent, they may have discouraged people from higher socio-economic backgrounds using their services. If people from higher socio-economic backgrounds had financial difficulties, but wished to keep these private, using a Mont-de-Piété might not have been the best way to go about it. This point was raised by Charles Piesse when he noted that:

> The most valuable class of pledges, such as plate, watches, jewellery, &c., rarely find their way to a Mont de Piété, the owners preferring to pay a higher rate of interest to the private pawn rather than have their names appear in the books of a Public Institution. Now there is just as much trouble and expense incurred in receiving and releasing an article valued at 6d. as there would be in the receipt and release of one valued at £60. It is the business done in valuable pledges which constitutes one of the chief gains in private pawning, and whist this practice is sanctioned by the Legislature, the most profitable class of business will never be done at the Mont de Piété.[96]

The importance of these higher value pledges is that they can cross-subsidise the smaller loans, the loans which the Mont-de-Piété wished to make. If we look at the Paris experience we can see that such cross-subsidisation did take place. Danieri stated that:

> Access to the loan facilities of the Paris municipal pawnshop was open – articles ranged from clothing and bed linens of doubtful commercial value to jewellery and furniture – the Mont-de-Piété never merely served the needs of the destitute poor or even the artisan and shopkeeper in temporary difficulties, but other groups as well.[97]

The importance of cross-subsidisation can also be seen in the distribution of loans made, where low value pawns, between 3 and 10 francs, made up almost 60 per cent of the items pawned, but they corresponded to 20 per cent of the total amount loaned. Higher value pawns were a lower proportion of total pawns, but a high contributor to the total amount lent. Danieri stated that these figures were 'representative of the first half of the nineteenth century'.[98] In fact, the Mont-de-Piété actually implemented a minimum loan policy whereby no item valued less than 3 francs could be pawned.[99] It must be noted that the Paris experience of cross-subsidisation is also a reflection of its monopoly status. When the Parisian Mont-de-Piété lost its monopoly status in the 1790s and, for political reasons, was forced to

[96] Charles Piesse, *Sketch of the loan fund system in Ireland and instructions for the formation of a new society; with the loan fund acts* (Dublin, 1841), p. 45.
[97] Cheryl L. Danieri, *Credit where credit is due: the Mont-de-Piété of Paris, 1777-1851* (New York, 1991), p. 2.
[98] Ibid, p. 155.
[99] Ibid, p. 183.

engage in low value pawning it too was a loss-making institution. This suggests that such ideologically driven influences do not take account of market forces.

High costs, coupled with high levels of competition, essentially pushed the Monts-de-Piété out of business in Ireland. Barrington believed that his Mont-de-Piété was profitable;[100] evidence from Archibald Douglas suggests that the Mont-de-Piété was sustaining losses as early as 1838.[101] In fact Barrington himself stated that the low rate of interest on loans was 'not sufficient to remunerate the labour required in passing it through the books'.[102]

The Barrington-inspired Monts-de-Piété gives an example of how not to undertake institution imitation, and similar parallels may be drawn between this attempt at institutional imitation and the adoption of Raiffeisenism, discussed in chapter 6, in the latter years of the century. Perhaps it should have been taken into consideration that just because an institution has high-ranking support, such as those listed in table 5.2, and works well on the Continent, does not automatically translate to success in Ireland. A more detailed study of the existing market and a comparative study between Ireland and France would have shown the benefits of a monopoly. Given the high number of pawnbrokers in Ireland who each had to pay for a licence, it is highly unlikely that Barrington would have been able to force them from the market.

5.3 Penny banks and the Society of Saint Vincent de Paul

PBs were institutions aimed to encourage the savings of very small amounts of money, amounts smaller than possible to save in the existing financial institutions. PBs emerged in England in the late 1840s and early 1850s.[103] They were an ideologically inspired attempt to fill the perceived gap in the market, as the existing savings banks did not accept savings for amounts lower than 1 shilling.[104] The most successful exponent of the PB movement in the UK was the Yorkshire Penny Savings Bank.[105] It operated a branch network and expanded its deposit base. PBs, unlike

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[100] *Report from the Select Committee on Pawnbroking in Ireland; together with the minutes of evidence, appendix and index*, question 765-771, p. 51, H.C. 1837-38, (677), xvii, 173.
[101] Ibid, question 554, p. 34.
[102] Ibid, p. vi.
[103] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), pp 231-232.
[104] Oliver H. Horne, *A history of savings banks* (London, 1947), p. 232.
[105] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p. 232.

TSBs and the POSB discussed in chapter 4, did not lend their money to the CRND. PBs instead, given that they had registered as companies, could invest in whatever assets they chose.[106] This accounts for the success of the Yorkshire Penny Savings bank as it held higher yielding British and Indian Railway securities.[107] But, in general, most PBs were not as successful as the Yorkshire Penny Savings Bank, owing mainly to the fact of the widespread growth of the POSB, and also TSBs catered for savings requirements. The existence of PBs, established by trustees, does show that social leaders felt that such services were required. In *Self-help* Smiles outlined the importance of saving small sums of money:

> Simple industry and thrift will go far towards making any person of ordinary working faculty comparatively independent of his means. Even a working man may be so, provided he will carefully husband his resources, and watch the little outlets of useless expenditure. A penny is a very small matter, yet the comfort of thousands of families depends upon the proper spending and saving of pennies.[108]

Smiles viewed PBs as an instrument to teach thrift and advocate their use in schools,[109] stating that:

> The extent to which Penny banks have been used by the very poorest classes, wherever started, affords a striking illustration how much may be done by merely providing increased opportunities for the practice of thrift.[110]

In Smilesian thought every penny should be saved, so therefore this 12 penny barrier had to be overcome. The initial PBs in England were established with the support of the POSB,[111] with the PB holding an account in the POSB. The POSB further subsidised PB efforts by providing free stationery.[112] The Postmaster General reports also stated that there was an Irish Penny Bank association formed.[113] These reports show that the PBs were used as a way to teach the habits of thrift,[114] therefore the existence of PBs in Ireland shows a convergence to British trends.

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[106] Oliver H. Horne, *A history of savings banks* (London, 1947), pp 189-190.
[107] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p.234.
[108] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002), p. 254.
[109] Samuel Smiles, *Thrift* (London, 1876), pp 143-148.
[110] Ibid, p. 138.
[111] *Twenty-first report of the Postmaster General on the Post Office*, p. 11. [c. 1334], H.C. 1875, xx, 559.
[112] *Twenty-fourth report of the Postmaster General on the Post Office*, p. 49. [c. 2193], H.C. 1878-79, xxi, 133.
[113] *Twenty-third report of the Postmaster General on the Post Office*, p. 46, [c. 1863], H.C. 1877, xxvii, 201.
[114] *Twenty-fourth report of the Postmaster General on the Post Office*, p. 50. [c. 2193], H.C. 1878-79, xxi, 133.

The SVP was first established in France in 1833 by Frederick Ozanam,[115] as a charitable society, inspired by Catholic thought, designed to assist the poor. The SVP diffused abroad and societies were established in various countries shortly after the initial French society.[116] The first Irish society was established in Dublin in 1844.[117] Máire Ní Chearbhaill states that:

> The primary purpose of the Society was firmly established from the beginning: the sanctification of its members through charitable works. The visitation of a family was seen as a means to an end, literally the opening of a door to a relationship that could offer moderate material assistance, lasting friendship and mutual spiritual benefit for both parties.[118]

The rules of the SVP declared that the 'primary' form of charitable work should be the visitation of the poor by members of the society,[119] but also the SVP 'encouraged conferences to undertake additional "special works" '.[120] A list of special works undertaken by the SVP in 1881 is shown in table 5.3.

Table 5.3: 'Special works' of the SVP in 1892

Name of work	Place
Male Orphanage, Glasnevin	Dublin
Penny Savings' Bank, Corn Market	Dublin
Penny Savings' Bank, North Parish	Cork
Penny Savings' Bank, South Parish	Cork
Night School, South Parish	Cork
Night School, North Parish	Cork
St. Vincent de Paul Home for boys, and Night Refuge	Belfast

Source: Bulletin of the Society of St. Vincent De Paul, xxxvii (Dublin, 1892), p. 247.

The PBs were adopted by the SVP as a 'special work' to combat poverty. It is interesting to note that the SVP did not advocate lending money as a policy to combat poverty. It was stated in the 1867 SVP *Bulletin* that:

> As to *loans of money to the poor*, the Council General lays down that 'these may produce good results, but they ought only to be the exception. You are aware that, in general, we very much prefer relief in kind to relief in money. Still loans of money have been habitual in many places, and with some good results; but, we repeat, they ought to be the

[115] *Bulletin of the Society of St. Vincent De Paul*, xxxi (Dublin, 1886), p. 17.
[116] Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), p. 5.
[117] *Bulletin of the Society of St. Vincent De Paul*, xxxi (Dublin, 1886), p. 17.
[118] Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), p. 4.
[119] *Bulletin of the Society of St. Vincent De Paul*, xxx (Dublin, 1885), p. 58.
[120] Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), p. 8.

> exception, made to meet special cases, and ought not to become a general practice. In every case, any system of loans which would render a brother visitor responsible for the reimbursement of the Conference seems to us quite defective and censurable.'(italics sic)[121]

The view that charity should not be in the form of loans was re-affirmed in the 1886 SVP *Bulletin* when members were reminded that 'relief in kind is the rule'.[122]

5.3.2 Saint Vincent de Paul Penny Savings Banks

As can be seen from table 5.3 above, PBs were part of the SVP portfolio of 'special works'. In this section we shall focus on the efforts of the SVP to establish PBs. The sources for this section are primarily derived from the annual reports of the SVP which gave information on a number of PBs that were associated with it from the 1860s until the 1920s. The SVP PBs are interesting on a number of levels. Firstly, they give us information on prevailing social attitudes towards financial institutions. They are particularly interesting as they were active in Dublin, the location of one of the main savings bank crashes in the 1840s, discussed in chapter 4. The efforts of the SVP also support the view that Smilesian thought was pervasive in the nineteenth century. This is evident from the fact that the SVP wish to encourage thrift, but also in that they did not like to assist the poor through lending (i.e. encourage debt).

The SVP PBs were not endogenous innovations; they were in fact based on the English model of PBs that was discussed above. It was stated in the SVP *Bulletin* that 'the rules had been carefully prepared from the best rules of Penny Banks in England and Ireland'.[123] It also seems that the main motivation for the SVP to establish PBs was to combat rival 'Proselytisers' who had established similar institutions in Dublin. It was stated that:

> The Penny Bank, which has its place of business at 5, Cornmarket, was founded very much with the view of counteracting the efforts of proselytisers, who had set up a bank in the Coombe, and were using it as an engine for perverting the poor from their faith. The Society's bank has been very valuable in effecting the object above stated, and we trust also that one result of its establishment may be to infuse habits of thrift into our poor.[124]

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[121] *Bulletin of the Society of St. Vincent De Paul*, xii (Dublin, 1867), p. 364.
[122] *Bulletin of the Society of St. Vincent De Paul*, xxxi (Dublin, 1886), p. 21.
[123] *Bulletin of the Society of St. Vincent De Paul*, x (Dublin, 1865), p. 363.
[124] Bulletin of the Society of St. Vincent De Paul, xiii (Dublin, 1868), p. 82.

This action seems to be consistent with the early history of the SVP, as Ní Chearbhaill stated that the 'foe' for members of the SVP were evangelical groups.[125]

Initially there were very few PBs established by SVP conferences. The SVP seem to have been very cautious and fearful of the effects of a failed financial institution and the implication of such failure on the wider work of the SVP. In the discussion on PBs at the 1865 AGM some members explained their unease at large amounts of money being taken by the PBs. One member advocated prudent management, 'lest by any failure of mismanagement the interests or character of the society should be compromised'.[126] It was stated in the 1867 SVP *Bulletin* that 'while the work of the Penny Banks was most important, it was so full of peril to the Society, that it ought not to be engaged in without necessity.'[127]

Ni Chearbhill stated that depositors had confidence in the SVP PBs and cited a member of the SVP involved with the PBs who stated that:

> It was impossible to persuade depositors to transfer their accounts to a joint stock bank or to the post office savings bank, although the latter was eminently suitable for the purpose. Many private banks had crashed during the century, but evidently the poor had great confidence in the Society's banks.[128]

Given that the SVP had two PBs in Dublin in the mid-nineteenth century and that the majority of SVP penny banks in the early twentieth century were found in Dublin, it would be reasonable to assume that the private bank crashes refer to the Cuffe Street savings bank, discussed in chapter 4. However, it may also be a reference to the Tipperary Bank that crashed in 1856 due to the fraudulent practices of John Sadlier or even the Munster bank which suffered liquidity problems and was forced to close in 1884-85. Either way, the citation suggests that the failure of a savings institution had implications in terms of the long-term trust and confidence of depositors, and it suggests that the memory, not just of individual depositors, but 'social memory' existed. If this is the case, then the failures of the TSBs and the loan funds would have been remembered and may explain a distrust of depositors.

The SVP seem to have viewed the PBs as a mechanism to encourage Smilesian 'self-help'. In this mode of thinking poverty could be relieved by the poor themselves

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[125] Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), pp 18-19.
[126] *Bulletin of the Society of St. Vincent de Paul* , x (Dublin, 1865), p. 362.
[127] *Bulletin of the Society of St. Vincent de Paul,* xii (Dublin, 1867), p. 369.
[128] *St Vincent's, Glasnevin, Centenary Record,* p. 11, cited in Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), pp 152-153.

if they had a secure way of saving money. For example, the following citation is taken from the 1868 SVP *Bulletin*; the idea seems to suggest that by providing savings services the SVP can help the poor help themselves:

> Instead of one [PB], there will be several of them. I need now say how much better it is to keep the poor from vice, and poverty which follows it, than to relieve them in the poverty which too often is the result of evil habits. Even though poverty is the offspring of vice, it ought to be relieved; but those poor who are anxious to keep themselves from sin, intemperance, poverty, and distress, they, we will admit, are the best deserving of our deepest sympathy and most anxious support. These are the class of people who deposit their money in the Penny Banks – people who are anxious not to be a burthen to anyone so long as God gives them strength to work; and I would agree with the brother who spoke on the subject, that there can be nothing more extensive in its good, more lasting in its beneficial effects, than the work of the Penny Banks.[129]

There is also a pragmatic element to the SVP advocating PBs, namely that if people saved with them it would both save the resources of the SVP and provide a better means to monitor the poverty level of its depositors.[130] The 1899 SVP *Bulletin* praised the PBs for fostering ‘feelings of hope and self-denial’ amongst depositors.[131] The SVP also thought that thrift had to be taught,[132] something which conforms to the Smilesian view of thrift discussed above.

In the nineteenth century there were very few PBs, with two in Cork and one in Dublin. Towards the end of the nineteenth century one opened in Belfast and another in Kingstown, Co. Dublin. But it was not until the early twentieth century that the number of SVP PBs proliferated. The increase in popularity of the PBs with the SVP came as they were seen as a complementary instrument to the SVP policies to promote temperance and their anti-treating league.[133] This is an interesting fact, because treating is what was commonly associated with the personal lending methodology used by the loan funds and joint stock banks discussed in chapters 1, 2 and 3. The SVP defined treating as ‘giving or receiving a treat of intoxicating drink in a place where drink is sold’.[134] The SVP believed that the money saved in the PB could be a disincentive to intemperance. Their policy of weekly notices to withdraw were cited as being, unintentionally, an effective check on people who wanted to drink, as instead of being able to spend money immediately they would be forced to

[129] *Bulletin of the Society of St. Vincent De Paul*, xiii (Dublin, 1868), p. 244.
[130] *Society of St. Vincent de Paul, report of annual meeting of presidents 1903* (Dublin, 1903), p. 20.
[131] *Bulletin of the Society of St. Vincent De Paul*, xliv (Dublin, 1899), p. 346.
[132] *Society of St. Vincent De Paul, Report of annual meeting of presidents 1903* (Dublin 1903), p. 18.
[133] *Society of St. Vincent De Paul, report of annual meeting of presidents 1902* (Dublin, 1902), p. 28.
[134] Ibid, p. 28.

wait a week.[135] It was also claimed that depositors referred to the amounts they had saved as equivalent to *x* amount of 'pints'.[136] This is further evidence that the SVP were conforming to Smilesian thought. Smiles was an advocate of temperance and abstinence from alcohol which can be seen in his writing.[137] In *Thrift* he advocated temperance as a way to save money.[138]

The SVP encouraged the spread of new PBs in the late nineteenth and early twentieth centuries because they had received support from the POSB. The most notable example of this came with the Belfast PB that was 'worked in connection with the post office' and received the personal help of the Belfast Postmaster.[139] From 1884, although not advocating that every SVP conference establish a PB, it was recommend that if one was to be established it should be set up in conjunction with the POSB.[140] Also, as part of the agreement between the SVP and the POSB, once an account reached £5 it would be transferred from the SVP PB to the POSB.[141]

The proliferation of PBs and their increased popularity highlighted the underlying structural problems of the PB model. They were very costly to operate. The sums deposited were small, but were labour intensive as they required attention to detail. The returns on investments made with the funds could not have been very high, as the amounts were small and they were demand deposits. They were subsidised through the efforts of the SVP members, but it became evident that 'their administration [was] unwieldly and time-consuming'.[142] They were unprofitable and as a result they were gradually phased out in the 1920s, with all PBs closed by 1931.[143]

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[135] *Bulletin of the Society of St. Vincent De Paul*, xxxi (Dublin, 1886), p. 24.
[136] Ibid, p. 24.
[137] Samuel Smiles, *Self-help* (1859, edited with an introduction by Peter Sinnema, Oxford 2002), pp 252-253.
[138] Samuel Smiles, *Thrift* (London, 1876), p. 167.
[139] *Bulletin of the Society of St. Vincent De Paul*, xxx (Dublin, 1885), pp 386 and 406.
[140] *Bulletin of the Society of St. Vincent De Paul*, xxxi (Dublin, 1886), p. 25.
[141] *Bulletin of the Society of St. Vincent De Paul*, xxx (Dublin, 1885), p. 405.
[142] Máire Brighid Ní Chearbhaill, 'The Society of St Vincent De Paul in Dublin, 1926-75' (PhD thesis, NUI Maynooth Department of History, September 2008), pp 152-153.
[143] Ibid, pp 152-153.

5.4 A primer on microcredit and Friendly Societies in Ireland[144]

The loan funds associated with the LFB were not the only loan funds that existed in Ireland. As referred to in chapter 1, RLFs also existed in the pre-famine period. But these loan funds were dissolved in the late 1840s, and their residue capital was later used to finance the fishery loans of the CDB.[145] There was also another alternative form of loan funds that existed in Ireland since the 1830s. This alternative strand of loan fund has been overlooked by Hollis and Sweetman, and also in the wider Irish historiography.[146] This is mainly due to the heuristic bias of Irish historical source material, in particular parliamentary inquiries, which mainly focused on rural activity.

Firstly, it is necessary to outline how such societies were legally recognised. Friendly societies were given legislative encouragement and support from the late eighteenth century, and as friendly societies continuously evolved the friendly society legislation had to be continually reformed. Friendly societies were associations that provided mutual services to their members. The archetypal friendly society can be broadly defined as either a health insurance or life assurance society for lower socio-economic groups. The activities performed by societies within the scope of what were legally deemed friendly societies evolved over time. By the late nineteenth century, it was regarded that there were five distinct types of friendly society, namely friendly societies themselves, cattle insurance societies, benevolent societies, working men's clubs and specially authorised societies.[147] Cattle insurance societies provided life insurance for livestock;[148] these were notably absent from Ireland. Benevolent societies were societies established 'for any benevolent or charitable purpose',[149] essentially charities. Working men's clubs were defined to be 'for the purpose of social intercourse, mutual helpfulness, mental and moral improvement, and rational recreation'.[150] There was also a number of societies that qualified as specially

[144] Friendly societies are more commonly associated with microinsurance and microassurance, but my research has shown that the friendly societies were also suppliers of microcredit. The other activities are not within the scope of this thesis.
[145] *First annual report of the Congested Districts Board for Ireland,* p.4. [C. 6908], H.C. 1893-94, lxxi, 525.
[146] One of the main works on Friendly Societies in Ireland is Anthony D. Buckley, '"On the club": Friendly Societies in Ireland' in *Irish Economic and Social History*, xiv (1987), pp 39-58.
[147] Guidebooks were published annually from 1893 which summarised friendly society legislation for the use of officers and members of friendly societies: *The guide book of the friendly societies registry office 1893* (London, 1893), p. 78.
[148] *The guide book of the friendly societies registry office for the use of officers and members1910* (London, 1910), p. 109.
[149] Ibid, p. 111.
[150] Ibid, p.112.

authorised societies, one of which was societies 'to create funds by monthly or other subscriptions to be lent out to or invested for the members of a society or for their benefit'.[151] The approximate number of all such societies in the UK and Ireland in 1893 is shown in table 5.4.

Table 5.4: Approximate number of friendly societies in the UK, January 1893

	England and Wales	Scotland	Ireland
Friendly Societies and their branches	26,865	779	373
Cattle insurance societies	59	0	0
Benevolent societies	70	6	1
Workmen's clubs	281	1	2
Specially authorised societies	216	0	14
Total under friendly societies acts	27,491	786	390
Benefit building societies	650	150	1
Building societies	2559	68	67
Industrial and provident societies (co-ops)	1433	336	41
Loan societies	298	0	0
Trade unions	493	43	54
TSB's	331	53	27
Railway savings banks	10	2	0
Total	33,265	1,438	580

Note: The source material on which the original summary tables were based, cited below, were the annual returns of friendly societies. But the friendly societies were poor at making returns, and although reporting had improved by the end of the nineteenth century, exact numbers are still unreliable.
Source: *The guide book of the friendly societies registry office 1893* (London, 1893), p. 78.

There was separate loan society legislation for England and Wales and it was exclusively for England and Wales.[152] Therefore, the term loan societies in table 5.4 refer only to certified loan societies in England and Wales, whereas in Ireland FS loan funds were registered under the specially authorised societies section of the friendly society legislation. Also, it must be borne in mind that under Friendly Society

[151] *The guide book of the friendly societies registry office 1893* (London, 1893), p. 83.
[152] Ibid, paragraph 1450, p. 148.

legislation, friendly societies that provided insurance and assurance services were given legal privileges to encourage their activities, while at the same time the legislature left them to their own devices in order to encourage ‘self help’. One of the privileges that friendly societies possessed was the ability to either lend directly to members, or to establish a separate loan fund for members. As can be seen in table 5.4 it appears as if there were no FS loan societies in Ireland. It is therefore understandable that the existence of such loan funds was overlooked by Hollis and Sweetman, because they were grouped with Friendly Societies in the Friendly Society returns and because the existing historiography on friendly societies in Ireland is scant. Another form of friendly society that provided lending services was the benefit building society.[153] Building societies in England and Wales are the subject of research on microfinance as the working classes utilised this service,[154] but in terms of nineteenth century Ireland building societies seem to have been predominantly middle class institutions.

In terms of this thesis on microfinance in Ireland, FS loans are an interesting addition to the current literature which has essentially overlooked them. The first issue to address is where they were located. Were they rural, urban or both? From the available evidence the friendly societies that were in Ireland seem to have primarily been urban institutions. Evidence of this comes from the Assistant-Registrar of Friendly Societies in Ireland R. F. Littledale. When asked if he believed there were many small village societies in Ireland, he replied that there were ‘very few’.[155] He was then asked if ‘it is not the habit in this country, as in England, to establish small village clubs?’ Littledale replied: ‘It is not; there is not the class in this country which may be called the better lower class, amongst whom those societies, I think, flourish most in England.’[156]

It would be safe to generalise and say that the friendly societies were an urban phenomenon in Ireland and it is the same with the FS loan funds, with the majority of them being in Dublin city.[157] From the reports of the Registrar of Friendly Societies in

[153] Under later legislation building societies are referred to minus the prefix.
[154] Luke Samy, ‘The Building society promise: building societies and home ownership c 1880-1913’, paper presented at the annual conference of *The Economic History Society*, University of Warwick 2009.
[155] *Second report of the commissioners appointed to inquire into friendly and benefit building societies. Part I. Report of the Commissioners on Benefit Building Societies. With reports of assistant commissioners*, question 14876, p.353. [C.514][c.514 - I][C.514-II], H.C. 1872, xxvi,1,101,745.
[156]Ibid, question 14877, p.353.
[157] From the lists of the late 1860s and early 1870s, only one society was outside Dublin city.

Ireland it seems that distinct friendly society loan funds first became registered under the 1834 act.[158] One problem with determining the number of loan funds registered under the Friendly Societies Acts is the low level of returns made by such societies.[159] Buckley argued that the low level of returns by Friendly Societies in Ireland was due to the fact that friendly societies were reluctant to register as they did not want government interference.[160] He further argued that there was no pressing need for these societies to register under the friendly societies acts as the existing common law structures adequately provided for their needs.[161] This actually gives more weight to the argument that we need to be more critical of LFB loan funds and their reports, as the low level of returns of mutual loan fund societies makes the paternalistic LFB loan funds seem anomalous. The situation circa 1857 is shown in the following passage from a report of the Registrar of Friendly Societies in Ireland:

> The registrar has been at pains to induce the various societies established throughout Ireland to forward the returns required by the 45th section of the 18 & 19 Vict. cap. 63. In the majority of cases the neglecting to furnish these returns had become habitual. In some it did not appear that such returns had ever been furnished, and as there had been no formal registry book of Friendly Societies heretofore kept, the registrar had no means of ascertaining what societies were in default, and no penalty being attached to neglect in furnishing such returns, it is impossible to enforce their punctual transmission.[162]

In 1857 the Registrar tried advertising in the main newspapers of Dublin, Cork, Belfast and Limerick for societies to submit annual accounts and as a result 327 friendly societies submitted annual returns. The majority of the friendly societies that submitted returns, 222, were sickness and mortality societies, but 71 of the societies that submitted returns were recorded as being loan societies.[163] Unfortunately the registrar did not deem the friendly societies that were not sickness and mortality societies of interest and as such ‘called for no particular comment’.[164]

From the report of the Registrar of Friendly Societies in Ireland in 1868 we can get a sense of the number of FS loan funds. In the report, the Registrar had stated that he aimed to circulate forms similar to those that had been issued in England by Tidd Pratt the Registrar of Friendly Societies in England in order to get more accurate

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[158] *Report of the Registrar of Friendly Societies in Ireland, for the year ending 31 December 1871*, p. 2, H.C. 1872, (350), liv, 269.
[159] *Report of the Registrar of Friendly Societies in Ireland for 1857*, p. 1. (449) H.C. 1857-58, l,257.
[160] Anthony D. Buckley, ‘“On the club”: Friendly Societies in Ireland’ in *Irish Economic and Social History*, xiv (1987), pp 42-44.
[161] Ibid, p. 44.
[162] *Report of the Registrar of Friendly Societies in Ireland for 1857*, p. 1. (449) H.C. 1857-58, l,257.
[163] Ibid.
[164] Ibid.

information on the activities of friendly societies in Ireland. But both the response rate and the completion of returns in Ireland were poor and it is unclear what the true friendly society population size was. Table 5.5 summarises the available statistics for the years 1868, 1869, 1871 and 1872. The level of detail in each return varied but the variance decreased in the time period shown.

Table 5.5: Loan funds in Ireland registered under the friendly societies Acts, 1868, 1869, 1871 and 1872

	1868	1869	1871	1872
Number of societies included in the report	38	37	36	34
Members	1,518	2,964	3,191	2,568
Capital	£38,717	£45,406	£55,927	£48,958
Amount lent	£82,222	£101,166	£135,065	£116,464
Dividends paid to members	£3,479	£5,333	£5570	£4,844
Average capital turnover	2.22	2.29	2.38	2.64
Average rate of dividends	9.35 %	9.92%	10.34%	11.81%
Average capital per member	£13.70	£19.47	£19	£17.23
Average dividend per member	£1.13	£2.01	£1.67	£1.60

Note: Not all societies made complete returns, so the averages are not derived from all the societies listed in the first row.

Sources: *Further appendix to the report of the Registrar of Friendly Societies in Ireland, for the year ending 31 December 1868*, H.C. 1870 (11) (11-I) lxi, 411, 421; *Report of the Registrar of Friendly Societies in Ireland, for the year ending 31 December 1869*, H.C. 1870 (471) lxi, 425; *Report of the Registrar of Friendly Societies in Ireland, for the year ending 31 December 1871*, H.C. 1872 (350) liv, 269; *Report of the Registrar of Friendly Societies in Ireland, for the year ending 31 December 1872*, H.C. 1873 (369) lxi, 291.

In 1871 there was a general enquiry into friendly societies in the UK and Ireland, with evidence being heard at Belfast, Dublin and Cork. From the evidence we can get a better understanding of how loan societies operated. But this commission of enquiry is a mixed blessing to historians of friendly society activity in Ireland, as one of its recommendations was the dissolution of the office of the Registrar of Friendly Societies in Ireland. From 1876 onwards the reports on Scottish and Irish friendly societies were subsidiary to the reports on the more prevalent activities of English and Welsh friendly societies.

One difficulty with measuring the activities of FS loan funds is the fact that it was possible for any society registered as a friendly society to have a separate loan fund. Evidence was given of such a friendly society with a loan fund at the 1871 commission on friendly societies. For example, John O'Connor was secretary of two separate, but related, societies in Dublin, the Pius 9th Loan Society and Pius 9th Burial society.[165] The rules of the society allowed a member to borrow £1 in the event of the death of a relative or friend, with the loan to be repaid in weekly instalments of 6d and any outstanding balance to be deducted from the end-of-year dividend.[166] This activity shows that there was a crossover between the societies. Another example was the Cork Mechanic Provident society. The secretary and treasurer of the society stated that the purpose of the society was to create a 'sick fund' and a 'burial fund'. They also stated that the society made loans to its members, and that 'many of the members wish to avail themselves of that'.[167] These examples of crossovers in the activities of the friendly society purposes suggests that the friendly societies may have provided lending services to members, and also suggests that focusing on FS loan societies may not give us the complete picture of the microcredit activities of friendly societies.

What we do know about these societies allows us to understand how they functioned. The FS loan societies were financial mutuals, and to borrow or save with them required the person to become a member. Under friendly society legislation the minimum number of members was seven and no maximum number was stated. All members had to purchase shares in the society, with the face value of each share being determined by each individual society. Aspiring members had to purchase a minimum of one share, payable weekly, and also to purchase a copy of the society's rules. Membership was not guaranteed, as an applicant was screened before entering. It seems to have been the case that in some instances aspiring members had to receive the recommendation of an existing member. The 1872 committee on friendly societies gives us an indication of the type of members involved in loan societies. The evidence of Robert McCormack gave details as to who the members in his loan society were. He said that they were artisans and mechanics, and 'as a rule they are a very

[165] *Second report of the commissioners appointed to inquire into friendly and benefit building societies. Part I. Report of the Commissioners on Benefit Building Societies. With reports of assistant commissioners*, question 16,052, p. 396. [C.514][c.514 - I][C.514-II], H.C. 1872, xxvi,1,101, 745.
[166] Ibid, question 16082, p. 396.
[167] Ibid, question 16665, p. 414.

respectable class'.[168] The Cork Mechanic Provident Society said its members were mainly mechanics but included tradesmen of every description.[169] Such evidence would suggest that membership is screened to exclude members who are either unskilled or unemployed and as such minimise potential loss to the society.

Loan limits were set under legislation at £50, with no set limit to the rate of interest or on term limits as was the case with the LFB loan funds. Societies were given the discretion to determine the level of interest that borrowers were to be charged. From the evidence of the committee investigating friendly societies, and from surviving loan fund rule books, it seems to be the case that interest charges were flexible and varied depending on the borrowers' preference for repayment.[170] Instalments were repaid weekly; the rate of interest varied inversely with the percentage of the loan repaid.

As borrowers were members, they were required to use their share value and additional capital as a security for loans, and also to provide sureties. What this meant was that if individual borrowers defaulted, they would lose any capital saved, plus their sureties would have to recoup any losses. This would have provided an incentive for more cautious behaviour from the borrower as they stood to materially lose from any negligent actions. This coupled with surety monitoring would have also improved the performance of the loan fund. The distribution of profits would furthermore have created an additional incentive effect. The annual profits of a society were divided to shareholders on a pro rata basis. As all members were shareholders, this would have provided an incentive for group monitoring.

These societies would have been able to overcome information asymmetries and provide loans to urban borrowers whom banks would have been inadequately able to screen due to problems associated with information asymmetries. The major cities in Ireland, unlike the rural areas, experienced population growth in the post-famine period and this is shown in table 5.6. As such the information arguments regarding banks outlined in chapter 3 would not be equally applicable. But it may be more likely that such FS loan funds created information about borrowers for banks to capture.

[168] Ibid, question 16022, p. 395.
[169] Ibid, question 16592, p. 412.
[170] For rule books see: *Rules of the exchange loan fund society 2 South Anne street* (Dublin, 1902); *Amended rules of the Patriotic loan fund society 57 Dame street* (Dublin, 1903); *Rules of the Father Matthew total abstinence loan fund society* (Dublin, 1905); *Rules of the Radium loan fund and investment society* (Dublin, 1904); *Rules of the thrift loan fund society 47 York street*, (Dublin, 1905).

Some anecdotal evidence from the 1884 inquiry into Irish industries suggests that, in general, urban tradesmen found it harder to access credit from joint-stock banks.[171]

Table 5.6: Inter-decadal percentage change in population in Dublin city and Belfast

	Dublin city			Belfast		
	Males	**Females**	**Total**	**Males**	**Female**	**Total**
1821-31	10.78	17.34	14.31	41.32	44.37	42.95
1831-41	14.28	13.76	13.99	32.94	31.57	32.20
1841-51	13.91	8.66	11.02	25.53	21.91	23.59
1851-61	-0.75	-1.91	-1.38	36.31	42.66	39.67
1861-71	-2.25	-4.26	-3.33	42.93	43.85	43.43
1871-81	3.62	-0.70	1.33	18.83	19.75	19.33
1881-91	-1.92	-1.77	-1.84	25.22	21.11	22.98
1891-01	19.48	17.84	18.63	36.09	36.72	36.43
1901-11	5.18	4.59	4.87	12.16	9.66	10.82

Source: census of Ireland, taken from W. E. Vaughan and A. J. Fitzpatrick, *Irish historical statistics: population 1821-1871* (Dublin, 1978).

The existence of urban mutual loan funds does raise some interesting questions for future research. Interestingly the mutual FS loan funds operated on similar principles to the LFB loan funds in that loans were to be repaid by weekly instalments and loans were issued at a discount.[172] As the FS loan funds were located in urban areas, it is more likely that members had access to weekly streams of income, and as such the lending mechanism would have been more suitable to the FS loan funds than to the rural LFB loan funds. The FS loan funds also experienced moral hazard problems with their officers which was similar to the LFB loan funds, but these moral hazard problems were not exacerbated by government interference.

The FS loan funds are also interesting in terms of the chronology of this thesis, as from 1895 attempts were made to introduce mutual loan funds in rural Ireland. The

[171] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* question 10258, p. 554, H.C. 1884-85 (288), ix, 1.
[172] Evidence of this can be seen in the rule books, plus the evidence relating to the Catholic loan society and the working men's loan society in the committee on friendly societies.

introduction of the co-operative Raiffeisen societies to Ireland also saw them registered under the friendly society legislation, and the introduction of Raiffeisen co-operative societies was also an important development in the decline of the LFB loan funds. These were introduced in 1895 and received notable public support. For example Bailey's 1903 report on land purchase recommended the widespread introduction of Raiffeisen credit co-operatives.[173] One of the witnesses before the 1908 report on congestion in Ireland was involved in a loan fund, and he openly praised the Raiffeisen system as being superior to the loan fund system.[174] And the 1914 report on agricultural credit was overtly in favour of a system of credit co-operation, as can by seen by its recommendations. The outcome of Raiffeisen banks despite such espousal and support did not have the desired effects, as will be discussed in chapter 6. In the context of the discussion on FS loan funds, it is worth questioning whether the efforts to establish Raiffeisen banks were undermined by the pre-existence of paternalistic microfinance institutions and did they hinder the emergence of mutual loan funds? The urban experience provides evidence that mutual lending societies could have emerged, and evidence from England and Germany regarding rural mutual savings and loan societies would suggest likewise.

5.5 Conclusion

This chapter introduced three institutions that have been under-represented in the existing literature in both Irish social history and microfinance institutions in nineteenth century Ireland. All three were distinct, but had a common theme, namely they were all urban based. Two of the three were institutional imitations and failed; the third was an innovation but it failed to find permanence.

Private pawnbroking and Monts-de-Piété models of pawnbroking provide additional information of interest to this thesis. The information on average loan sizes in pawnbrokers gives us an additional benchmark with which to assess the average loan sizes of other financial institutions. As was stated in the introduction, and again in section 5.2.1, pawnbroking is an understudied topic in Irish economic and social history. Perhaps more analytical scholarship in this area will yield interesting results

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[173] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts* (92) H.C. 1903, lvii, 333.

[174] *Fifth Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evidence, and documents*, questions 23802-23812, p. 74. [Cd. 3630], H.C. 1907, xxxvi, 261.

and provide significant insights into urban conditions in nineteenth century Ireland. Pawnbroking was a noticeable practice in nineteenth century Ireland, and pawnbrokers were found in most major towns on the island, as can be seen in table 5.7.

Table 5.7: Distribution of loans made by pawnbrokers, 1858-1871

Year	Dublin	Cork	Belfast	Limerick	Waterford	Other Towns
	%	%	%	%	%	%
1858	33.76	9.59	8.56	4.13	2.16	41.81
1859	34.37	8.96	8.46	4.04	2.29	41.88
1860	32.37	9.29	8.78	4.11	2.13	43.32
1861	32.30	9.17	9.02	4.27	2.21	43.03
1862	33.27	9.77	9.30	4.05	2.45	41.16
1863	35.87	9.02	9.40	3.99	2.38	39.34
1864	32.98	9.08	10.20	4.54	2.62	40.58
1865	25.68	8.99	10.59	4.12	2.88	47.74
1866	30.45	9.12	9.69	3.65	3.21	43.89
1867	31.50	8.89	7.34	3.81	3.36	45.10
1868	28.72	10.79	9.81	3.66	3.38	43.63
1869	30.82	11.85	9.46	2.87	3.04	41.97
1870	39.10	11.69	7.61	3.91	2.36	35.33
1871	33.14	7.61	9.93	2.20	2.75	44.38

Source: *Thom's Directory*, various years.

If we look at the average loan sizes shown in table 5.8, we can see that there was slight regional variation, something which might deserve further study. The sizes of loans clearly illustrate the low level of income and are a reflection of the prevailing living conditions of the urban poor.

Table 5. 8: Average loan sizes in pawnbrokers by city, 1858-1971

Year	Dublin	Cork	Belfast	Limerick	Waterford	Other Towns	Total Ireland
	£	£	£	£	£	£	£
1858	0.17	0.13	0.13	0.15	0.12	0.12	0.14
1859	0.17	0.15	0.13	0.15	0.13	0.13	0.14
1860	0.17	0.14	0.13	0.15	0.14	0.13	0.14
1861	0.17	0.14	0.12	0.14	0.15	0.12	0.14
1862	0.16	0.13	0.12	0.15	0.13	0.13	0.14
1863	0.15	0.15	0.12	0.15	0.13	0.13	0.14
1864	0.17	0.16	0.13	0.15	0.14	0.12	0.14
1865	0.23	0.17	0.13	0.15	0.15	0.11	0.15
1866	0.18	0.16	0.13	0.16	0.14	0.11	0.14
1867	0.20	0.05	0.19	0.15	0.13	0.11	0.14
1868	0.23	0.06	0.13	0.17	0.14	0.13	0.15
1869	0.18	0.12	0.14	0.14	0.14	0.13	0.14
1870	0.17	0.13	0.15	0.13	0.13	0.13	0.15
1871	0.18	0.18	0.19	0.15	0.15	0.15	0.16

Source: *Thom's Directory*, various years.

The Monts-de-Piété are an interesting source of information and they were contemporaneously related to the LFB loan funds discussed in chapter 1. Given that many of the advocates of the loan fund system suggested the adoption of Monts-de-Piété type institutions, this should make us question why loan funds were adopted en masse and not Monts-de-Piété. Both loan funds and Mont-de-Piété are addressed in the 1836, 1838, and 1843 loan fund acts,[175] and many of the Mont-de-Piété were actually attached to loan fund societies. In 1841 of the 8 Mont-de-Piété registered with the LFB, 6 of these were linked to loan fund societies. These were in Belfast, Cork, Dungannon, Lismore, Portadown and Tandragee.[176] The Dungannon Mont-de-Piété was actually 'under the control of the loan fund committee, who profess to regard them as one institution'.[177]

So what was the difference between the Monts-de-Piété and the LFB loan funds? One notable difference between the two institutions is the security they required for loans. The Monts-de-Piété required tangible security, whereas the loan

[175] The following sections refered to charitable pawn institutions; the 1838 act was an amendment of the 1836 act and did not refer specifically to charitable loan socieites: Loan Societies (Ireland) Act, 1836 (6 & 7 Will. 4), c. 55, section 21; Loan Societies (Ireland) Act, 1838 (1 & 2 Vict.), c. 78, section 1; Charitable Loan Societies (Ireland) Act, 1843 (6 & 7 Vict.), c. 91, sections 2 & 54.
[176] *Fourth Annual Report of the Commissioners of the Loan Fund Board of Ireland*, Appendix A no. 1, pp 8-17. [392], H.C. 1842, xxiv, 247.
[177] Ibid, p. 43.

funds were reliant on personal security. The difference in security suggests that the loan funds may have been riskier to operate, but also less costly. The Mont-de-Piété would have faced two significant costs in their lending methodology; one was storage and the second was selling unredeemed pledges. The fact is that the Monts-de-Piété would have been reliant on a secondary market, the public auctioning system of the pawnbrokers, and such infrastructure was costly to run. In Hancock's report of the pawnbroking sector he stated there were a number of ancillary costs associated with the auctioneering system, such as sending notices for auctions to the individual pledgers whose items were to be auctioned.[178] In Great Britain this was not required, and general advertisements were made instead.[179] Also, the low value items would not have realised much at auction and may even have resulted in loss if the cost of the auction is taken into account. Section 54 of 1843 loan fund act stipulated that Mont-de-Piété 'shall be deemed loan societies within the meaning of this Act'.[180] Therefore they would have received the benefit of an exemption from auction duty[181] and stamp duty.[182] A significant legal constraint to establishing and operating Monts-de-Piété was that they, as pawnbrokers, were still subject to the old pawnbroking laws. The 1836 and 1838 loan fund acts did nothing to address this problem, and it was not until 1842 that some clarification of the position of the Mont-de-Piété *vis-à-vis* private pawnbroking institutions was established.[183] The 1842 charitable pawnbroking act recognised Mont-de-Piété as a special form of pawnbrokers, but pawnbrokers nonetheless, and they were still required to adhere to a number of features of the old pawnbroking acts. So while the Monts-de-Piété did receive subsidisation (public and private), these were insufficient to make the Mont-de-Piété system profitable.

The LFB loan fund system was able to utilise peer pressure in the form of loan guarantors to ensure loans were repaid, and additionally it had access to relatively cheaper debt recovery procedures. Pawnbrokers are also subject to *ex post* moral hazard as they do not know if a borrower would repay a loan and redeem a pawn. The goal of pawnbrokers is not to accumulate pledges, but to have them redeemed as promptly as possible to reduce the cost of storage. Borrowers from pawnbrokers may

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[178] *Report of the commissioner appointed to inquire into the laws of pawnbroking in Ireland,* paragraph 13, p. 30, H.C. 1867-68, [3985], xxxii, 345.
[179] Ibid, paragraph 13, pp 30-31.
[180] Charitable Loan Societies (Ireland) Act, 1843 (6 & 7 Vict.), c. 91, section 54.
[181] Ibid, section 32.
[182] Ibid, section 14.
[183] Charitable Pawn Offices (Ireland) Act, 1842 (5 & 6 Vict.), c. 75.

not actually value the good or may not own it; therefore there was a likelihood of loan default.

The Monts-de-Piété introduced in the 1830s are an example of a failed institutional imitation. The decision to imitate the Mont-de-Piété system was ideologically motivated and did not take the existing market structure, in Ireland or in France, accurately into consideration. There was a complete failure on the part of the Mont-de-Piété propagators to explain and understand the French context. For example, in Barrington's pamphlet he suggested that the Mont-de-Piété could be utilised instead of a poor law system, but in France the Mont-de-Piété was a complementary tool in poor relief policy. It had been established in 1777 as an ancillary to the pre-existing poor relief system, and was able to feed profits into the poor relief system by virtue of the fact that it had a monopoly of the pawning market. This was never possible in Ireland. Firstly, monopoly status would have needed to be acquired, and secondly the loan fund legislation under which Mont-de-Piété were registered restricted loans to a £10 ceiling.[184] This would have limited the scope of activity of Monts-de-Piété and hindered the possibility of cross-subsidising loans. Taking pre-existing market conditions into consideration is an important factor when undertaking institutional imitation and it is something that has been stressed in recent microfinance literature.[185] The Mont-de-Piété experience should be borne in mind when we discuss Raiffeisen co-operatives in chapter 6, as history seems to repeat itself whereby socially motivated reformers undertake the imitation of foreign financial institutions without giving much thought to the prevailing economic conditions that underpinned those institutions.

This chapter introduced PBs in an Irish context and outlined the connection of the PBs to the work of the SVP. One of the interesting points to be noted from the SVP PB story is their support for the view that Smilesian thought was prevalent in nineteenth century Ireland. The SVP PBs although established in Dublin with traditional sectarian motivation, became associated with the pursuance and encouragement of thrift and were used as complementary institutions to the SVP temperance campaigns. The SVP promoted PBs in the belief that the existing financial structure did not adequately service urban groups who could only save small

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[184] Loan Societies (Ireland) Act, 1836 (6 & 7 Will. 4), c. 55, section 13.

[185] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington D.C., 1998), p. 11.

amounts of money. They believed that by providing such a service they would remove the temptation of people to spend, and would also obtain information about the depositors (i.e. recipients of charitable relief) in these banks, the belief being that such information would enable the SVP to know who was in need of relief, or who had sufficient means to support themselves. But this information was costly, as seen by the large workload it involved and the SVP was forced to terminate the project. The PBs were one of the many Victorian institutions designed to encourage thrift, but they were designed without the thought of the cost of thrift. Such institutions were costly to undertake and the returns were low. In a free market such institutions would not have survived without the subsidisation of their promoters, who in many cases were ideologically driven.

The issue of social memory that arose from the SVP story is useful and informative. It suggests that negative events had long-lasting impacts on the social psyche. In this it conforms to some more recent economic research such as that undertaken by Ulrike Malmendier and Stefan Nagel who suggest that adverse financial experiences affect investor behaviour.[186] This is in common with Galbraith's belief in the importance of memory as a regulator. Galbraith stated that 'as a protection against financial illusion or insanity, memory is far better than law'.[187] So if we assume that similar memory effects were in existence in Ireland it may explain the distrust of both the LFB loan funds, discussed in chapters 1 and 2, and the TSBs, discussed in chapter 4, in terms of their failures as savings institutions, and something which had implications for their long-term developments.

This chapter also introduced friendly society loan fund societies. These were mutual savings and loan societies located in urban centres. The existence of such societies is an interesting complement to the loan funds discussed in chapters 1 and 2 of this thesis. Further research in this area would be welcome. These societies were usually short lived, and it seems that they conformed to the friendly society tradition of short-term dissolving societies. For example, friendly societies in Britain annually distributed their profits between members, and they could also vote to disband the

[186] Ulrike Malmendier and Stefan Nagel, 'Depression babies: do macroeconomic experiences affect risk-taking?', working paper, found at University of California, Berkeley http://www.econ.berkeley.edu/~ulrike/Papers/DepressionBabys_16.pdf

[187] John Kenneth Galbraith, *The Great Crash 1929* (1954, reprint London, 1992), pp 10-11.

society and distribute the capital amongst members.[188] There is evidence from the work of Buckley on Irish friendly societies to suggest that similar practices occurred in Ireland. He found that there were many societies that operated as units that divided their funds, especially at Christmas.[189] Buckley also noticed that the effect of dividing was more common in friendly societies that operated as units rather than ones that were branches of larger and better organised institutions.[190]

This is a key distinction between the constitution of LFB loan funds and FS loan funds. If an LFB loan fund wished to dissolve it had to give the LFB three months notice, then it had to give the users of the service 10 days notice. The excess capital was not distributed amongst members, as in the FS loan funds, as the LFB loan funds were not mutual societies. Instead the 1843 loan fund act declared that in:

> …every such case [where a loan fund dissolves] all and every the capital stock, funds, and securities, and property whatsoever, of or belonging to such society or the trustees thereof, shall vest in the secretary of the said Loan Fund Board for the time being, and be disposed of, under the direction of the said Board, in like manner as herein-after provided with respect to a society that shall be found to have violated their rules or the provisions of this Act.[191]

Here we can clearly see a different incentive structure for members of FS loan funds and LFB loan funds. If an FS loan fund dissolved, its members divided surplus capital amongst them or a pro rota basis, whereas a LFB loan fund had no such rights and funds were put in the trusteeship of the LFB. Given the evidence from Great Britain and other friendly societies in Ireland, there is a strong likelihood that dissolving societies and dividing profits would have been an attractive proposition. What we have with the FS loan funds is a number of isolated units, so it is not beyond the realms of possibility that many dissolved when members felt there was no need for them or when members wanted to divide the accumulated reserves. There are records of new FS loan funds forming even in the early years of the twentieth century,[192] so perhaps there is a wider story to be told. The experiences of both the LFB loan funds and the FS loan funds are important for when we discuss the mutually based philosophy of Raiffeisen co-operative banking in chapter 6.

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188 P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), pp 25-26.
189 Anthony D. Buckley, '"On the club": Friendly Societies in Ireland' in *Irish Economic and Social History*, xiv (1987), p. 50.
190 Ibid, p. 49.
191 Charitable Loan Societies (Ireland) Act, 1843 (6 & 7 Vict.), c. 91, section 41.
192 For example see *Annual report of the Chief Registrar of Friendly Societies*, p. 36, H.C. 1902, (109), xcvi, 1.

6 Imitating the continent: Raiffeisenism in Ireland, 1894-1922

6.1 Introduction

The co-operative movement, which involved the formal combination of individual economic agents in the pursuance of mutual economic goals, emerged as a form of economic activity in the nineteenth century. Numerous demand side and supply side institutions were formed that adhered to principles of co-operation. Co-operative agricultural societies, primarily in Continental Europe, were among the most successful adherents to this organisational structure. Success and benefits attributed to the co-operative models of agricultural production encouraged the imitation of these models in different regions and in different sectors of the economy.[1]

Ireland was an example of such imitation. Towards the latter stages of the nineteenth century and the early twentieth century various agricultural co-operatives were formed throughout Ireland.[2] The first efforts of co-operation attempted to imitate the Danish model of co-operative creameries.[3] Also, village banks applying the template of cooperative banking established by Friedrich Raiffeisen in the German town of Neuwied were founded. These Raiffeisen banks were successfully introduced in a variety of different countries, not just in Europe but in other parts of the world. The imitations of credit co-operation were able to replicate the successful growth that they had shown in Germany. Remnants of the cooperative banks are still to be found in continental Europe and in the United States. However, in Ireland and the United Kingdom there has been a very poor tradition of cooperative banking and these banks did not gain much of a foothold.[4]

In 1943 the Rev Cornelius Lucey (1902-1982), a notable clerical figure who became Bishop of Cork and was a lecturer in University College Dublin, wrote that:

> So far no serious effort has been made to introduce Schulze-Delitzsch or Raiffeisen co-operatives either here or in Great Britain…There is every reason why we in Ireland

[1] C. R. Fay, *Co-operation at home and abroad* (3rd edition, London, 1925); Margaret Digby, *The world co-operative movement* (2nd edition, London 1960); Johnston Birchall, *The international co-operative movement* (Manchester, 1997).
[2] Patrick Bolger, *The Irish co-operative movement: its history and development*, (Dublin, 1977).
[3] For example see: Kevin H. O'Rourke, 'Property rights, politics and innovation: creamery diffusion in pre-1914 Ireland' in *European Review of Economic history*, xi (2007), pp 395-417, and Proinnsias Breathnach, *The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis*, NUI Maynooth Department of Geography, PhD thesis, August 2006.
[4] Stephen Valdez, *An introduction to western financial markets* (London, 1993), p. 16.

> should think seriously of inaugurating a co-operative credit movement on Raiffeisen or similar lines.[5]

In fact, when the number of registered Raiffeisen societies peaked in 1908, there were 268 Raiffeisen societies affiliated with a central co-operative body called the Irish Agricultural Organisation Society (IAOS) and the overwhelming majority of these were registered as Friendly Societies.[6] The fact that by 1943 there was little or no trace of these societies, as shown by the above citation, is an indication of the brevity of their existence. The main argument of Lucey's article was for the adoption of Credit Unions, a variant of Raiffeisen co-operatives,[7] in Ireland. When Credit Unions were adopted in the 1960s they had greater success than the Raiffeisen societies of the early 1900s, and the Republic of Ireland has one of the highest credit union penetration rates in the world.[8]

Raiffeisen societies were superseded within the IAOS co-operative portfolio only by the creamery co-operatives,[9] yet research and writing on the origins of co-operation in Ireland has mostly focused on the creamery co-operatives as they were the most successful adherents of co-operation. Concentration solely on successful economic ventures is the economic history equivalent of winner's history. Other co-operative movements emerged but they did not have the longevity or the sustained success of the creamery co-operatives. Yet this should not disqualify them from study. Much can be learned from failure as can be learned from success. The credit co-operatives made up a sizeable proportion of the co-operatives that were registered with the IAOS during the period 1894-1915. The strength of the credit co-operative movement did not stand the test of time, and as such it has been overlooked or simply ignored by many historians. Numerous contemporary accounts of co-operative development in Ireland focused on the movement as a whole rather than on individual aspects. In this regard it can be seen how the credit co-operatives occupied a role of considerable importance. Many contemporary commentators were optimistic and

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[5] Lucey, C, 'Co-operative credit societies' in *The Irish Ecclesiastical Record*, lxii (July to December 1943), pp 78-79 and 79-80.

[6] *Report of the Irish Agricultural Organisation Society for the year ending 1909* (hereafter IAOS Annual report 19XX).

[7] The co-operative literature maintains that there is a link between Credit Unionism and Raiffeisenism. For example see Georges Lasserre (translated by Anne Lamming), *Co-operative enterprises* (Manchester, 1959), p. 71.

[8] Patrick Honohan, 'To what extent has finance been a driver of Ireland's economic success?' in *Quarterly Economic Commentary* (Winter, 2006), p. 63.

[9] This can be seen in figure 6.3.

enthusiastic about credit co-operation in Ireland.[10] Horace Plunkett advocated the spread of credit co-operation and was enthused with the preliminary results that he saw. Plunkett noted that:

> The exact purpose of these organisations is to create credit as a means of introducing capital into the agricultural industry. They perform the apparent miracle of giving solvency to a community composed almost entirely of insolvent individuals.[11]

Plunkett was confident that the credit co-operatives would continue their expansion. He stated that:

> As the credit of these associations develops they will become the depository for the savings of the community, to the great advantage of both lender and borrower.[12]

The focus of this chapter is on the introduction and adoption of Raiffeisenism in Ireland from 1894 to 1922, written from the perspective of supply-side innovation diffusion and institutional economics.[13] This chapter will focus on the role of the central agency that propagated the idea of co-operation in Ireland and argue that the initial propagation strategy used by this central agency to encourage co-operative creameries undermined subsequent propagation efforts to establish distinctive co-operatives along Raiffeisen lines. The chapter will analyse why the IAOS perceived that Raiffeisen banks were needed in Ireland and the propagation strategy that it used. It will look at the information available to the IAOS and how information diffused to potential adopters. It will argue that the propagation strategy used by the IAOS to encourage the formation of Raiffeisen societies was both flawed and contradictory.

The chapter will outline the institutional structure of Raiffeisen societies in Ireland and argue that the structure adopted was not conducive to sustainable adoption. It will outline and analyse the legal context that was faced by the propagating agency when introducing Raiffeisenism. It will argue that formal legal constraints were more of an impediment to the development of Raiffeisenism than the informal constraints, as has been argued by Tim Guinnane.[14] It will be argued that these formal constraints led to the formation of institutions that were not conducive to

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[10] For example see: Henry William Wolff, *Co-operative credit banks* (London, 1898), pp 54-55; L. Paul-Dubois, *Contemporary Ireland* (Dublin, 1909), translation of *L'Irlande contemporaine* (Paris, 1907), p. 447; David A. McCabe, 'The recent growth of co-operation in Ireland' in *The Quarterly Journal of Economics*, xx, no. 4 (August, 1906), p. 567.
[11] Horace Plunkett, *Ireland in the new century* (London, 1904), p. 195.
[12] Ibid, p. 197.
[13] Lawrence A. Brown, *Innovation diffusion: a new perspective* (London, 1981); Douglass C. North, *Institutions, institutional change and economic performance* (Cambridge, 1990).
[14] Timothy W. Guinnane, 'A failed institutional transplant: Raiffeisen's credit cooperatives in Ireland, 1894-1914' in *Explorations in Economic History*, xxxi (1994), p. 39.

long-term sustainability. It will also be argued that if the propagators were ideologically flexible they could have made an alternative choice based on a theory of second best and that a form of Raiffeisenism could have been successfully introduced.

The chapter will conclude by comparing the strain of Raiffeisenism introduced in the period 1894-1920 with a subsequent strain introduced in the 1920s, and the credit union movement of the 1960s. The arguments developed within this chapter will be used to explain why credit unionism experienced a more successful adoption in the Republic of Ireland.

6.2.1 Co-operation – context and origins

Co-operation, as defined by the International Co-operation Alliance, 'is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.'[15]

The co-operative literature traces the origins of the co-operative movement to the writing and activities of Robert Owen in the early nineteenth century.[16] Robert Owen implemented his theory in New Lanark in an early attempt at labour co-operation.[17] His influence was felt in Ireland when a co-operative society was attempted in Ralahine, Co. Clare. The venture ended ignominiously, the landowner lost his estate in a bet and the workers were evicted from the estate, but it provided Ireland with a precedent of co-operation.[18]

The first successful co-operative venture was implemented in Rochdale in the north of England in the mid-nineteenth century. This template of co-operation was based on the consumer co-operation and it focused on providing consumers with relatively cheap goods and ensuring the quality of goods bought for its members. The Rochdale system of consumer co-operation operated along eight principles. An outline of these principles was given by Johnston Birchall:

> The first was democratic control; members gained only one vote each, regardless of the size of their shareholding. The second was open membership; anyone could join, for a small down payment. The third was a fixed and limited interest on capital; they needed to secure investment, but gave it just as much reward as was necessary to secure it and no

[15] International Co-operative Alliance, 'Statement of co-operative identity', available at the ICA website, (http://www.ica.coop/coop/principles.html) (11 August 2009).
[16] Robert Owen, *A new view of society or essays on the principle of the formation of the human character and the application of the principle to practice* (London, 1813).
[17] Johnston Birchall, *The international co-operative movement* (Manchester, 1997), pp 4-5.
[18] David Lee, *Ralahine: land war and the co-operative* (Dublin, 1981).

more. The fourth was distribution of the surplus as dividend on purchases, the famous dividend principle. The fifth was cash trading, the sixth a commitment to providing only pure and unadulterated goods, something which to a consumer owned society should come easily. The seventh was a commitment to education, the eight to political and religious neutrality.[19]

Co-operation can be viewed through the lens of agency theory. For example, the emergence of consumer co-operatives in the nineteenth century can be seen as a response to problems due to information asymmetry. The Rochdale model of consumer co-operation was a response in part to the sale of impure and adulterated goods, with one of the principles of the Rochdale store being the sale of 'only pure and unadulterated goods.'[20] Akerlof showed that in cases where information is not perfectly distributed amongst all participants in an economic game there exists a temptation to exploit such imperfect information by certain agents with greater access to information. Akerlof stated that:

There are many markets in which buyers use some market statistic to judge the quality of prospective purchases. In this case there is incentive for sellers to market poor quality merchandise, since the returns for good quality accrue mainly to the entire group whose statistic is affected rather than to the individual seller. As a result there tends to be a reduction in the average quality of goods and also the size of the market. It should also be perceived that in these markets social and private returns differ, and therefore, in some cases, governmental intervention may increase the welfare of all parties. Or private institutions may arise to take advantage of the potential increases in welfare which can accrue to all parties. By nature, however, these institutions are nonatomistic, and therefore concentrations of power – with ill consequences of their own can develop - can develop.[21]

In this sense consumer co-operatives can be seen as a reaction to the sale of adulterated goods and as a result the movement received widespread support and grew in size throughout the nineteenth century. The British model of consumer co-operation was quite successful and was to be the dominant form of co-operation in England, Wales and Scotland. The main thrust of the consumer co-operative movement was to provide goods for working class Britons and thus it was primarily an urban movement. Ireland did not develop the consumer driven model that gained popularity in England in the nineteenth century. The socio-economic structure in Ireland militated against a similar permeating influence in Ireland, given that Ireland was a more rural-based society in comparison to Britain. It was not until the early twentieth century that successful attempts were made in Co. Donegal to imitate the

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[19]Johnston Birchall, *The international co-operative movement* (Manchester, 1997), p.7.
[20] Ibid, p.7.
[21] George A. Akerlof, 'The market for "Lemons": quality uncertainty and the market mechanism' in *The Quarterly Journal of Economics*, lxxxiv , no. 3(August, 1970), p. 488.

British consumer co-operative model. Using co-operative statistics from 1893 we can see that there were 41 co-operative societies registered in Ireland, 1433 co-operative societies in England and Wales, and 366 in Scotland. The number of co-operative societies in Britain mainly refers to consumer societies, whereas the numbers for Ireland also include other forms of co-operation discussed below. By making comparisons per 1000 population we can see that Ireland had the lowest level of co-operatives societies at 0.008 compared with 0.083 in Scotland and 0.049 in England and Wales.[22]

In the late nineteenth century templates of co-operation geared towards agricultural production were developed in Continental Europe. These forms of co-operation were to have ramifications for Irish economic interests as they were geared primarily towards agricultural production in countries that competed in traditional Irish export markets. This template of co-operation, in contrast to the urban consumer-driven one, was primarily a supply side movement. The countries which inspired imitation in Ireland were Denmark, for its organisation of dairy co-operatives, and Germany, for its organisation of credit co-operatives.

Eric Hobsbawm traced the origins of the agricultural co-operative movement to the effects of the ‘Great Depression’, the depression of ‘prices, interest and profits’ in the latter part of the nineteenth century.[23] Hobsbawm believed that the decreasing agricultural prices created incentives for the introduction of innovative methods in agricultural production. The same was not the case for Britain as it had ceased to specialise in agricultural production. Hobsbawm believed that Britain by avoiding competing in grain markets and instead switching its focus to other agricultural products less affected by competition was evading the problem. Hobsbawm noted that:

> This sorry record contrasts with the fortunes of other European countries equally hit by the depression of the 1870s and 1880s, but which discovered ways of meeting its challenge other than that of evasion. Denmark, which began to supply the breakfast tables of Britain with bacon and eggs towards the end of the nineteenth century, is the obvious example. The strength of these lively and modern minded farming communities lay not in any major technological transformations of production, but rather in revolutions of processing, storage, marketing and credit, and especially in the spread of cooperation for these purposes. Under the pressure of crisis such cooperative methods developed fast everywhere – except in Britain.[24]

[22] Figures per 1,000 population were calculated using population figures for 1891: *The guide book of the friendly societies registry office 1893* (London, 1893).
[23] Eric Hobsbawn, *The age of empire 1875-1914* (London, 1987), pp 35-36.
[24] Eric Hobsbawm, *Industry and empire* (London 1968, revised edition 1999), p.178.

This analysis seems to adequately explain the emergence of co-operation in Denmark and various other countries as the first dairy co-operative was established in Hjedding in West Jutland in 1882 and quickly spread to other areas in Denmark. [25] Danish agriculture, prior to the establishment of dairy co-operatives, had been a net exporter of wheat and grain. Their main export market was Britain, where it had been profitable to export grain when the Corn Laws, import tariffs, were repealed in 1846. But increased competition from new world granaries in the latter nineteenth century decreased prices in the market for wheat and grain and gave an incentive to specialise in other forms of agricultural production.

Another factor which influenced the development of dairy co-operation in Denmark was the mechanisation of the dairying process which made it an economically viable prospect. The centrifugal separator for extracting cream from milk was invented by Cark de Laval in Sweden 1878,[26] just four years before the first co-operative creamery was established. Rather than individual agricultural agencies operating in isolation, co-operation encouraged the combination of economic agents to reduce individual costs and improve production techniques. Co-operation was effective as it enabled individual farmers to realise economies of scale.

Ireland, as a small open economy, with a large rural population dependent on agricultural production, was not immune from international competition. The competition came first from the new world and the exploitation of the new granaries, and secondly from other European countries adopting more efficient co-operative methods of production, marketing, distribution and credit services. The new methods of agricultural production were encroaching on traditional Irish export markets. The price decline in the 1870s and 1880s which proved a spur for co-operation in some European countries did not have the same affect in others. Hobsbawm noticed that:

> The decades of depression were not a good time in which to be a farmer in any country involved in the world market. The reaction of agriculturalists, depending on the wealth and political structure of their countries, ranged from electoral agitation to rebellion, not to mention death by famine, as in Russia in 1891-92. Populism, which swept the USA in the 1890s, had its heart in the wheatlands of Kansas and Nebraska. There were peasant revolts, or agitations treated as such, between 1879 and 1894 in Ireland, Spain, Sicily and Rumania. Countries which did not have to worry about a peasantry because they no longer had one, like Britain, could let their farming atrophy: here two-thirds of the wheat acreage disappeared between 1875 and 1895. Some countries, like Denmark, deliberately modernised their agriculture, switching to profitable animal products. Other

[25] Proinnsias Breathnach, 'The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis' (PhD Thesis, NUI Maynooth, August 2006), p. 356.
[26] Ibid, p. 22.

governments, such as the German, but especially the French and American, chose tariffs, which kept up prices.[27]

Hobsbawm also stated that the 'two most common non-governmental responses were mass emigration and co-operation'.[28] The late 1870s and early 1880s saw social agitation in rural Ireland, starting initially in Connaught and then spreading to other parts of the island. The 'land war' as it is commonly known in Irish historiography resulted in the implementation of numerous land acts.[29] These land acts were to transfer land ownership from landlords to their farming tenants. The combination of interest groups in rural Ireland was a form of co-operation, but it was not producer co-operation. A possible reason for Ireland diverging from European trends could be due to the fact that land liberalisation took place much earlier in Continental Europe. For example land reform, '*Baurenbefreiung* (peasant emancipation)', took place in the early nineteenth century in 'Prussia and elsewhere' in Germany.[30] It was these smallholders in Germany that participated en mass in the Raiffeisen co-operative movement in the late nineteenth century.[31] Land reform also took place much earlier in Denmark.[32] The non-governmental response in Ireland to the price decreases was not confined to co-operative agitation for land reform. Emigration was also used as a response to the deteriorating economic conditions and there was an increase in the rate of emigration per 1,000 population in the late 1870s, as shown in figure 6.1.

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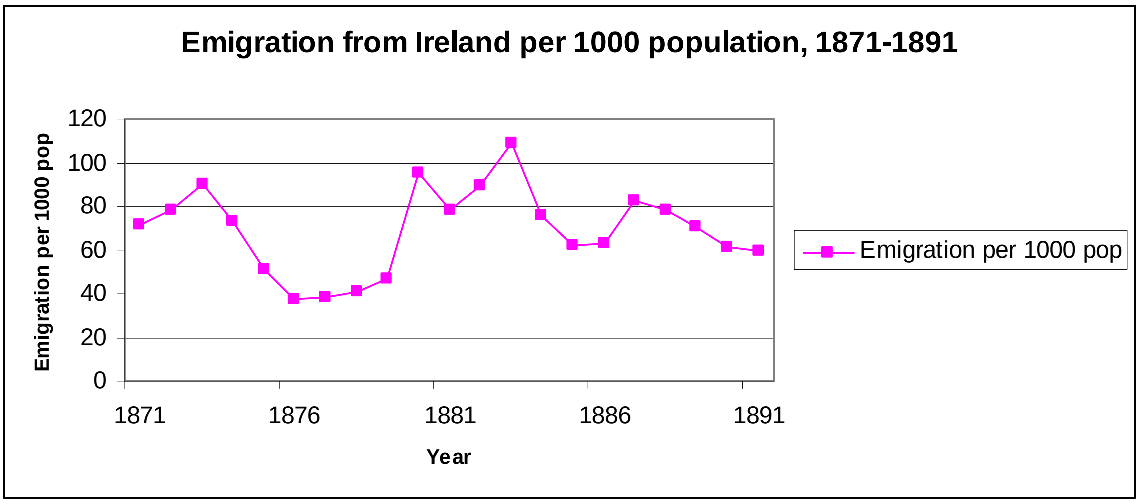
[27] Eric Hobsbawm, *The age of empire 1875-1914* (London, 1987), p. 36.
[28] Ibid, p. 36.
[29] This is discussed in greater detail in chapter 7.
[30] Jonathan Osmond, 'Land, peasant and lord in German agriculture, 1800-1990' in Sheilagh Ogilvie and Richard Overy, *Germany: a new social and economic history, vol. iii since 1800* (London, 2003), p.81.
[31] Ibid, p. 82.
[32] Proinnsias Breathnach, 'The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis' (PhD Thesis, NUI Maynooth, August 2006), p. 361.

Figure 6.1



Source: W. E. Vaughan and A. J. Fitzpatrick, *Irish historical statistics: population, 1821-1971* (Dublin, 1978), pp 261-263.

Attempts to introduce European models of co-operation followed the ‘land war’. The first attempts to introduce co-operation came not from the farming community themselves, but rather from a group of co-operative enthusiasts.

Hobsbawm’s account of the origin of co-operation in Europe sits well with the formation of Danish co-operatives, but the development of credit co-operatives in the German states predated the ‘Great Depression’ of the 1870s and 1880s. There were three distinct strands of credit co-operatives formed in the nineteenth century: Schulze-Delitzsch, Raiffeisen and Haas. Each strand had a distinct take on the formation of credit co-operatives. Schulze-Delitzsch was the first to establish his system of co-operative banking and was subsequently followed by Raiffeisen and Haas.

For the benefit of further discussion later in this chapter it is necessary to give a brief account of both Schulze-Delitzsch and Raiffeisen as both banking types were designed based on their personal beliefs, and these forms of banking were to be introduced into numerous other countries miles removed from their initial German context. Margaret Digby gave the following biographical account of both characters:

> Friedrich Raiffeisen (1818–1888) was Burgomaster of a group of Rhineland villages. He had a varied career as a soldier, railway contractor (he built the railway along the right bank of the Rhine) and wine merchant; he was a Catholic with a sincere belief in the Christian virtues. He was concerned for the welfare of the people under his care. There were lean years of semi starvation and he tried various charitable expedients. He saw that they brought no lasting relief and that people sank back into their old shiftlessness and dependence on the merchant usurer…About the same time as Raiffeisen was beginning

> his work among the Rhineland peasants, another German, Schulze-Delitzsch (1808-1883), a judge and member of the Prussian Parliament, had been appointed Chairman in 1848 of a Commission of enquiry into the condition of labourers and of the independent artisans and tradesmen who were and still are more important in the German economy than in that of England. As evidence accumulated before the commission, Schulze-Delitzsch, like Raiffeisen, became convinced that debt was the root of most of the poverty and insecurity among the people whom he was trying to serve. Quite independently, he arrived at the idea of the co-operative credit society. His societies were on somewhat different lines to those of Raiffeisen. (sic.) [33]

Schulze-Delitzsch and Raiffeisen established versions of co-operative banking contemporaneously.[34] The first Raiffeisen loan fund was established in 1847[35] and the Schulze-Delitzsch credit co-operative was formed in 1850.[36] Both types of credit co-operative offered credit and savings services to members but differed in the means through which they offered their services. The Haas system of credit co-operatives was similar to that of Raiffeisen's and all three were to experience sustained growth for most of the nineteenth century and the early twentieth century until this growth was hindered by hostility from the national socialist regime in Germany. The fundamental difference between Raiffeisen and Schulze-Delitzsch was that Schulze-Delitzsch required members to purchase shares, and hence they possessed share capital. Members, as shareholders, received dividends payments in the Schulze-Delitzsch co-operatives, something which was not done in Raiffeisen co-operatives.

[33]Margaret Digby, *The world co-operative movement* (London, 2nd edition 1960), p. 76 & p. 87.
[34] Michael Prinz, 'German rural cooperatives, Friederich–Wilhelm Raiffeisen and the organisation of trust', Universitaet Bielefeld, paper delivered to the 13th International economic history association conference, Buenos Aires, 2002, p. 4.
[35] Henry W. Wolff, *People's banks: a record of social and economic success* (1st edition, London, 1893), p. 71.
[36] Johnston Birchall, *The international co-operative movement* (Manchester, 1997), pp 12-13.

Table 6.1: Strands of credit co-operatives in Germany by unions, 1918

Union	Societies	Members in 1000	Turnover in Million Marks	Shares in Million Marks
General Union of German Cooperatives [Schulze-Delitzsch]	948	565	37,745	24,611
Imperial Union of German Rural Cooperatives [Hass]	12,480	1,100	15,965	41
General Union of Raiffeisen Cooperatives [Raiffeisen]	5,121	471	443	5
Sum [including others]	19,738	2,525	71,794	393

Source: Michael Prinz, 'German rural cooperatives, Friederich–Wilhelm Raiffeisen and the organisation of trust', Universitaet Bielefeld, paper delivered to the 13th International Economic History Association Conference, Buenos Aires, 2002, p. 6.

Of the three forms of credit co-operation in Germany, Raiffeisen and Haas groups were the ones which were primarily geared towards rural communities. Schulze-Delitzsch banks were mainly urban operations, although there were some rurally based members. All three offered short term un-secured loans, with none providing loans on long-term mortgage. Loans were usually guaranteed by collateral substitutes such as sureties, the personal security of the borrower, and membership was a criterion for a borrower.

M. L. Darling, a joint-registrar of co-operative societies in Punjab, gave the following outline of the Raiffeisen system in 1922:

> Everyone who knows anything at all of agricultural co-operation is familiar with the main features of the system, namely, unlimited liability, an area restricted to a village or two, small shares, limited dividends or no dividends at all, indivisible reserve, loans to members only, low rates of interest and honorary management controlled by the general assembly of members, each of whom has one vote and no more. In detail one country or province may vary from another, but the ground principles are everywhere the same, and

> wherever they are found and however they appear to be derived, their ultimate origin is Germany and their sponsor Raiffeisen.[37]

The operations of Raiffeisen banking structures can be explained by application of agency theory. The structure of the Raiffeisen bank, membership and limited area, can provide additional information which can overcome principal agent problems, such as monitoring, screening, *ex ante* and *ex post* moral hazard, and adverse selection.

Another German system of co-operative lending existed which extended loans on long term mortgages. This was the *Landschaften* system of co-operative mortgage credit whereby money was raised by the sale of land bonds and repaid by sinking fund. The origins of the *Landschaften* system date from the eighteenth century and were initially established to lend money on mortgage to land owners in Prussia.[38] A variant of this was introduced to Ireland in the 1920s by the Irish Free State Government.[39]

6.2.2 Raiffeisenism and financial structure

Raiffeisen banks did not exist in a financial vacuum when they were introduced in Ireland. This section will use the information heretofore presented in this thesis to given an outline of the nature and level of competition that Raiffeisen banks faced on the eve of their introduction and throughout their existence. It is also important to outline the financial structure in Germany, because Ireland and Germany were not homogenous and developed along different paths. The co-operative propagators believed that they could replicate co-operative banking by simply establishing them in Ireland, but they did not take into consideration the niche that these banks occupied in the German banking structure. If we look at the German financial structure we can see that it was much different to that which existed in Ireland. Deeg has shown that there was a tripartite division of the German banking sector between private, public and

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[37] M. L. Darling, *Some aspects of co-operation in Germany, Italy and Ireland* (Lahore, 1922), p. 18.
[38] The account of the *Landschaften* by Henry Wolff was regarded by C. R. Fay as an authoritative account of co-operative mortgage credit: G. R. Fay, *Co-operation at home and abroad* (3rd edition, London, 1925), p. 14; Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), pp 222-278.
[39] The Agricultural Credit Corporation was set up in 1927. References in the IAOS reports show the ACC bank giving loans to members of co-operative creameries: see IAOS Annual report 1931, p. 18.

mutual banks.[40] As was referred to in chapter 3, joint stock banking in nineteenth century Germany is associated with the model of universal banking.[41] There are rival schools of thought that have aspired to explain the development of universal banking in countries. One school of thought follows the Gerschenkron argument that universal banks, banks which mix short- and long-term lending, were created in response to demand for their services.[42] In other words, there was a demand for long-term capital investment and this capital was not generated within the existing economic structures. The Gerschenkron focus on the development of universal banking is therefore on the asset side of the balance sheet. A rival perspective is associated with Daniel Verdier;[43] it is a political economy perspective which argues that universal banking is in response to deposit market segmentation and the existence of a lender of last resort. Essentially the Verdier approach has been to focus on the structure of bank liabilities. But as Verdier noted (not until the end of his article), the truth would probably lie somewhere between the asset-side and liability-side approaches.[44]

By 1894, the time when Raiffeisenism was introduced in Ireland, both countries were at different stages of economic and social development. Two noticeable contrasts were the existence of universal joint stock banks in Germany, referred to in chapter 3, and co-operative banking institutions, discussed here. More importantly, there was a pre-existing savings market in Ireland and it was structured in a significantly different fashion, reflecting the different financial structure, to that in Germany. The most significant aspect of this fact was that the Raiffeisen propagators did not take this into consideration when establishing Raiffeisen banks in Ireland, nor did they appreciate the role of the Raiffeisen banks in the German financial structure.

It was argued in chapters 3 and 4 that historical developments in national financial structures are path-dependent.[45] If this is the case it would be difficult for

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[40] Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 87.

[41] For example J. J. Lee's advocation of universal banks see; Joseph Lee, 'Capital in the Irish economy' in L. M. Cullen (ed.) *The formation of the Irish economy* (Cork, 1976), p. 60.; and Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 20.

[42] Alexander Gerschenkron, *Economic backwardness in historical perspective: a book of essays* (Harvard, 1962).

[43] Daniel Verdier, 'Explaining cross-national variations in universal banking in nineteenth century Europe, North America, and Australasia' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 23-42.

[44] Ibid, p. 41.

[45] This was following the argument of Goldsmith: Raymond W. Goldsmith, *Financial structure and development* (Yale, 1969), p. 376.

new entrants to establish themselves in the market. So before we analyse Raiffeisen banks in Ireland we must firstly analyse the Irish financial structure. As was discussed in chapter 3, there were a number of joint stock banking companies operating in Ireland, shown in table 6.2. Following financial liberalisation in the 1820s a number of joint stock banks were formed, but financial regulation in the 1840s, which restricted the note-issuing capacity of the joint stock banks, encouraged the spread of branch banking in Ireland.[46] The Irish banking sector was remarkably robust, with only 3 joint stock banks failing in the period 1840 to 1914. Two failures were the result of illiquidity. The Munster and Leinster bank, the youngest bank in table 6.2, was formed from the remains of the illiquid Munster bank.[47] The other bank, the A&C, was based on a flawed business model that aimed to establish joint stock microfinance. The third bank, the Tipperary Joint Stock Bank (1836-1854), failed due to fraud, but the impact of its failure was contained. There was concentration in the number of individual banks, but each branch operated a branch policy.

Table 6.2: Joint stock banks operating in 1900

Bank	Year of establishment
Bank of Ireland	1783
Belfast Banking company	1827
Hibernian Joint Stock Bank	1824
Munster and Leinster	1885
National Bank	1835
Northern Banking Company	1824
Provincial Bank	1825
Royal Bank	1836
Ulster Bank	1836

Source: *Thom's Directory* 1900.

[46] G. L. Barrow, *The emergence of the Irish banking system 1820-1845* (Dublin, 1973), pp 187-188.
[47] Cormac Ó Gráda, 'Moral hazard and quasi-central banking: Should the Munster Bank have been saved?' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 316 -341.

By 1894 the joint stock banks had consolidated their position and, all banking companies combined, held the largest market share of savings deposits in Ireland.[48] The expansion of branch banking also led to the creation of information on borrowers and enabled the banks to overcome moral hazard and adverse selection problems associated with lending. The joint stock banks utilised a system of collateral substitutes whereby potential borrowers provided two guarantors for a loan, and loan terms were for 3-month periods. The banks were said to have made loans for sums as low as £5 and received deposits from as low as £5.[49] Evidence from the 1898 money lending enquiry stated that in 1896 the joint stock banks 'advanced no less than 345,138 loans, from 1*l*. upwards, to peasant occupiers in Ireland, at a rate of interest averaging 5 per cent to 7 per cent only'.[50] The joint stock banks were successful lenders, but more importantly they were successful at mobilising deposits.

It must be stressed that those advocating the propagation of Raiffeisenism in Ireland initially did not give much weight to savings mobilisation, as their aim was to establish a credit movement.[51] Therefore, they were going to forego a cheap source of information on their borrowers,[52] but it should also be borne in mind that there was a pre-existing savings bank sector in Ireland, discussed in chapter 4. Savings banks were sizeable financial institutions in Ireland and came in two forms, Trustee Savings Banks (TSBs) and Post Office Savings Banks (POSB). TSBs were introduced in the 1810s and were an imitation of Scottish savings banks.[53] The key features of the British savings bank system that remained constant over the nineteenth century were fixed interest payments on deposits, deposit ceilings, and savings were invested in government bonds. In 1844 Tidd Pratt, the Registrar of Friendly Societies, reported

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[48] Savings deposits were essentially demand deposits; term deposits do not appear to have been prevalent in the period.

[49] *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix*, question 10267, p. 554, H.C. 1884-85 (288), ix, 1; and *Bulletin of the Society of St. Vincent De Paul*, xii (Dublin, 1867), p. 369.

[50] *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index*, question 2024, p. 105, H.C. 1898 (260), x, 101.

[51] There is no reference to savings, deposits, or thrift in the evidence of the members of the IAOS to the parliamentary enquiry into money lending in 1898: *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index,* pp 99-120, H.C. 1898 (260), x, 101.

[52] For example Chris Colvin has argued that the aim of Raiffeisen co-operatives is actually to maximise savings: Chris Colvin 'What determines interbank competition? And why should we care?' LSE working paper, 2009.

[53] Cormac Ó Gráda, 'Savings banks as an institutional import: the case of nineteenth-century Ireland' in *Financial History Review* , x (2003), pp 31-55.

that there were 73 savings banks in Ireland.[54] Following an endogenous shock in the late 1840s[55] and competition from government-backed savings institutions the number of TSBs subsequently declined and in 1894 there were 15 active TSBs. There was an unequal distribution of savings among these TSBs, with 6 of them holding 69 per cent of all TSB savings.[56]

The TSBs in 1894 were, however, dwarfed by the POSB which was introduced in Ireland in 1862. The POSB was the single largest branch banking institution operating in Ireland in 1894, and the number of branches continued to grow. The POSB had constantly experienced positive growth in savings, especially during the recessionary period of 1877-82. It was during that period that the amount of savings deposits held by the POSB first caught up with those held by the TSBs. The POSB went on to become the largest savings bank in Ireland. It was argued in chapter 4 that the frauds in TSBs in the 1840s encouraged the growth of the POSB. The fact that savers shifted to the POSB in the 1877-82 period is significant as this created an element of path dependence in savings patterns.

The significance of the savings banks (both TSB and POSB) grew in the 1890s as the annual deposit ceiling was raised from £30 to £50. The significance of this increase in the deposit ceiling is that it was greater than the average annual wages as reported by government bodies, and as such available to people from higher up the socio-economic ladder. However, the savings bank system was flawed as the fixed rate of 2.5 per cent paid on deposits exceeded the yield on Consols, which were the main assets of both institutions, in the late 1890s. This meant that these institutions, TSBs and the POSB, were loss making and that the state was forced to pick up the loss; essentially this meant that savings were subsidised.

The British savings bank system also differed from other countries in that the institutions did not engage in commercial lending. The UK savings bank system was constrained from making commercial loans. This point was made by the contemporary economist and co-operative bank advocate, Henry Wolff.[57] Tim

[54] John Tidd Pratt, *A summary of the savings banks in England, Scotland, Wales, and Ireland* (London, 1846), p. 319.
[55] Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD Centre for Economic Research working paper series*, WP08/04 (February 2008).
[56] These were the Belfast Savings Bank, Armagh Savings Bank, Cork Savings Bank, Dublin Savings Bank and the Coleraine Savings Bank.
[57] Henry W. Wolff, 'Savings banks at home and abroad' in *Journal of the Royal Statistical Society*, lx, no. 2 (June, 1897), pp 278-359.

Guinnane and Ingrid Henriksen have argued that the reason why Raiffeisen banks were unimportant in Denmark was because of a pre-existing network of savings banks that performed the financial services, savings and loans, associated with Raiffeisen banks.[58] This argument is somewhat applicable to Ireland as there was an established network of savings banks, but the key distinction was that they did not make loans. Perhaps this is why the propagators of Raiffeisenism did not include thrift in their message. It is also important to emphasise the fact there was no national public savings bank institution in Germany. Information was published regarding a POSB system in Germany and further applications for information were sent to the British Postmaster General from Germany.[59] A bill was introduced in the Reichstag,[60] but it was not made law.[61] The fact that Germany had not imitated the UK in establishing a POSB led the Postmaster General to make the following observation:

> The adoption of Postal Savings Banks in Russia leaves Germany, I believe, alone among the Great Powers of Europe, without such a system. This is the more singular in view of the efforts which are being made in that country to ameliorate the condition of the wage-earning classes.[62]

The absence of an institution similar to the British POSB is shown in Toni Pierenkemper and Richard Tully's study of the nineteenth century Germany economy.[63] What can be seen is that there were pre-established alternative conduits for savings in Germany, with credit co-operatives being one such alternative. Given that the British POSB originated contemporaneously to credit co-operatives in Germany, what might be an interesting question is why a POSB system did not develop in Germany. A plausible argument is that the lack of a national savings bank has something to do with the late formation of the German state in the nineteenth century and the pre-existence of a strong savings bank sector.

There was also a tradition of financial mutuals in Ireland similar to Raiffeisen co-operative banks, *avant la lettre*. These came in two varieties, the first of which, and the ones that have received scholarly attention, being loan fund societies

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[58] Timothy W. Guinnane, and Ingrid Henriksen, 'Why were credit cooperatives unimportant in Denmark' in *Scandinavian economic history review*, xlvi, no. 2 (1998).
[59] *Thirty-first report of the Postmaster General on the Post Office*, pp 36-37. [c. 4480], H.C. 1884-85, xxii, 489.
[60] Ibid, p. 38.
[61] *Thirty-fifth report of the Postmaster General on the Post Office*, p. 38 [c. 5850] H.C. 1889, xxviii, 573.
[62] *Thirty sixth report of the Postmaster General on the Post Office*, p. 47 [c. 6171] H.C. 1890**,** xxvii, 519.
[63] Table 37, Toni Pierenkemper and Richard Tully, *The German economy during the nineteenth century* (New York, 2004), p. 115.

registered with the LFB.[64] Membership of LFB loan fund societies was confined to persons investing funds for the purpose of lending to the 'industrious poor'.[65] But the society could borrow from non-members, and it made loans to non-members. Ó Gráda has likened the LFB loan funds to credit unions,[66] but this analogy is inaccurate as membership is a prerequisite for both saving and borrowing in a credit union. The LFB loan funds were providers of small loans with a legally imposed loan ceiling of £10 and a loan term of 5 months (20 weeks). These loans were guaranteed by two sureties, similar to the methodology used by the joint stock banks. The other loan funds that existed were friendly society loan funds. These were first established in the 1830s. Friendly society loan funds came in two forms; they were either friendly societies that gave loans to members or singular loan fund societies.[67] Membership was a legal criterion for both borrowing and lending in loan funds registered under Friendly Society legislation. Friendly society loan funds also had a legally imposed loan ceiling of £50, but loan terms and interest rates, on both loans and deposits, were flexible.

The loan funds most prevalent in rural Ireland were the LFB loan funds, so as such there was no tradition of mutual societies along Raiffeisen lines. Vaughan has argued that there was no formal co-operative tradition, of any description, in rural Ireland, and that the religious background of most tenants, hierarchical religions, did not 'inculcate those arts of management that are necessary for voluntary organisations'.[68] Vaughan argued that there were elements of informal co-operation such as 'swapping, either of horses, machinery, or time', but they were based on 'neighbourliness' as opposed to formal arrangements.[69] In terms of financial mutuals, it was argued that the use of sureties was a form of mutualisation.[70] Evidence of cross-securitisation, whereby borrowers would simultaneously act as a surety for one

[64] These have been discussed by Aidan Hollis and Arthur Sweetman in a number of articles: see Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), pp 291-311.
[65] Charitable Loan Societies (Ireland) Act, 1843, 1843 (6 & 7 Vict.) c. 91, section ix.
[66] Cormac Ó Gráda, *Black' 47 and beyond: the great Irish famine* (New Jersey, 1999), p. 154.
[67] Friendly Societies are more commonly associated with mutual insurance and assurance.
[68] W. E. Vaughan, *Landlords and tenants in mid-Victorian Ireland* (Oxford, 1994), p. 203.
[69] Ibid, pp 203-204.
[70] *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index*, paragraphs 2047-2048, p. 106, H.C. 1898 (260), x, 101.

another's sureties, supports this view.[71] However, this form of mutuality is not the same as members of a society being mutually involved in the lending process as in a Raiffeisen society.

The friendly society loan funds were located in urban centres. When Raiffeisen societies were established in rural Ireland, discussed below, they were essentially friendly society loan funds but with powers to borrow from non-members. A key consideration in the Raiffeisen story is the bubble experienced by LFB loan funds from 1880 to 1895 and its subsequent collapse in 1896 following a number of legal verdicts which made it difficult to enforce loan repayments if loans were not issued in conformity with the loan fund acts.[72] This created a catch-22: LFB loan funds could not recover debts issued in contravention to the LFB acts but could sue under alternative acts. In order to sue for debts under alternative legislation a stamp was required, but this stamp was exempted under the LFB acts. It was not until 1906 that adequate legislation was introduced that resolved this impasse.

When the Raiffeisen societies were established the institutions that came closest to resembling them were the LFB loan funds, and these were experiencing a major crisis. George Russell (Æ), an organiser of Raiffeisen societies for the IAOS, stated in 1912 that the LFB loan fund societies, along with moneylenders and traders, were the interest groups most opposed to the establishment of Raiffeisen societies in Ireland.[73] George Russell's account is somewhat dubious as in 1894 there were very few loan funds in the west of Ireland, and it was mainly in the west of Ireland that Raiffeisen banks were being established. An interesting point regarding G. Russell's account of the competition between Raiffeisen societies and LFB loan funds is the fact that the loan funds had already lost a significant portion of their market share to the joint stock banks, and they had little or no share of the savings markets. G. Russell is therefore implying that the Raiffeisen banks were competing with the weakest elements of the market and they failed to match them. The key issue is not the LFB loan funds, but the role of the joint stock banks in Ireland.

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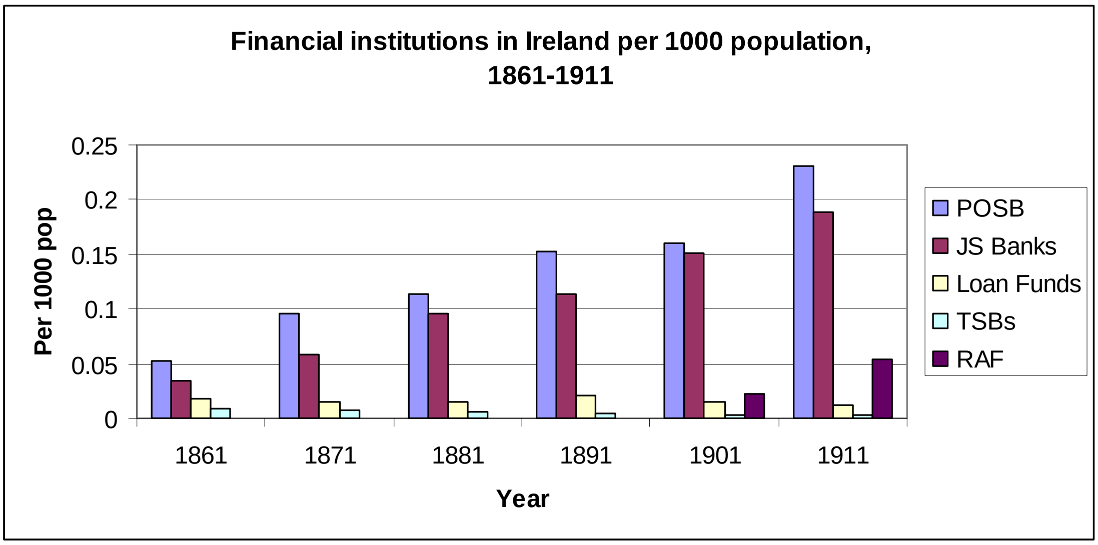
[71] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 &7, vic. Cap 91,* paragraph 12, p. 7. [C.8381], H.C. 1897, xxiii, 383.

[72] *The treasurer of the Enniskillen loan fund society v Green*, [1898] 2 Ir. R. 103 (QB) and *Skey v. Shield* [1899] 2 IR 119 (QB).

[73] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 1995, p. 66. [Cd. 7376], H.C. 1914 , xiii, 431.

Figure 6.2



Note: The POSB was established in 1862, the number of branches in 1862 was used in the calculation for 1861. The values for Raiffeisen societies are those stated by the IAOS.
Sources: *Thom's Directory 1861-1911*. POSB statistics for 1862 are taken from *Eighth Report of the Postmaster General on the Post Office* [2984] H.C. 1862, xxvii, 393.
Raiffeisen statistics are taken from IAOS annual report 1902 and 1912.

Figure 6.2 shows the number of financial institutions per 1,000 population. As can be seen the largest institution was the POSB followed by the joint stock banks. The high values for the POSB and joint stock banks can be seen as a reflection of the large number of branches operated by each institution. It should be noted that many towns had more than one joint stock bank branch, but each POSB branch was found in a unique location. Looking at figure 6.2, one can see that before Raiffeisen banks were established there were two strong financial institutions active in Ireland. The joint stock banks were active financial intermediaries, whereas the POSB only offered savings products. Given that this information was available to contemporaries, one would expect that an economically rational agency attempting to introduce a new financial institution would have studied the market to pinpoint where the new institution could compete. From the information outlined in this section it would appear as though the POSB could be targeted as it did not offer lending services, and also the LFB loan funds were in disarray.

An important consideration, given that the IAOS wished to introduce a lending institution, would be the extent of informal competition. The most notable sources of informal credit would have been from local shopkeepers, and from pawnbrokers. Kennedy has shown that there was an increase in the number of rural traders towards the end of the nineteenth century and he has argued that this increase in traders decreased the cost of credit.[74] Kennedy's arguments are supported by the CDB baseline reports. Kennedy has also argued that the credit terms available from shopkeepers were less rigid than those available from the formal joint stock banks and that this was an explanatory reason why the farming population had a preference for shopkeeper credit.[75] Kennedy's analysis shows that the relationship between traders and those who obtained credit from them was more complex than the propagators of Raiffeisen societies understood.

In order to compare Irish and German banking structures it is useful to use the Verdier approach of analysing financial structures. The Verdier hypothesis is that state involvement influences the development of financial systems, and that the degree (i.e. centralised versus localised) of state involvement in an economy influences the competition in savings markets and can create a lender of last resort. Verdier's findings were that 'universal banking was most likely to emerge in states that were neither so centralised that local banks were displaced by centre banks, nor so decentralised that there was no central bank'.[76] If we just focus on Germany we see that there was a lag in the establishment of municipal savings banks in German states compared to the UK, but that the motivation to establish savings banks, i.e. to encourage thrift etc discussed in chapter 4, was the same in both cases. Deeg stated that between 1840 and 1860 there were 800 savings banks formed,[77] whereas a similar magnitude of savings banks had been established in the UK in the period 1820 to 1840; see chapter 4. The main difference between the German and UK savings banks was that in German states savings banks were local municipal savings banks that did not transfer funds to a central body as was done in the UK. The German savings banks did not experience a crisis of confidence, such as what happened in the UK in the period 1848-1863, and as a result there was no demand to establish a stronger national savings bank. The German savings banks initially did not lend to individuals but 'beginning in the 1840s personal credits to local merchants, craft workers, and

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[74] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no. 3 (1977), pp 213-222; and Kennedy, Liam, 'Traders in the Irish Rural Economy, 1880-1914' in *The Economic History Review*, xxxii, no.2 (May, 1979), pp 201-210.
[75] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no. 3 (1977), p. 214.
[76] Daniel Verdier, 'Explaining cross-national variations in universal banking in nineteenth century Europe, North America, and Australasia' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 23.
[77] Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 93.

farmers became a central part of their lending activities.'[78] The co-operative banks emerged later and they competed for savings and made loans to individuals in urban and rural settings. Another factor which distinguished German from the Scottish and Irish forms of joint stock banking, but not the English, was the monopoly of note-issuing by a central bank. This happened relatively early in the life cycle of German joint stock banks, so as a result they did not have to keep as liquid an asset structure as Scottish or Irish banks. It also forced them to focus on other business models, hence a reason why universal banking was adopted. If we look at the distribution of deposit market share in Germany and the UK by banking sector in 1913, we can see that in the UK the commercial banking sector held a substantial share of that market at 80 per cent, whereas, in Germany the commercial banks held 28 per cent of the market; a much larger and more significant share of the market in Germany was held by savings banks, mutual credit societies and mortgage banks.[79]

The strength of the other sectors, the non-profit and the mutual, in nineteenth century Germany influenced developments in the joint stock banking sector and as a result the German joint stock banks differed significantly from their UK counterparts in that they were not deposit mobilisers.[80] Another area where this difference is noticeable is the gearing ratio of German joint stock banks. For example, in 1914 we can see that they had a lower gearing ratio (i.e. more equity capital) and a lower liquidity ratio (i.e. less liquid assets) in comparison to UK joint stock banks.[81] The reason for this was that the German banking model was more reliant on equity capital, whereas UK banks (including Ireland) were based on a deposit mobilising model. UK banks operated large branch networks to collect deposits. In Germany joint stock banks did not begin branch banking until late in the nineteenth century.[82] For example, Deeg stated that in 1900 Deutsche Bank had 6 branches and this number had

[78] Ibid, p. 94.
[79]Table 1.1 in Daniel Verdier, 'Explaining cross-national variations in universal banking in nineteenth century Europe, North America, and Australasia' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 36.
[80] Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History*, xxxvi, 3 (1999), p. 325.
[81] Table 2.6: Ranald Michie, 'Banking and securities markets' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 56.
[82] Caroline Fohlin, 'Universal banking in pre-World War I Germany: model or myth?' in *Explorations in Economic History* , xxxvi, 3 (1999), p. 315.

increased to 173 by 1926.[83] But the efforts of German joint stock banks at branch banking were unsuccessful.[84] This lack of success was not because they did not want to practise branch banking but because there was strong competition in the market for savings.

Similar segmentation existed in credit markets as the different sectors targeted different groups. The German joint stock banks focused on industrial investment, for which they have been praised,[85] but as a result they neglected other sectors of the economy and these sectors were forced to look elsewhere for banking accommodation; hence savings banks and co-operative banks were more competitive in Germany. The German joint stock banks focused on industrial loans from an early stage of their development, and it is this factor which explains the large market share of the other sectors. Lending in the German structure was also segmented, with the universal banks focusing on lending to industry, and co-operative banks lending to small urban and rural enterprises. From what we have discussed heretofore in this thesis, a similar segmentation did not exist in Ireland. It was shown in chapter 3 that joint stock banks held a large amount of deposits, and in chapter 4 that the joint stock banks held a large share of the deposit market *vis-à-vis* the savings banks. This suggests that, based on the Irish banking structure, Raiffeisen banks would find greater competition for savings deposits in Ireland than they had done in their early history in Germany.

What Irish contemporaries saw when they looked at Raiffeisen banks in Germany was just one aspect of the German banking and co-operative structures. The IAOS thought it was possible to replicate the German model by implementing a superficial imitation of the German institution. But what they saw was only part of a complex banking structure that had developed due to state intervention in the German banking sector. Also, the German Raiffeisen banks were heavily integrated with other forms of co-operation. Deeg has likened the developments in German co-operative banking to a form of co-operative universal banking,[86] with individual co-operatives banks linked to regional banks, who in turn were linked to national bodies. The co-operative banks were also involved with other forms of co-operative enterprise. The

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[83]Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 99-100.
[84] Ibid, pp 99-100.
[85] See J.J. Lee op cit.
[86] Ibid, p. 100.

Irish contemporaries who examined the Raiffeisen societies undertook limited analysis. The narrow focus of their investigations left them with a perception of how Raiffeisenism worked, rather than a detailed knowledge. It proved to be a costly mistake.

6.3.1 The IAOS and the propagation of co-operation in Ireland

In the late nineteenth century attempts were made by a small group of co-operation idealists to introduce co-operative agricultural methods in Ireland. The first attempts at co-operation were aimed at establishing co-operative creameries along lines similar to what was practised in contemporary Denmark, this was a conscious effort to imitate the Danish co-operative system. This is a key element to the Raiffeisen story in Ireland because in Denmark there was not a strong tradition of co-operative banking.[87] It is also a key issue in understanding the diffusion of co-operative creameries in Ireland. Kevin O'Rourke, in a recent article, has suggested that property rights and politics may be important variables in understanding the distribution of co-operative creameries in Ireland.[88] But O'Rourke's paper does not allow for the fact that the demand for innovation was actually determined by a centrally controlled body, the IAOS. This was a key argument in the thesis of Proinnsias Breathnach.[89] So in order to fully understand the imitation of co-operation in Ireland, we must also understand the IAOS.

Tim Guinnane has looked at both Ireland and Denmark in terms of their non-adoption of co-operative banks. But he did not specifically draw the links between Ireland and Denmark. Ireland specifically imitated Danish co-operation and this imitation did not come with a tradition of co-operative banking. This is a key sequential factor in co-operative development as it essentially placed the co-operative creamery rather than the co-operative bank at the heart of the Irish co-operative movement. In Germany the Raiffeisen co-operatives were associated with a number of agricultural societies. The Raiffeisen philosophy was to establish a bank first and then other constituent societies such as agricultural production societies, or creameries.

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[87] Timothy W. Guinnane and Ingrid Henriksen, 'Why were credit cooperatives unimportant in Denmark' in *Scandinavian economic history review*, xlvi, no. 2 (1998).
[88] Kevin H. O'Rourke, 'Property rights, politics and innovation: creamery diffusion in pre-1914 Ireland' in *European Review of Economic history*, xi (2007), pp 395-417.
[89] Proinnsias Breathnach, 'The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis' (NUI Maynooth, Department of Geography, PhD thesis, August 2006).

The problem with introducing Raiffeisen societies in Ireland was firstly, they were not the fulcrum of the co-operative movement, and secondly, they found it difficult to access savings. Coincidently the co-operative creameries initially had difficulties with the joint stock banks as they were reluctant to make loans secured by unorthodox joint liability of members,[90] something which a co-operative banking society would not have had a problem recognising. This was also noted by H de F Montgomery who went on a 'research trip'[91] on behalf of the Department of Agriculture and Technical Instruction (DATI) to Germany in 1903. In an article on co-operation in Germany he stated that:

> In many respects the *Raiffeisen Organisation* offers, probably, the best model for the organisation of agricultural co-operative societies; but the difficulty of adopting it as a pattern for Irish agricultural co-operative organisation arises from the circumstance that it is specially framed for the benefit of savings and loan societies doing supply business and that productive societies (dairy societies &c.) were an afterthought in this organisation. They did not fit into it, and had to be provided for by subsidiary arrangements. In Ireland the dairy societies came first, the supply associations next, and the credit societies last. (italics sic)[92]

Another key difficulty with the Raiffeisen societies, which is due to the Irish financial structure discussed above, was that they had a weak deposit base whereas in Germany these institutions had a wide deposit mobilisation, even encouraging children to save.[93] This type of deposit mobilisation occurred in Britain and Ireland, but it was the POSB that actively encouraged children to save, supporting school savings banks.[94]

One reason for this was that Horace Plunkett, a pivotal figure in the initial co-operative movement, had given preference to the creameries, à la Denmark. Plunkett outlined the motivation for the prioritisation of creameries:

> Though the economic conditions of the Irish farmer clearly indicated a need for the application of co-operative effort to all branches of his industry, it was necessary at the beginning to embrace a more limited aim. It happened at the time we commenced our Irish work that one branch of farming, the dairy industry, presented features admirably adapted to our methods….New machinery, costly but highly efficient, had enabled the

[90] C. R. Fay, *Co-operation at home and abroad: a description and analysis*, 3rd edition (London, 1925), p.168.
[91] He actually spent a lot of time studying Haas co-operatives rather than Raiffeisen co-operatives. Something which Henry Wolff criticised him for doing: *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 7153, p. 206. [Cd. 7376], H.C. 1914, xiii, 431.
[92] H de F Montgomery, 'Agricultural co-operation in Germany' in *Department of Agriculture and Technical Instruction for Ireland journal,* iv, no. 2 (December 1903), p. 247.
[93] Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), p. 130.
[94] *Twenty-fourth report of the Postmaster General on the Post Office*, pp 49-50. [c. 2193] H.C. 1878-79, xxi, 133.

> factory product, notably that of Denmark and Sweden, to compete successfully with the home-made article, both in quality and cost of production.[95]

The initial efforts to establish dairy co-operatives involved Horace Plunkett and R.A. Anderson, another key figure in the Irish co-operative movement and Secretary of the IAOS, attempting to encourage dairy farmers to establish co-operative creameries. Their initial focus was primarily on an area in the south-west of Ireland known as the Golden Vale where there was an established tradition of dairy farming. Horace Plunkett claimed to have held over 50 meetings before the first co-operative creamery was established in 1889.[96] Following the first example, many other creameries were established. Initially Plunkett had solicited help from the Co-operative Union, the federated body that represented British consumer co-operatives, for his 'missionary work'.[97] Having realised that consumer co-operation, co-operatives, looking to minimise the price paid by consumers, had an antinomic relationship to producer co-operatives, co-operatives looking to maximise the price received by producers, Plunkett and company decided to establish their own central co-operative organisation, the IAOS, in 1894. It is worth stressing that the apex institution representing Irish co-operatives at a national level was not established on a federated basis, as in other countries. In most discussion on the development of central institutions in the co-operative literature the emphasis is on individual co-operatives combining on a 'higher level'.[98] In Ireland the order was reversed with a central organisation creating local co-operatives, or a top-down development of co-operation as opposed to a bottom-up approach. The role of the IAOS was outlined by Horace Plunkett as follows:

> In the first instance it was to consist of philanthropic persons, but its constitution provided for the inclusion in its membership of the societies which had already been created and those which it would itself create as time went on.[99]

As can be seen in the context of co-operation the propagating agency was itself an innovation. Giving evidence to the money lending inquiry Plunkett said that the

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[95] Horace Plunkett, *Ireland in the new century* (Popular edition with epilogue, London, 1905), p. 187.
[96] Ibid, p. 190.
[97] Horace Plunkett, *Ireland in the new century* (Popular edition with epilogue, London, 1905), p. 185.
[98] Johnston Birchall, *The international co-operative movement* (Manchester, 1997), p. 35.
[99] Ibid, p. 192.

role of the IAOS was to ‘persuade’ people to adopt co-operation.[100] Paul-Dubois, a contemporary French observer gave a description of the role of the IAOS in 1904:

> An intelligent propaganda on the part of Sir Horace Plunkett and the Irish Agricultural Organisation Society, soon began to gain support for the new ideas, in spite of all obstacles and objections. The society is of an original and novel type, and has for its aim to ameliorate the condition of the agricultural population of Ireland by instruction in the principles and methods of co-operation. Of itself it has created nothing; it merely organises, advises and controls. It sends out organisers, who undertake campaigns in one district after another, and endeavour to establish co-operative associations by explaining their aims, advantages and methods to the peasants. The parent Society watches over its offshoots, initiates them into the best methods of procedure, superintends their operations, and audits their accounts. Through its agents and instructors it trains the co-operators in good business habits, and teaches how to keep accounts and to apply co-operative rules. In a word, it undertakes their economic education. In 1894, when the society commenced its labours, there were 33 Co-operative Associations in Ireland, at present (1904) there are 778 of various kinds, with 85,000 members, representing a population of over 400,000 persons, or about one-seventh of the total population of Ireland. [101]

Without the efforts of Horace Plunkett or the IAOS it is unlikely that co-operative forms of agricultural production would have developed. Private creameries using mechanical machinery had been established in Munster before the development of co-operatives,[102] so it is likely that this would have been the line of development had the co-operative propagators not influenced the market. Breathnach observed that:

> Whereas in Denmark, co-operative formation was largely a spontaneous development from within the farming population, in Ireland there was little evidence of any such tendency. Indeed, were it not for the proselytising efforts of a small band of co-operative enthusiasts, drawn for the most part from outside the farming community, it may be that the co-operative sector would never have established a substantial foothold in the dairy industry.[103]

The important point in regards to the Raiffeisen societies is that the integration of co-operative enterprises was not encouraged in the way it had been in Germany. This meant that the Raiffeisen banks were losing out on two cheap and integral sources of information about their members: deposits and income flows from farming enterprises. Information on income flows from farming enterprises are very

[100] *Report from the Select Committee on Money Lending; together with the proceedings of the committee, minutes of evidence, appendix and index,* paragraphs 1973, pp 101-102, H.C. 1898 (260), x, 101. (hereafter, *Report from the Select Committee on Money lending).*
[101] L. Paul-Dubois, *Contemporary Ireland* (Dublin, 1909), translation of *L'Irlande contemporaine* (Paris, 1907), pp 446-447.
[102] Proinnsias Breathnach, ‘The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis’ (NUI Maynooth, Department of Geography, PhD thesis, August 2006), p. 356.
[103] Ibid, p. 89.

significant as they can overcome the danger of *ex post* moral hazard whereby a borrower is untruthful about the outcome of an investment. This meant that the Raiffeisen societies, as designed and encouraged by the IAOS, were also losing advantages of economies of scope.

6.3.2 Raiffeisenism – origins in Ireland

The first Raiffesien society was formed in Doneraile, Co. Cork, and was registered as a specially registered friendly society in 1894.[104] It was established by the IAOS at the 'personal initiative' of Horace Plunkett,[105] and the subsequent establishment of Raiffeisen societies was at the behest of the IAOS. Therefore, in order to understand why Raiffeisen societies were introduced we must first try and understand why the IAOS felt they were needed. The Raiffeisen societies, like the co-operative creameries, did not emerge spontaneously. This can be interpreted to suggest one of two things: that there was a market failure or that the market was working.

The best source of information on why the IAOS felt Raiffeisen societies were needed comes from the Parliamentary inquiry into money lending in the UK. The inquiry began in 1897, but the committee did not produce a report in its first year, and its work was carried over into 1898. On 31 March 1898, three IAOS delegates and a secretary of one of the earliest Raiffeisen societies founded in Ireland gave evidence to the committee of inquiry. The IAOS delegates were Horace Plunkett and two bank organisers, George Russell and P. J. Hannon. The evidence of all three men is very similar and there is little deviation in content. This is most likely because they had briefed each other on the day. They outlined five sources of credit in rural Ireland and the complaints that they had against them. The sources of credit were joint stock banks, trust auctions, LFB loan fund societies, shopkeepers and money lenders.[106]

Their complaints against the joint stock banks were essentially that there were high ancillary costs of credit. They believed that the joint stock banks were not prevalent in the west and that as such there were high transaction costs associated with borrowing from them. They also believed the cost of treating, that is the cost of transport, food and whiskey for a borrower and his sureties, also increased the cost of

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[104] *Reports of the Chief Registrar of Friendly Societies for the year ending 31st December 1894, Part A.*, p. 85, H.C. 1895, (110) (110-I) (110-II), xci, 1, 247, 453.
[105] Henry W. Wolff, *People's banks: a record of social and economic success* (2nd edition, London, 1896), p. 390.
[106] *Report from the Select Committee on Money Lending* , pp 99-120.

a loan from a borrower's perspective. The trust auction system was newly established in Ireland and was confined to Co. Donegal in the North West of Ireland. It involved the collusion of a buyer and seller in an auction with the aim being to get an advance from the auctioneer. The example given was of a buyer who would bring a cow to an auction, his neighbour would bid up the price for the cow, the buyer would then give the auctioneer a bill of sale and the auctioneer would discount this bill of sale for the seller. The actual sale was fraudulent, but the seller of the cow would have received a loan. George Russell, the only one of the three IAOS delegates who had direct knowledge of the system,[107] disliked it as the sale was 'a sham' and because the borrower was paying two charges: the initial auctioneer's fee and the discount of the bill.[108] The IAOS delegates believed that although the interest charged by LFB loan funds was relatively low, the loan terms were unsuited to the needs of agriculturalists. Usurious money lending was believed to be uncommon in Ireland, but shopkeeper credit was extensive. Both activities seem to have come under the heading 'gombeenism'. The IAOS delegates believed that the introduction of Raiffeisen societies was the remedy to the five 'evils' they had outlined.[109]

Before further discussing the IAOS views on why Raiffeisenism was needed, it is worth highlighting the level of ignorance of the IAOS delegates in relation to joint stock banking in Ireland. Given that they were advocating the establishment of a new form of banking, would they not have made inquiries about the existing banking system of the island? This they did not do. All their information was based on second-hand accounts of banking practice. Horace Plunkett was asked, 'Have you paid much attention to the subject of banking in Ireland?' His response was, 'No; I cannot say that I have paid much attention to it.'[110] George Russell was shown a map indicating the spatial distribution of joint stock banks in Ireland, and the areas where there were no banks were areas with sparse population distributions. It actually transpired that a joint stock bank branch had been active in Belmullet, a location of a Raiffeisen society, but that it closed due to a lack of business.[111] It was put to Plunkett that these Raiffeisen societies would have to locate in areas not served by joint stock banks

[107] Horace Plunkett said that he received his information from George Russell and P. J. Hannon: *Report from the Select Committee on Money lending*, paragraph 1941, p. 100.
[108] *Report from the Select Committee on Money Lending*, paragraphs 2159-2170, p.111.
[109] Horace Plunkett believed that all five methods constituted a real evil: *Report from the Select Committee on Money Lending*, paragraphs 1971-1972, p. 101.
[110] Ibid, paragraph 2016, p. 105.
[111] Ibid, paragraphs 2224-2225, pp 113-114.

because the joint stock banks were adequately serving the market. [112] The later actions of the IAOS also suggest that they did not see the joint stock banks as a problem. The IAOS made it their business to declare that the Raiffeisen societies were not in competition with the joint stock banks. George Russell described the Raiffeisen societies as auxiliaries of the joint stock banks in his evidence to the 1912 committee on agricultural credit.[113]

The trust auction system that was outlined by G. Russell was not prevalent across Ireland, and seems to have been confined to Donegal. 'Gombeenism', by the acknowledgement of the IAOS delegates, was also declining. It seems that it was the joint stock banks that were responsible for the disappearance of the Gombeen man.[114] As usurious money lending was acknowledged to be a rarity, the main gripe of the IAOS delegates was with shopkeeper credit, the policy of long and short pricing by shopkeepers. This was the difference between the prices of goods bought on credit, versus the price bought with cash.

This view that gombeenism was the problem was repeated at different occasions. The views of Horace Plunkett can be seen in the discussion that followed a paper on 'agricultural credit banks' at the *Royal Statistical Society*. Plunkett believed that 'cheap credit' was necessary for the relief of small farmers. He said the aim in introducing Raiffeisen banks was to 'reach those who had no credit with the ordinary banking institutions' and to curb the extortionate interest rates charged by Gombeen men.[115]

George Russell gave a memorandum to the 1914 committee on agricultural credit in Ireland, outlining his views on Raiffeisenism. G. Russell stated that 'the country was, at the time the IAOS began its work, overrun by private moneylenders.'[116] In his book *Co-operation and Nationalism* G. Russell outlined the various rural moneylenders whose actions he objected to. Interestingly he did not have any complaint against the joint stock banks. The only issue he had with them

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[112] Ibid, paragraph 2104, p. 108.
[113] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 1914, p. 63. [Cd. 7376], H.C. 1914, xiii, 431.
[114] *Report from the Select Committee on Money Lending*, paragraphs 2231-2232, p.114.
[115] R. A. Yerburgh, 'Agricultural Credit Banks' in *Journal of the Royal Statistical Society* ,lix, no. 3 (Sept, 1896), pp 480-481.
[116] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 1885, p. 60. [Cd. 7376], H.C. 1914, xiii, 431.

was that their loan terms were inconvenient for agriculturalists. His main grievance was directed towards rural traders, whom he deemed 'gombeen men':

> There remains now the one universal credit-giver – the rural trader. I find it difficult to write calmly of the abuses of the credit system which once prevailed all over Ireland, and which still prevail in many districts, but especially in the west. Nothing is easier for the farmer than to run into debt at one of these country shops. He is invited to help himself to everything the shop contains up to certain well-defined limits. He may be allowed a year or a year and a half to be behindhand with his payments. The aim is to let him sink into debt, not so deeply as to imperil the security the trader has, but deeply enough to make it difficult or impossible for the customer to quickly extricate himself. In fact the idea is to have tied customers – men who must buy where they already owe money, who are not in a position to quarrel with prices or quality of the goods supplied. When the trader has double functions as middleman, not only supplying requirements but accepting produce, the system is one of the most effective means of fleecing the farmer at both ends of his business which could be devised.[117]

This attack on rural traders is consistent with the work of T. A. Finlay, another key figure in the co-operative movement and vice-president of the IAOS. In an article written in 1894 Finlay made the following statement:

> The gombeen man, Hebrew or Celtic, is, frankly and undisguisedly, a usurer; he charges his 60 per cent, or his 200, or 2000 per cent., candidly and unequivocally; with a little knowledge of arithmetic the borrower can ascertain exactly how he is dealt. But there is another usurer who plies his business much more insidiously, and whose operations are certainly not less fatal to the unhappy agricultural debtors – I mean the shopkeeper turned usurer.[118]

The only problem is that the definitions of gombeenism were quite broad comprising of money lending, loan sharks, and also consumer credit in shops. In the evidence of P.J. Hannon he outlined the practices of a money lender whom he called a Gombeen man. He was told that did not constitute gombeenism, that what he described was 'only usurious money lending', but Hannon stated 'I do not quite understand the distinction.'[119] This difficulty of defining what constitutes a 'Gombeen man' is not something confined to contemporaries.[120]

It is difficult to discern with accuracy the level of gombeenism, if in fact it did exist, in rural Ireland. One source that has been used by Irish historians is the baseline

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[117] George W. Russell (Æ), *Co-operation and nationality* (Dublin, 1912), pp 12-13.

[118] T. A. Finlay, 'The usurer in Ireland' in *The New Ireland Review*, i (July, 1894), pp 304- 316.

[119] *Report from the Select Committee on money lending; together with the proceedings of the committee, minutes of evidence, appendix and index,* paragraph 2272, p. 116, H.C. 1898 (260), x, 101.

[120]Kennedy was critical of Gibbon and Higgins for their over zealousness in their use of the term gombeenman: See the debates between Gibbon and Higgins v Kennedy: Peter Gibbon and M. D. Higgins, 'Patronage, tradition and modernisation: the case of the Irish "gombeenman"' in *The Economic and Social Review*, vi, no.1 (October, 1974), pp 27-44; Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no. 3 (1977), pp 213-222; Peter Gibbon and M. D. Higgins, 'The Irish "gombeenman": re-incarnation or rehabilitation' in *The Economic and Social Review*, viii, no. 4 (1977), pp 313-320.

reports of the Congested District Board (CDB). From these reports one can see that although shop credit was widespread, the effective interest rates were not extortionate. Liam Kennedy has shown that there was an increase in the number of shopkeepers in rural Ireland and that this probably caused a decrease in the cost of credit.[121]

From the perspective of G. Russell and T. A. Finlay, it can be taken that the Raiffeisen banks were to be used as an instrument to tackle gombeenism in the form of high interest money lending and shop debts. Plunkett, G. Russell, and Finlay offer consistent reasons for establishing Raiffeisen banks, namely to curb gombeenism, particularly in the retail sector. Given what we know about joint stock banking in Ireland, and given that the IAOS propagators wished to tackle 'gombeenism' or 'shopkeeper credit',[122] surely some form of co-operative stores and wholesale federations would have been a better instrument to address shop credit?

6.3.3 Information on Raiffeisenism

A key consideration in understanding the establishment of Raiffeisen societies in Ireland is how information on their structure was obtained by the IAOS and subsequently diffused to the adopters of Raiffeisenism. Henry Wolff, an authority on co-operative credit and considered by contemporaries to be the leading expert on credit co-operatives in the English-speaking world, believed that co-operative banks could be established in Ireland.[123] And, by all accounts, Henry Wolff played a key role in instigating Raiffeisenism in Ireland.[124] Wolff acknowledged the fact that he had been invited to Ireland by Horace Plunkett to advise the IAOS on the subject of credit co-operation,[125] and he stated that the IAOS 'is now actively turning that explanation to account'.[126] Given the key role played by Wolff in the establishment of co-operative banks along Raiffeisen lines in Ireland, it would be interesting to see what he knew about the subject.

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[121] Liam Kennedy, 'Traders in the Irish Rural Economy, 1880-1914' in *The Economic History Review*, xxxii, no. 2 (May, 1979), pp 201-210.
[122] *Report from the Select Committee on Money Lending* , paragraph 1945, p. 100.
[123] Henry W. Wolff, *People's banks: a record of social and economic success* (1st edition, London, 1893), p. 248.
[124] See: Lionel Smith-Gordon and Laurence C. Staples, *Rural reconstruction in Ireland: a record of co-operative organisation* (Westminster, 1917), p. 135 and *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1885, p. 60. [Cd. 7376], H.C. 1914, xiii, 431.
[125] *Report from the Select Committee on Money Lending,* paragraph 667, p. 47.
[126] Henry W. Wolff, *People's banks: a record of social and economic success* (2nd edition, London, 1896), p. 387.

The key features of the Raiffeisen system that Wolff believed were the main causes of success were the area restrictions, unlimited liability and selective restriction of members.[127] The area restrictions were emphasised because it meant that a society could maximise the use of local information.[128] Wolff stated that 'the object is not, to secure a large roll of members, but rigidly to exclude everyone who is not really eligible'.[129] Another key feature which he dwelled on was the creation of an indivisible reserve fund, going so far as to say that the 'reserve is the backbone of the society'.[130] Wolff also outlined other key features of the system such as the role of a committee within each bank together with a council of supervision as internal monitoring mechanisms to minimise the possibility of loss. He believed that the external auditing arrangements were an important monitoring arrangement.[131] Wolff emphasised that the object of the society was not to make borrowing easy, but in fact to make it difficult.[132] Loans were to be screened by members, with personal borrowing and collateral substitutes used to secure loans; these substitutes were sureties. Loans were to be repaid in regular instalments, with punctuality being insisted upon. Wolff believed that the encouragement of thrift was an important consideration. The thrift side of the movement led to the establishment of a federated Central Bank in 1874,[133] this being an institution that acted as a clearing house between societies with surplus deposits and societies with excess demand. Wolff also highlighted federated co-operative wholesale supply societies that were linked with the Raiffeisen system.[134]

From Wolff's account Raiffeisen established his first credit co-operative in 1847, but there was initially slow growth in the system, the second Raiffeisen co-operative not being established until 1854, the third in 1862 and it was not until 1880 that they began to 'perceptibly multiply'.[135] Coincidentally, a British parliamentary inquiry in 1895 stated that 'the first purchase on joint account was made in 1880 by

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[127] Henry W. Wolff, *People's banks: a record of social and economic success* (1st edition, London, 1893), pp 84-86.
[128] Ibid, p. 76.
[129] Ibid, p. 73.
[130] Ibid, p. 75.
[131] Ibid, p. 74.
[132] Ibid, p.76.
[133] Ibid, p. 79.
[134] Ibid, pp 80-81.
[135] Ibid, p. 71.

the Central Department at Neuwied'.[136] It is also interesting that Wolff's chronology of the growth in Raiffeisen societies is consistent with that of a recent historical account,[137] and his outline of the Raiffeisen structure is consistent with that outlined by Tim Guinnane. So, given that the IAOS had adequate information about the structure of a Raiffeisen society it is worth exploring how it transferred this information to the societies that it established.

The IAOS employed organisers to personally propagate the message of credit co-operation. Initially the work of the bank organisers was concentrated within the area of the CDB, as the CDB had agreed to subsidise the organisation programme.[138] In evidence to the committee on agricultural credit G. Russell gave evidence of how he went about raising awareness of Raiffeisen societies:

> If I started a society the parish priest or the doctor would give me a letter of introduction to someone in the next parish, or perhaps at the meeting people would come in from three or four parishes and discuss the matter afterwards in their own district, and ask me to come out. After the first half dozen societies had been established, I found no difficulty at all. I could have gone from one district to another organising societies, but the first half dozen were a difficult proposition.[139]

Deliberate attempts were made to diffuse the information to the people in the West of Ireland in their vernacular language. The IAOS used an Irish-speaking organiser to visit the communities and also had 'the Agricultural Banks explained in a Gaelic leaflet'.[140] Members of the first society in Doneraile, Co. Cork, gave talks on the benefits of co-operative credit societies. For example, the secretary of the bank addressed a meeting at Steamstown, Co. Westmeath, in 1896 shortly after the Doneraile society was established.[141] The IAOS also did all the work in regard to getting societies on their feet. The IAOS would get the society registered, and provided the necessary stationery.[142] The IAOS organised the printing of rule books that were required under legislation: one copy was required to be registered with the Registrar of Friendly Societies and the others to be provided to members. The rules

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[136] *Reports from Her Majesty's representatives abroad on the Raiffeisen system of co-operative agricultural credit associations*, p. 22. [c. 7896] H.C. 1895, ciii, 313.
[137] Table 6 in Michael Prinz, 'German rural cooperatives, Freiderich–Wilhelm Raiffeisen and the organisation of trust', Universitaet Bielefeld, paper delivered to the 13th International economic history association conference, Buenos Aires, 2002.
[138] *Report from the Select Committee on Money Lending,* paragraph 2000, p. 104.
[139] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 1904, p. 63. [Cd. 7376], H.C. 1914, xiii, 431.
[140] IAOS annual report, 1899-1900, p. 13.
[141] *Irish Homestead* (1 August , 1896).
[142] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 1904, paragraph 1544, p. 48. [Cd. 7376], H.C. 1914, xiii, 431.

used were a standardised set of rules written by the IAOS but the local people decided the area of operation and the rates of interest on loans and deposits. There are a number of rule books still existing in a number a files relating to individual Raiffeisen co-operatives and in the files of the Registrar of Friendly Societies.[143]

The rules and regulations for credit co-operatives were written by the IAOS and distributed to Raiffeisen societies when they registered with the IAOS. The rules stated what the objects of the societies were to be. They were firstly to 'create funds [that were] to be lent out to, or invested for, its members, or for their benefit,' and secondly 'loans to members shall only be made on condition that the purpose for which the money is borrowed is such that there is sufficient prospect of the loan repaying itself by the production, business or economy which it will enable the borrower to effect.'[144] As can be seen, the aim of credit co-operatives was primarily that of providing credit services to its members. But the second objective made clear that the goal was not merely lending for the sake of lending, but rather lending for specific purposes that would render a benefit to the member. It is important to note that although the rules are made for credit societies, these societies, as originally designed by Raiffeisen, offered both savings and lending services. Even though the Irish model was an imitation of the Raiffeisen model, it did not give equal stress to savings as it did to lending.

There were also a number of concessional loans from government bodies. These are discussed below, and an important question to ask is how the individual societies were informed of these concessional loans. The answer it seems is that the IAOS told them. Evidence of this comes from a number of sources. Firstly at a parliamentary enquiry in 1912 it was asked who applied for the loans, was it the IAOS or the societies themselves? The answer was that the societies themselves applied for the loans,[145] but that the IAOS were involved in the process. T.P. Gill, a senior figure in the DATI, said that:

> I should mention that in those days the department was working in co-operation with the IAOS and that any applications from the Banks were first sent to the IAOS to be reported

[143] For example 'Rules of the Corrigan Agricultural Bank' in (*N.A.I,* 1088/280/1, Corrigan Agricultural Bank); and there various rule books of the Columbkille society are contained in the file of the Registrar of Friendly Societies, 'Rules of the Columbkille Credit Society' in (*N.A.I.* , RFS SA 476, Columkille Credit Society).

[144] Appendix 22, 'Rules for agricultural credit societies' in *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index,* pp 555-558. [Cd. 7376], H.C. 1914 xiii, 431.

[145] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 28, p. 4. [Cd. 7376], H.C. 1914 xiii, 431.

on. It was on the report of the IAOS, and on its Bank organisers' recommendations, that the loans were made by the Department.[146]

Gill's statement was supported by T.W. Russell, the president of the DATI, and Gill's statement is also supported by archival evidence as there are letters from the Secretary of the IAOS, R.A. Anderson, to the various bank organisers asking them to write up a letter of recommendation so that a bank could receive a loan. Take for example the case of the Kiltimagh Credit Society, Co. Cavan.[147] The IAOS organiser, J. Moore, was responsible for setting the society up, saying that 'having again explained the advantage of and method of formation – it was unanimously decided to apply for registration'.[148] J. Moore then wrote the following memorandum regarding the Kiltimagh Credit Society, Co. Cavan, recommending that they be given a loan from the DATI:

> As this is a very poor district I would strongly recommend they should obtain a loan of £100 from the Department of Agriculture, and have got the form of application filled up accordingly. As arranged in previous correspondence, I trust the sub-committee will strongly support this recommendation.[149]

The impression that the IAOS supported and encouraged the formation of societies based on the availability of concessional loans is supported by a recollection of Patrick Gallagher, or Paddy 'The Cope' Gallagher, a popular figure in the Irish co-operative movement. Gallagher is more commonly associated with a co-operative store that he established in Templecrone, Co. Donegal, but prior to that he was involved in a co-operative bank. According to Gallagher there was an announcement that a gentleman from Dublin would be visiting the parish for the purpose of establishing a co-operative bank. The gentleman in question was Æ (George Russell),[150] so this is in line with the statement from Æ cited above. The following is Gallagher's version of events:

> He [Æ] got up on the rising ground and commenced talking to the people and telling farmers the benefit they would gain by having a Co-operative Agricultural Bank. If they decided to start one the Congested Districts Board would give them fifty pounds to begin with. He appealed to the audience to subscribe. He said the more they subscribed the more the Congested Board would give. The Parish Priest said he would give five pounds,

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[146] Ibid, paragraph 33, p. 3.
[147] Please note that some IAOS archival file names do not correspond to the society referred to within the file.
[148] 'Letter from J. Moore to the IAOS secretary, re: proposed agricultural bank at Kiltimage', 9 November 1907 (*N.A.I.*, 1088/552/1, Killanagh Credit society, Co. Leitrim).
[149] 'Memorandum from J. Moore to the secretary of the IAOS', 27 December 1907 (*N.A.I.*, 1088/552/1, Killanagh Credit society, Co. Leitrim).
[150] Patrick Gallagher (introduction by Peadar O'Donnell), *My story by Paddy the Cope* (London, 1939, Reprint Kerry 1979), pp 62-63.

> and three or four merchants said they would give five pounds each. I said I would give five pounds.[151]

According to Gallagher, Æ also told the people that it was up to the IAOS whether or not a bank would be registered.[152] Given that Æ encouraged Gallagher to tell his story, we can take it that this account is accurate. What is also interesting, and in line with what was discussed above, Gallagher said that the reason he left the agricultural bank was because he wanted it to purchase wholesale goods for its members. Gallagher had experience of consumer co-operatives in his time in Scotland and wanted to introduce a similar variety in Ireland. However, his fellow committee members did not agree with his stance, saying that trading was against the rules of the society.[153] This prevention of Raiffeisen societies trading is discussed below. Gallagher chose to set up a co-operative store rather than keep the agricultural bank, believing it to be more beneficial. When he did this the committee members of the agricultural bank threatened to withdraw their money from the bank if Gallagher did not cease co-operative trading.[154] So this again begs the question: why were Raiffeisen societies established and not co-operative stores?

6.4.1 Raiffeisenism in Ireland

As was discussed above, the IAOS was responsible for establishing co-operative societies in Ireland. In fact, it was stated that it was not until 1912 that the first co-operative was set up at the initiative of farmers, whereas 'in former years the initiative had to be taken in all cases by our organisers'.[155] Figure 6.3 shows the distribution of co-operative societies registered with the IAOS, and as can be seen the Raiffeisen societies were not insignificant during the period 1898 to 1915.

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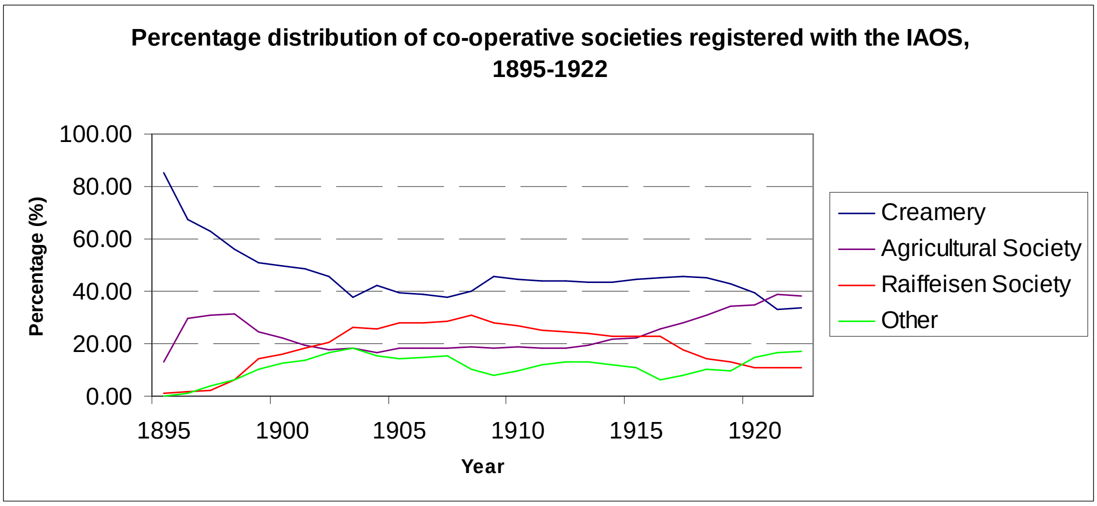
[151] Ibid, p. 63.
[152] Ibid, p. 63.
[153] Ibid, p. 64.
[154] Ibid, p. 81.
[155] IAOS annual report 1912, p. 3.

Figure 6.3



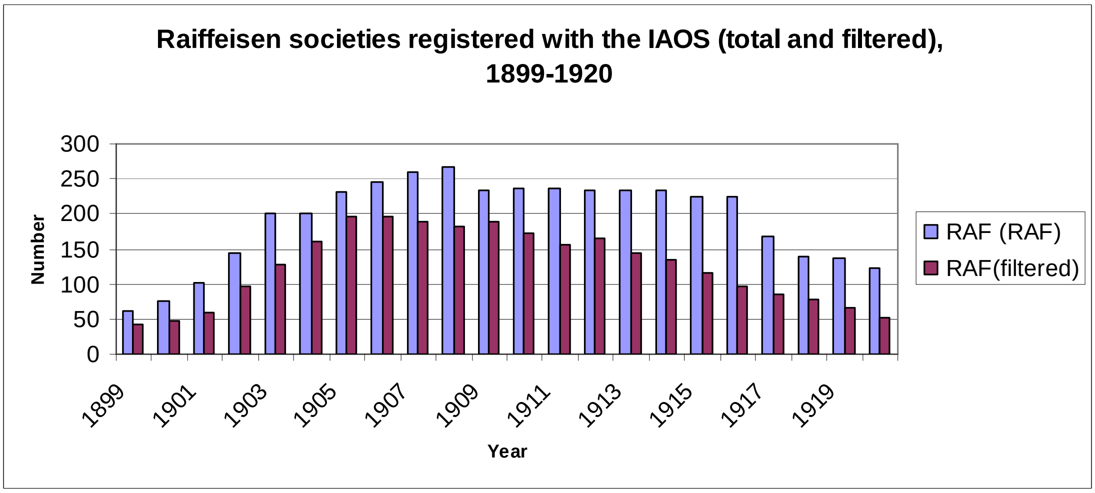
Source: IAOS annual reports 1899-1922

The data on individual Raiffeisen co-operative societies in Ireland have mainly been obtained from the annual reports of the IAOS, but additional information was obtained from archival sources. Annual accounts of the various Raiffeisen societies were printed in the IAOS annual reports. Data have been obtained and analysed for the years 1899 to 1920. Firstly, it must be stressed that the IAOS continually included inactive societies in their annual list of Raiffeisen societies. Therefore, it was necessary to filter the active from the inactive societies as a large number of zero values will distort any findings.

For the purposes of this study, inactive societies have been defined as either those that did not submit annual accounts, or those that submitted incomplete accounts. The IAOS when publishing information about their societies always stressed the large number of registered societies, regardless of activity. The IAOS maintained that the societies which did not submit accounts were active,[156] until 1916 when a number of inactive societies were struck off their register.[157] Given that the IAOS was supposed to audit the accounts of each Raiffeisen society,[158] the large number of incomplete returns suggests that these societies may not have been active, a view supported by the IAOS itself.[159] The Registrar of Friendly Societies also reported that a large number of the Raiffeisen societies did not submit returns.

[156] For example see IAOS annual report 1909, p. 3.
[157] IAOS annual report 1916, p. 14.
[158] IAOS annual report 1911, p. 3.
[159] IAOS annual report 1914, p. 5.

Figure 6.4



Source: IAOS annual reports, 1899-1920.

Figure 6.4 shows the number of Raiffeisen societies, both the IAOS figures and the number filtered for activity. As can be seen, the number of societies recorded by the IAOS was greater than the number of inactive societies. For the remainder of this chapter, unless stated otherwise, the graphs depict activity of the active Raiffeisen societies, as in general the IAOS did not have information for the inactive societies.

6.4.2 Institution

In order to assess the role of the Raiffeisen co-operatives in providing financial services it is conducive to look at the institutional structure of the societies. Primarily the societies were local concerns established and operating within a specific area and 'the area from which membership was drawn was usually restricted to the confines of a parish, or a three-mile radius from the place of meeting'.[160] The entire operation was localised: the membership, the staffing, lending, and saving. As decision making was autonomous, there was no reliance on any central authority whenever a loan request or deposit was to be lodged or withdrawn. In the view of Joanna Ledgerwood:

> Most successful MFIs [microfinance institutions] have fairly decentralised operational structures. Due to the relatively homogenous nature of microfinance loans (small loan sizes, common delivery method), loan approvals can usually be relegated to the credit officers (or the borrower group, if applicable) with final decisions on larger loan amounts made by the credit manager, usually at the branch level. Decentralised loan approval

[160] R. A. Anderson, *With Plunkett in Ireland: the co-op organiser's story* (London, 1935, reprinted with foreword by William Ross, Dublin, 1983), p. 251.

> processes reduce operating costs, decrease waiting time for clients, and enhance the accountability of the credit officers.[161]

While the system of decentralisation and unit independence enabled the credit co-operatives to function independently, many influential decisions that affected the operation of Raiffeisen societies were made at a national level. This is discussed below.

The level of decentralisation can be seen by the fact that there was no interaction with other Raiffeisen societies in the country. They existed in isolation and despite numerous commentators advocating the creation of central banks, efforts to federate the credit co-operatives never bore fruit. It must also be noted that such federation was illegal, discussed below, but the fact that there was no drive towards federation ensured that there was no pressure brought on the government to reform the legislation.

Given that the Raiffeisen societies when established did not have many assets, it was not unusual that their place of business would have been somewhere central in the locality. The report on agricultural credit noted that 'in most cases credit societies in Ireland cannot afford to provide even the small rent of a suitable room for the transaction of their business. A very usual meeting place for the Committee [of the Raiffeisen co-operative] appears to be the national School; this has some advantages, including that of being as a rule, fairly central for the parish.'[162] This choice of business location had some practical benefits such as centrality, and therefore its accessibility for members; it also would have reduced the costs of running the society. Yet the report further described the conditions in many of the national schools where documents relating to the business of the society were not given a proper place of storage and simple left unattended in the classroom.

Game theoretic analysis of banking suggests that a permanent edifice can send confidence-bolstering signals to borrowers and savers involved with a banking institution.[163] In a game of two periods 0 and 1, if players see that a bank has a permanent residence it might instil more confidence, for effectively the reason that the bank will not fold overnight. This creates an incentive for borrowers to repay and for

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[161] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington D.C., 1998), p. 252.
[162] *Report of the Departmental Committee on Agricultural Credit in Ireland* , paragraph 521, p. 225. [Cd. 7375], H.C. 1914, xiii, 1.
[163] C. R. Hickson and J. D. Turner, 'Free banking and the stability of early joint-stock banking' in *Cambridge Journal of Economics*, xxviii, no. 6 (2004), p. 909.

savers to keep their savings with a bank. But this view was not shared by Henry Wolff. He thought that for co-operative banking to work a member 'must have his own bank, as he must have his own shop, homely and plain, it may be, but of familiar appearance, familiar to him in its usages, encouraging him to do business'.[164] In Henry Wolff's view the creation of a grandiose permanent edifice could distract and intimidate potential members, be counter-productive in its aim and possibly reduce outreach. It should also be taken into consideration the fact that the Raiffeisen societies in general did not attempt to mobilise deposits, therefore undermining the need for a permanent edifice.

Membership, and hence mutuality, is a key feature which distinguished the Raiffeisen societies from other forms of microfinance in nineteenth century Ireland. Membership was decided when a society was initially formed and subsequent applications for membership were possible provided that the person was deemed to be of 'good character'[165] and resided in the area of the co-operative. If applicants were refused membership they had the right to appeal to the A.G.M. of the society. Membership was conditional on the behaviour of the borrower; it was possible to expel members believed to have acted against the ethos of the co-operative. It was also possible for members to resign from the co-operative provided they gave written notice to the secretary. In order for individuals to borrow from a Raiffeisen society they needed to be members. Membership was initially a condition for saving but this requirement was removed after the passing of the Societies Borrowing Powers Act in 1898.[166] Membership also brought with it the liability for the debts of the credit co-operative.

The IAOS recorded information on the number of members in each Raiffeisen society. If a society was inactive the IAOS still recorded membership statistics for inactive societies. The membership statistics have been filtered to distinguish between the inactive and the active societies. In the initial years of the Raiffeisen societies there was no major discrepancy between the IAOS stated membership and the filtered membership, as shown in figure 6.5.

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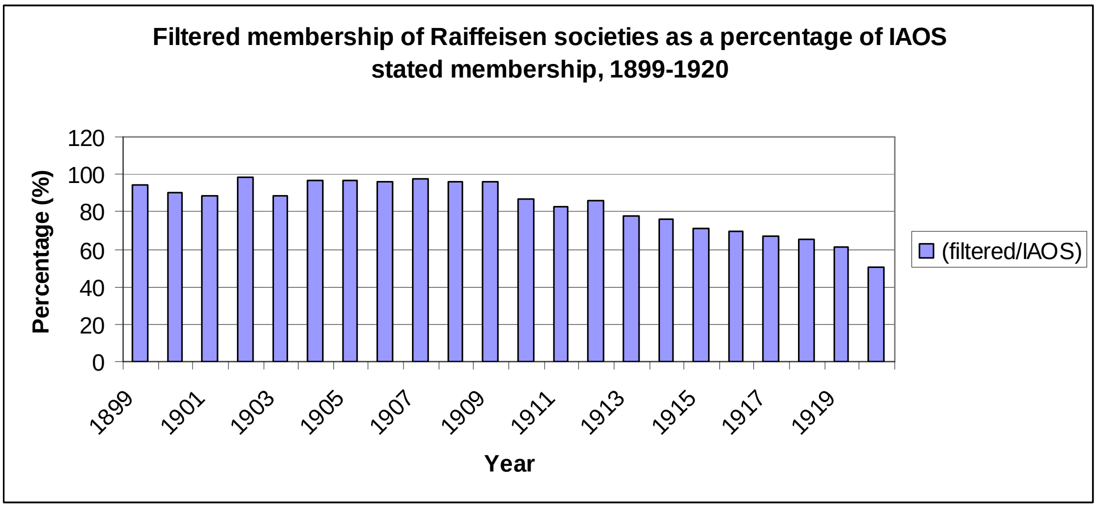
164 Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), p. 22.
165 Appendix 22, 'Rules for agricultural credit societies' in *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, pp 555-558. [Cd. 7376], H.C. 1914, xiii, 431.
166 This is discussed below: An Act to empower certain societies to borrow money from persons and corporations other than members, 1898 (61 & 62 Vict.).

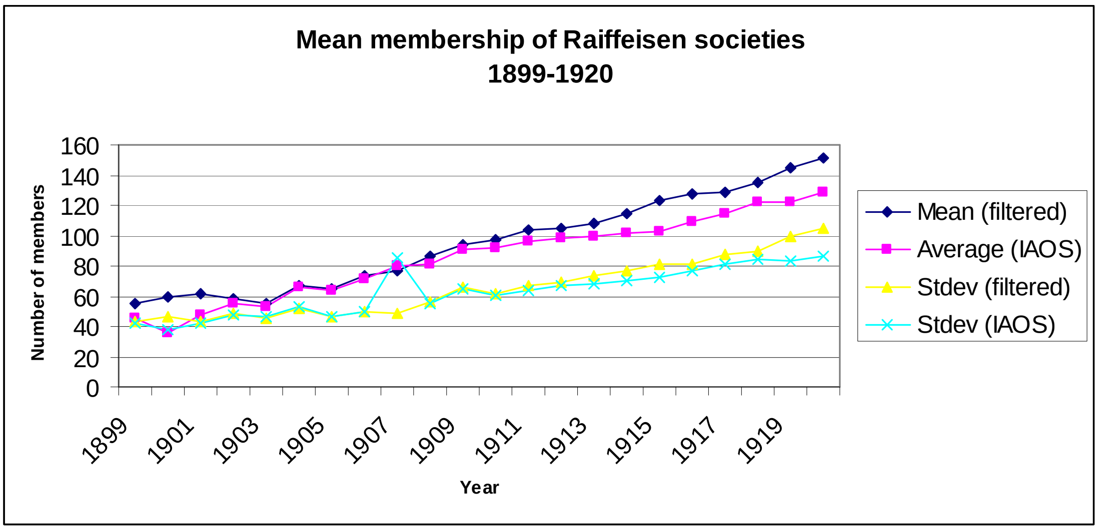
Figure 6.5



Source: IAOS Annual reports, 1899-1920.

From 1910 to 1920 there is an increasing discrepancy between the recorded membership as stated by the IAOS and the filtered membership figures used here. The unlikelihood of an inactive society to resume activity indicates that the membership of Raiffeisen societies was in fact overstated by the IAOS, and this fact has implications for the analysis of the mean membership size of Raiffeisen societies. Figure 6.6 shows the time trend in mean membership of Raiffeisen societies in Ireland. What can be seen is that there was an increase in the mean membership over time. Given the decline in the number of Raiffeisen societies, this suggests that the societies with the longest staying power were societies that had larger membership over time, but the standard deviation between societies was also quite high.

Figure 6.6



Source: IAOS annual reports, 1899-1920

Co-operatives, as designed, are democratic in nature; thus membership gave individuals control over the organisation of a co-operative and enabled them to decide the policy that would be implemented. Although decision making was intended to be democratic, in a body comprised of a large number of members it would have been cumbersome to make every decision in a democratic fashion. Therefore, the decision making was delegated to a committee. The members of a committee were decided by vote at the annual meeting of the members of the credit co-operative. The maximum number of committee members was eight, with only three being required for a quorum, and the committee voted for the chairman of the credit co-operative. The chairman presided over the annual general meeting of the credit co-operative. The committee members were expected to perform their duty on a voluntary basis. It was the committee's duty to meet as regularly as the business of the credit co-operative required and it was the committee that dealt with issues such as loan applications and member applications. The committee also had the authority to borrow from a joint stock bank on behalf of the society.

The credit co-operatives were supposed to be organised in a series of checks and balances to make sure that the system operated effectively. The supervisory council was intended to be a check on the powers of the committee and ensure that nothing untoward was taking place. The council was a smaller body comprised of at most five members, with three being the required quorum, who were elected annually at the general meeting. The council met less frequently than the committee. The IAOS rules stated that:

> The council shall meet at least once every three months to review the business transacted by the committee, and shall satisfy itself that all rules have been complied with. It shall present a report to the Annual General Meeting and may at any time call for a Special General Meeting for any purpose. It can also call a meeting of the committee to consider jointly with itself any matters which it deems desirable to be settled by both bodies together.[167]

Although the rules cited above are from the 1914 inquiry into agricultural credit in Ireland, the IAOS did write the initial rules of the Raiffeisen societies and a copy of instructions issued by the IAOS in 1901 is shown in an appendix to this chapter.

There were two other positions that were decided at a society's A.G.M., trustee(s) of the credit co-operative and treasurer. The trustees were given the right to

[167] Appendix 22, 'Rules for agricultural credit societies' in *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, pp 555-558. [Cd. 7376], H.C. 1914 xiii, 431.

invest the surplus funds in a number of specified investments, mainly post office savings banks, government bodies or government stock. The treasurer's role was to keep the accounts of the society in order. These two positions were unsalaried. The only position within the society that was to receive remuneration, and that was an unelected post, was that of secretary. The secretary's activities were time-consuming and as such it was necessary to remunerate the efforts of the secretary. It was also quite common for the role of the secretary to double up as treasurer owing to the lack of competent members. The position of secretary was arguably the most important role of the credit co-operative as it ensured a well functioning society. Given the importance of this position it was essential that the right person was selected for the post. Inadequate or incompetent personnel would be detrimental to the effective running of a credit co-operative. Henry Wolff stated that:

> Raiffeisen used to say that, provided that a good chairman and a *Rechner* (secretary or cashier) could be found, a new bank might begin work counting upon other members to drop in.[168]

As the credit co-operatives were staffed entirely by their members, membership participation was imperative to the successful operation of a credit co-operative. Larger societies were more likely to be affected by free rider problems, whereby members would not participate in the working of the society and leave the work to other members. Member apathy would spell the end of a credit co-operative.

6.4.3 Monitoring, screening, and loans

The use of local information, or knowledge, is what theoretically makes Raiffeisen co-operatives operable. The co-operative management structure may have inadvertently implemented Hayek's theory on the use of local knowledge.[169] Raiffeisen societies were in an ideal position to gather information on borrowers as they were local community-based lenders and could gather information from various sources regarding borrowers and overcome problems of adverse selection. As co-operatives could decide by vote whom was eligible and ineligible to join, they were able to decide based on local knowledge of the borrower whether to admit him or her.

[168] Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), p. 108.
[169] F. A. Hayek, 'The use of knowledge in society' in *The American Economic Review*, xxxv, no. 4 (September, 1945), p. 519.

This method of selecting borrowers had an effect of reducing adverse selection. But the advantages of such benefits can be undermined if the community is too close and willingly accepts all borrowers regardless of borrower type, or of accepting loan applications without considerations of potential profitability. The problems of *ex post* and *ex ante* moral hazard can be overcome by peer monitoring. This peer monitoring was virtually costless and was able to be undertaken in the course of daily events as members of a co-operative were able to see if a borrower had misapplied funds that he or she was given. They would also have been able to monitor whether the investment made bore fruit or whether it failed and thus ameliorate the *ex post* moral hazard problems. As was discussed above, if a society was integrated with other co-operative enterprises it would have obtained additional information regarding *ex post* investment performance. But many Irish Raiffeisen societies did not possess such information. The members of the co-operative society screened the loans by having a formal loan application process; they would then have information of what the loan was to be used for, and information on the borrower.

As localised credit institutions, they would not have been able to diversify their loan portfolio and as such were vulnerable to risk covariance amongst their borrowers. An example of such risk covariance came in 1905 when a number of societies experienced difficulties with loan repayments due to a depreciation in the price of livestock.[170] The IAOS commented that 'these delays, however, prove the necessity for caution on the part of the Committees, not only as regards the ability of the borrowers to pay, but as regards the objects to which the money is applied'.[171] It is more apt to describe this as an inherent weakness of localised lending institutions, as any exogenous shock will affect all borrowers equally.

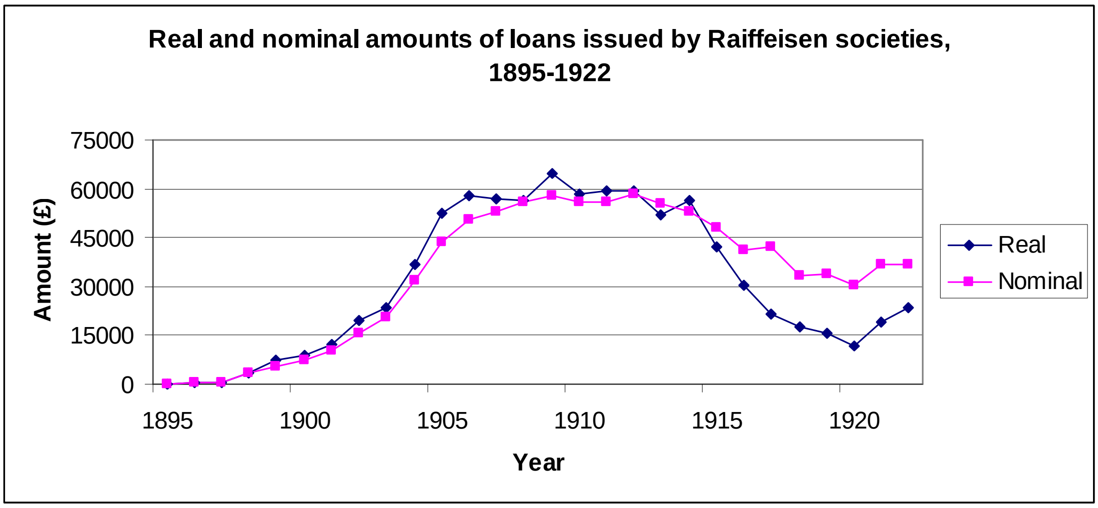
The co-operative banks were not the only microcredit orientated institutions that were able to overcome problems of adverse selection and moral hazard. Joint stock banks and loan funds utilised surety systems which in effect delegated monitoring of the borrower to the surety. This gave the surety an economic interest in what the borrower used the funds for, as default by the borrower required the surety to step in and repay the debt on his or her behalf. A surety would therefore be careful about who he or she gave services as a surety to. This meant that the adverse selection problem was resolved. The joint stock banks also had information regarding both borrowers

[170] IAOS annual report 1906, p. 10.
[171] Ibid.

and sureties in terms of deposits held in the bank, as was argued in chapter 3. Informal rural moneylenders had the ability to overcome such asymmetric information problems as they were well positioned in the local community to utilise information they had regarding borrowers and thus gauge their credit worthiness.[172]

Extending credit facilities was the main aim of Irish Raiffeisen societies and this is indicated by their title as recognised by the IAOS, 'agricultural credit societies'. The maximum amount of interest that a credit co-operative could charge for loans was 7 per cent, but the amount charged by individual societies varied. The amount of loans issued from 1895-1922 is shown in figure 6.7.

Figure 6.7

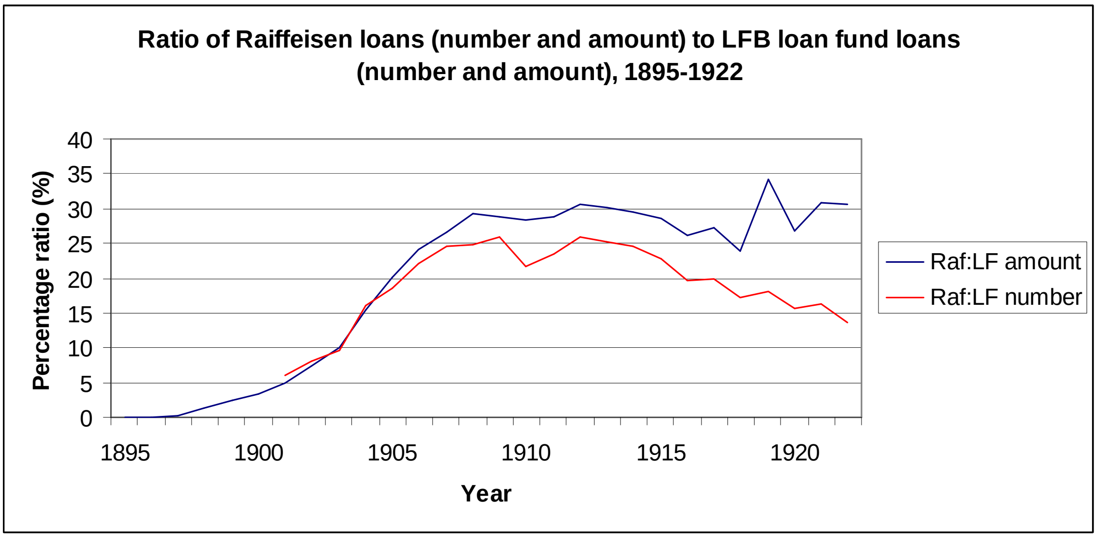


Source: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 206. [Cd. 7375], H.C. 1914 xiii, 1; IAOS annual reports 1912-1922; and Liam Kennedy, 'The cost of living in Ireland, 1698-1998' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 249-276.

As can be seen in figure 6.7, the amount of loans made by Raiffeisen societies in the period 1895 to 1922 increased in the initial period and then fell off after 1909. When we take war time inflation into consideration, the fall of the amount of loans issued is more significant. It is also noticeable that the total value of loans made in the period was less than that of the LFB loan funds discussed in chapter 2.

[172] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no.3 (1977), p. 219.

Figure 6.8



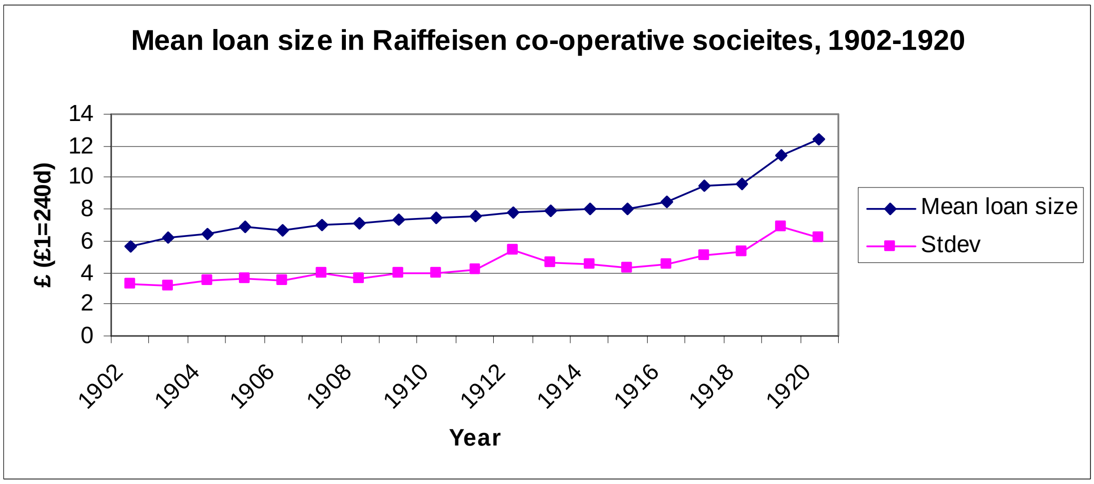
Sources: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 206. [Cd. 7375], H.C. 1914 xiii, 1; IAOS annual reports 1912-1922; Annual reports of the Loan Fund Board, *Thom's Directory* , and *Commission of inquiry into banking, currency and credit, memoranda and minutes of evidence*, volume ii, 1938, R. 63/2, xxxi, p. 1081.

If we look at the percentage ratio of Raiffeisen loans to LFB loan fund loans shown in figure 6.8 we can see that they did not match the LFB loans in terms of amount or number. This is partially explained by the shorter loan terms of LFB loan funds, but the evidence suggests that the Raiffeisen societies failed to compete in the market.

The mean loan sizes in Raiffeisen societies from 1902 -1920 are shown in figure 6.9. It must be borne in mind that the inflation associated with the First World War was a contributory factor in pushing up the mean loan size from 1914 to 1920. In some of the IAOS annual reports examples were given of loan usage in Raiffeisen societies. These included the purchase of pigs, manure and seeds.[173] The IAOS bank organisers reports also give us an indication of how loans were used, and from the available evidence it seems as though loans were used primarily for the purchase of livestock. A list of loan uses for a number of Raiffeisen societies is shown in an appendix to this chapter. It is worth commenting on the fact that a commonly cited loan use was for the 'holding over of stock'. This, according to evidence from the money lending commission, referred to loans to pay rent to prevent the sale of stock at awkward times.[174]

[173] IAOS annual report 1900, pp 11-13.
[174] *Report from the Select Committee on Money Lending*, paragraph 2138, p. 110.

Figure 6.9



Source: IAOS annual reports, 1902-1920.

Various safeguards were used to reduce the risk involved in lending, such as lending being restricted to members. Inadvertently there was also a statutorily imposed loan ceiling of £50, this was the maximum which a society registered under the 'Friendly Societies Act' was permitted to lend.[175]

The reason for the use of a surety system rather than a mortgage-based collateral system was the fact that land title in Ireland up until the early twentieth century was inadequately defined; therefore lending on mortgage was not a common banking practice.[176] Personal security also offered greater liquidity than asset-based security. 'Personal credit' had the enthusiastic support of Henry Wolff who stated that 'personal credit may be taken to be at once the most creative and the most educating form of credit. It is, in addition, by far the most convenient to bankers…'[177] As loans were given on personal security, they were inherently for short periods of time (i.e. if someone died it would add complications to proceedings, etc.). This was the case for the credit co-operatives who had loan terms of up to a year. Short-term loans were also the norm for joint stock banks and loan fund societies.

The use of sureties by credit co-operatives effectively created group contracts similar to those used by many microfinance institutions today. These were group contracts because, unlike the use of sureties by joint stock banks, the sureties used by borrowers from the credit co-operative were, like the borrowers themselves, members

[175] Friendly Societies Act, 1875 (38 & 39 Vict.), c. 60, and Friendly Societies Act, 1896 (59 & 60 Vict.), c. 25.
[176] This is discussed in greater detail in chapter 7.
[177] Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 26.

of the credit co-operatives. As membership of a credit co-operative was a prerequisite for borrowers, having sureties who were also members meant that the credit co-operative was able to monitor the surety. Not only was this an assurance that the principal, and the interest, would be repaid, but it gave an incentive to sureties to monitor the activities of the borrower to ensure that he, or she, had applied the loan to that which the loan was sanctioned. In the ideal situation, whereby the capital of a credit co-operative is comprised of the combined savings of the members of the co-operative, there would be an incentive, not only for sureties, but for the entire group of members, to monitor the borrowers' actions. Savings were not emphasised in Ireland, and many societies did not mobilise savings, so this element of the monitoring incentive structure was lost.

The length of the loan contract was fixed at a maximum of one year under the rules drawn up by the IAOS. Yet in reality the length of the loan term was flexible and was determined according to the purpose for which the loan was issued. R.A. Anderson gave an example of the loan terms as follows:

> A loan might be granted for the purchase of fertilisers and seeds, the period of repayment was extended to the date upon which the resultant crop would be harvested. Loans granted for the purchase of milch cows, whose milk would be sent to a neighbouring creamery, were allowed to be repaid in instalments spread over a period of perhaps a year and a half, in order that the borrower might be enabled to make repayment out of the profit derived from his investment. Loans to be repaid in bulk were only granted for a maximum period of twelve months.[178]

This flexible approach to loan terms enabled borrowers to derive the full benefit of the loan without experiencing untoward stress, but it was not beneficial in inoculating members with a commercial spirit. The IAOS made frequent references to loan renewals in its annual reports. In addition to the loan terms being set for one year and loans to be repaid either in instalments or in bulk, loans were not supposed to be renewed until they had been repaid. But this condition was repeatedly violated by many credit co-operatives. The lack of strict adherence to loan limits was a problem and was seen as a serious defect in the system. In 1914 the committee on agricultural credit stated that:

> Extensions of time to a borrower are, we admit, in some cases inevitable owing to exceptional circumstances, such as failure of crops or the disease of animals. But, as a rule, the mere renewing of loans is not only injurious to the borrower; it seriously cripples the activities of a Credit Society by confining the use of its funds to a limited

[178] R. A. Anderson, *With Plunkett in Ireland: the co-op organiser's story* (London, 1935, reprinted with foreword by William Ross, Dublin, 1983), p. 252.

group of persons, thus preventing the benefits of the society reaching all the members, as intended by the Rules.[179]

Another feature of the loan contract was that, when applying for a loan, borrowers had to specify the object for which the loan was required. A loan was not approved if the loan application did not meet with the approval of the committee of the credit co-operative. And the committee was comprised of men, and in some cases women, who were aware of local economic factors and could advise the borrower on what the best course of action could be. Loans were not supposed to be sanctioned for purposes which were not deemed to be productive. Essentially the entire layout of the co-operative was designed so that the borrower was not to divert from the stated objective without his or her peers becoming aware of it and therefore reducing the level of risk to the credit co-operative. Coincidentally, this structure was theoretically similar to the loan fund system as described in chapter 1. This was the system as devised by Raiffeisen, but it did not always work in Ireland. For example, it was stated in an IAOS report in 1910 that:

> Of course there are cases in which faults arise. In one case only has it come under notice that loans have been given to non-economic purposes – the payment of rent and the purchase of clothes and bicycles. Such cases must of course, be and are entirely discountenanced. Against these few isolated cases, however, it is certain that the objects for which loans are sought are the kind for which Raiffeisen credit is intended. The adaptation of the system to Irish conditions needs no defence.[180]

Tim Guinnane believed that such failures were due to informal constraints, namely a culture that did not recognise debt. But this may not necessarily hold true as was argued in the conclusion to chapter 3. If we analyse the balance sheet of the Raiffeisen societies, in particular the structure of liabilities, and compare it to the market leader (and the main lender), namely the joint stock banks, we will get a better appreciation of what went wrong.

6.4.4 Raiffeisen capital

The credit co-operatives had three potential sources of capital available to them: firstly deposits, secondly loans from joint stock banks which in effect were inter-bank loans, and thirdly loans from public bodies, the CDB, the DATI and county councils.

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[179] *Report of the Departmental Committee on Agricultural Credit in Ireland,* paragraph 482, p. 207. [Cd. 7375], H.C. 1914 xiii, 1.
[180] IAOS 1910, p. 11.

Sustainability is a key issue in microfinance literature. If an institution is not sustainable then it will be short-lived and its outreach will be curtailed. One of the key determinants of sustainability for a microfinance institute is the creation of a solid capital base. In unlimited liability credit co-operatives there was no requirement for the issue, and purchase, of shares. Therefore, share capital was not an option. Admittedly, members had to pay an admission fee but the amount was trivial. There was also a gradual build up of an indivisible reserve fund, but this was not to be used for lending purposes. Lionel Smith-Gordon and Laurence C. Staples indicated that

> The sources of capital are three in all, namely members deposits, loans from Government Departments, and other loans, mainly bank overdrafts. The ideal method of capitalising the societies is, of course, by means of members' deposits, thus ensuring that the savings of the district should be reinvested in that district. The Raiffeisen banks in Germany are called thrift and credit banks (*Spar-und Daarlehenskassen*), and the emphasis is distinctly on the thrift. In fact these societies attract almost more deposits than they can safely use, and during the war they have been able to make large contributions to war loans. In Ireland, thrift has been omitted, not only from the name, but in too many cases from the practice of these societies.[181]

Deposit mobilisation was not characteristic of the Raiffeisen experience in Ireland. This section aims to outline some reasons why this was the case.

As was seen in figure 6.4 above, the number of Raiffeisen societies grew slowly at first, then experienced rapid growth, before declining with equal rapidity. This section aims to illustrate how the early growth in Raiffeisen societies was actually related to the availability of concessional loans. The first Raiffeisen society was established in 1894 and there was only one society formed from 1895 to 1897; then the number of societies formed annually saw a dramatic increase in 1898. The low number of formations was primarily due to the legal constraints that the Raiffeisen societies faced, which are discussed below. The constraints essentially prevented societies borrowing from non-members, but following the Societies Borrowing Powers Act in 1898[182] individual Raiffeisen societies were offered incentives to form via the availability of concessional loans from Government departments. The CDB had been willing to give loans earlier than 1898 but legal constraints prevented the Raiffeisen societies borrowing money.[183] The CDB, which was a development agency operating in the West of Ireland, began offering concessional loans to societies

[181] Lionel Smith-Gordon and Laurence C. Staples, *Rural reconstruction in Ireland: a record of co-operative organisation* (Westminster, 1917), p. 136.
[182] An Act to empower certain societies to borrow money from persons and corporations other than members, 1898 (61 & 62 Vict.), c. *15*. [25 July 1898].
[183] *Report from the Select Committee on Money Lending,* paragraph 2074, p.107.

operating within its area of jurisdiction. These loans from the CDB were part of a wider lending policy operated by the CDB in the congested districts, details of which are shown in an appendix to this chapter. The first set of loans were made in 1898 very shortly after the societies borrowing powers act was passed and 20 loans were made to Raiffeisen societies during 1898 year. The loans for either £50 or £100 were issued at 5 per cent, with the rate being reduced to 2.5 per cent if the loans were punctually repaid.[184] The following year it was decided to continue the Raiffeisen loan scheme, but at a uniform rate of 3 per cent.[185]

As the initial loan schemes were confined to Raiffeisen societies established in the Congested Districts, it is not surprising to see that the majority of Raiffeisen societies established in those years were located within the Congested Districts. Using the year of establishment figures that the IAOS began publishing in 1902 we can see if the existence of concessional loans had an influence on the number of Raiffeisen societies formed. If they did we would see a concentration of Raiffeisen societies within the Congested Districts. If they did not then we would expect to see a uniform distribution of Raiffeisen societies across all provinces. From table 6.3 we can see that the majority of societies formed between 1898 and 1901 were actually formed within the Congested Districts.

[184] *Seventh annual report of the Congested Districts Board for Ireland*, pp 36-37. [C.9003] H.C. 1898-9, lxxvii.
[185] *Eight annual report of the Congested Districts Board for Ireland*, p. 29. [C. 9375] H.C. 1899-1900, lxxvi.

Table 6.3: Annual formation of Raiffeisen societies in Ireland by province, 1894-1901

Year	Connaught	Munster	Ulster	Leinster	Total Ireland	% in Congested
1894	0	1	0	0	1	0
1895	0	0	0	1	1	0
1896	1	0	0	0	1	100
1897	0	0	0	1	1	0
1898	19	3 (C)	6 (4 C)	5	33	78.79
1899	12	4(C)	7 (4 C)	0	23	86.96
1900	10	0	2	1	13	76.92
1901	5	12 (11 C)	10 (8 C)	1	28	89.29

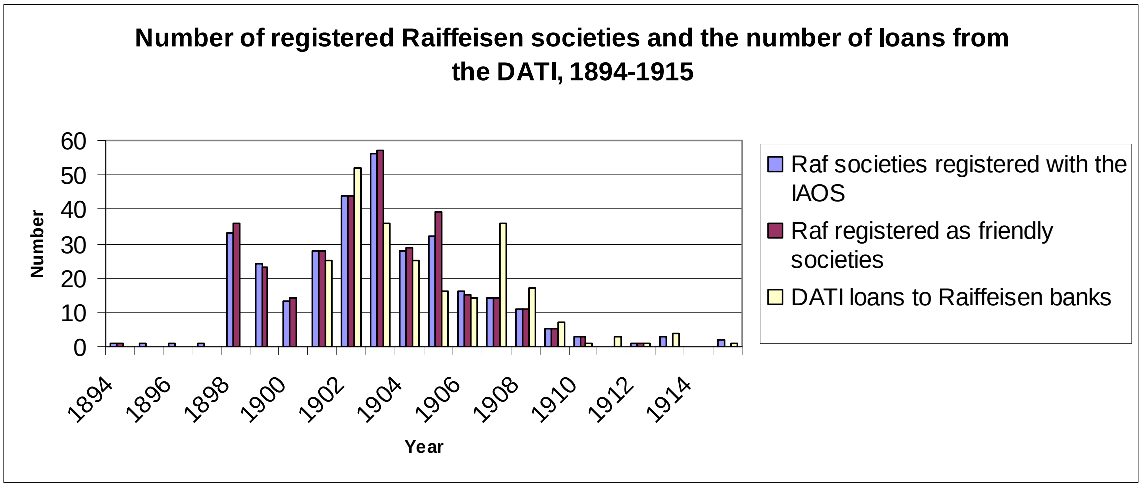
Note: C indicates located in Congested region.
Source: IAOS Annual report 1903.

Table 6.3 indicates that the increase in the number of societies formed from 1898 to 1901 was due to the availability of concessional government loans as outlined above.

In 1901 the DATI also began to issue concessional loans to Raiffeisen societies on a national basis. The loans ranged from £25 to £100 and were given for terms of up to 18 months.[186] The data on the number of loans were published in the annual reports of the DATI, and combining this information with the information on the annual formation of Raiffeisen societies, shown in figure 6.10, it appears as though there was a link between the two.

[186] *Fifth annual report of the Department of Agriculture and Technical Instruction*, p. 13. [Cd. 2929] H.C. 1906, xxiii, 295.

Figure 6.10



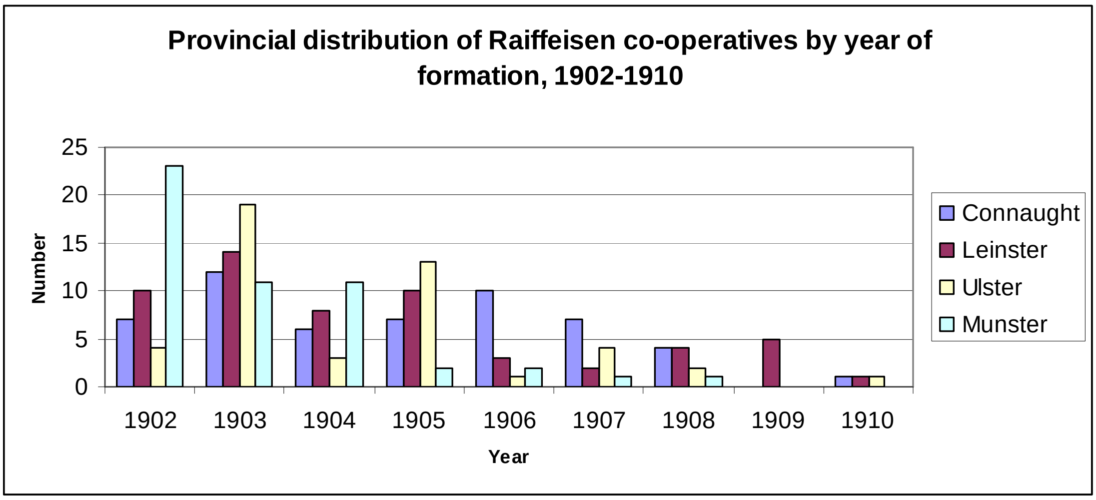
Note: The DATI reports give information for the years 1900-01 etc, this means they give information for the 2nd to the 4th quarter of one year, and the 1st quarter of the next. Therefore the information is not directly compatible with other sources that give information for calendar years.

Sources: Annual reports of the DATI, 1900-1915; IAOS annual reports, 1902-1915; Annual reports of the Registrar of Friendly Societies, 1894-1915.

If the concessional loans were an important consideration in the establishment of Raiffeisen societies we would expect to see more societies being formed in non-congested regions of Ireland in the period from 1902 to 1910 due to the fact that they were available from a nationwide body. This in fact is the case, as in the period 1902 to 1910 there were 209 Raiffeisen societies formed, with a greater number formed in the non-congested regions[187] of Leinster and Ulster than had previously been the case. This is shown in figure 6.11. Given that two state departments were engaged in lending capital to credit co-operatives it is not surprising that 80 per cent of credit co-operatives were in receipt of state funds in 1907.[188]

[187] Non-congested here implying not under the jurisdiction of the CDB.
[188] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 556, p. 240. [Cd. 7375], H.C. 1914, xiii, 1.

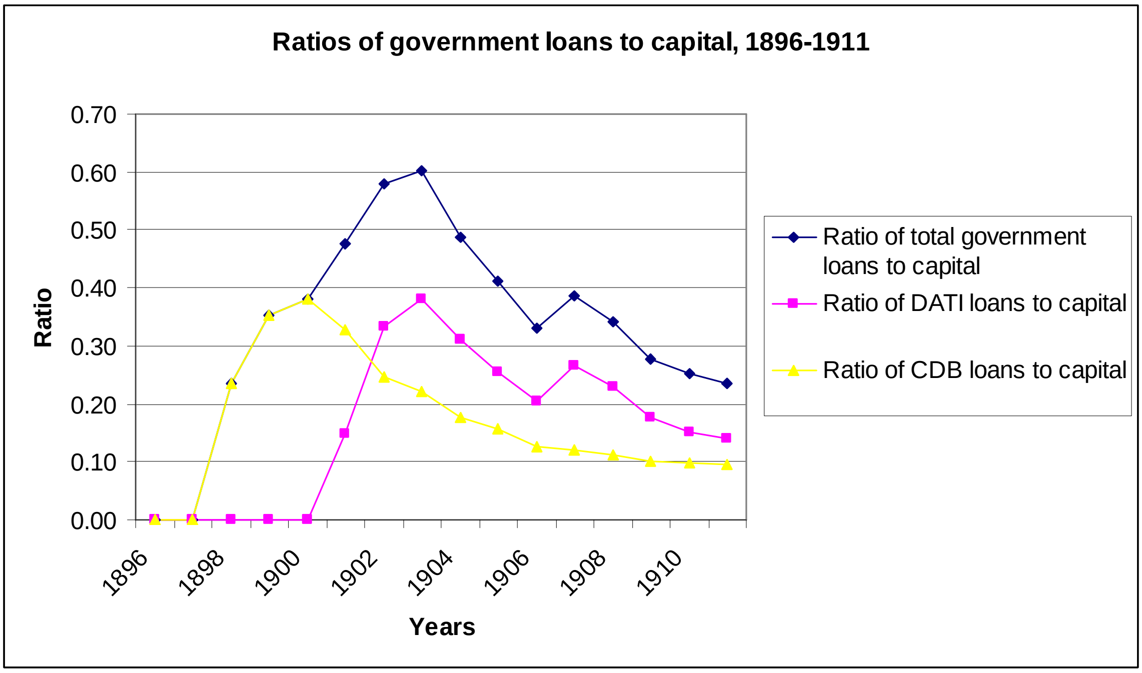
Figure 6.11



Source: IAOS Annual reports, 1902-1910.

The Raiffeisen societies also received loans from local government bodies. A number of county councils gave loans to Raiffeisen societies formed within their jurisdiction.[189] Figure 6.12 shows the ratio of government loans to total capital in the Raiffeisen societies. As can be seen, government loans made up a significant portion of the capital of the Societies in the period 1898-1904, before declining.

Figure 6.12



Source: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 128. [Cd. 7375], H.C. 1914 xiii, 1.

[189] IAOS annual report 1902, pp 13-14, and IAOS annual report 1904, p. 19.

The credit co-operatives received a significant amount of their capital from joint stock banks. Guinnane stated that 'the Irish credit co-operatives were essentially re-lending schemes, institutions which have worked, but which rely on very different incentives than imagined by Raiffeisen'.[190] Perhaps a view that could be more representative of the credit co-operatives is that of a coalition of borrowers of varying size to effectively create one large borrower. This coalition used their combined liability as a means to obtain advances from the joint stock banks.

Initially the joint-stock banks had been wary of the co-operative movement in general, not just the Raiffeisen societies. In 1901 the IAOS outlined a number of grievances it held against the joint stock banks, and threatened to establish a co-operative bank to finance the movement if the grievances were not addressed, discussed in greater detail below.[191] The following year the IAOS negotiated preferential treatment for all its co-operative societies from all the joint stock banks.[192] From 1902 onwards the joint stock banks agreed to lend money or set up overdraft accounts for societies at a fixed rate of 4 per cent.[193] It is worth noting that there were conditions attached to the loans from the joint stock banks. Most notably the National Bank stipulated that if it lent money Raiffeisen banks were not permitted to accept deposits.[194] So not only were the Raiffeisen societies designed to forego cheap information in the form of deposits in the present, they were also foregoing cheap information in the future. This essentially meant that the Raiffeisen model as practised in Ireland would be unsustainable, both in terms of financial viability and in terms of access to information.

Individual members of the Raiffeisen societies could have borrowed from the joint stock banks; all they had to do was provide sureties known to the joint stock banks. It was reported that the banks accommodated borrowers on the following terms: The length of a loan was for a 3 month period and with varying charges of interest. Interest charged could vary from 7 ½ per cent to 12 ½ per cent depending on whether the interest was repaid with the principal or whether interest was discounted

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[190] Timothy W. Guinnane, 'A failed institutional transplant: Raiffeisen's credit cooperatives in Ireland, 1894-1914' in *Explorations in Economic History*, xxxi (1994), p. 54.
[191] IAOS annual report 1901, pp 11-12.
[192] IAOS annual report 1902, p. 15.
[193] IAOS annual report, 1904, p.27.
[194] *Third Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evid. and Documents*, question 14138, p. 55. [Cd. 3414], H.C. 1907, xxxv, 337.

from the principal before the loan was made. There was also evidence that a flat rate of 10 per cent was charged in some bank branches.[195] The cost of the loan to the borrower included the rate of interest charged, travel costs, surety costs and opportunity costs associated with lost labour. The cost of the loan to the joint stock bank involved labour costs, screening costs and monitoring costs. Banking prior to the era of computerisation was a labour intensive industry, and each loan regardless of size required the same procedures. Even though small loans could have been cross-subsidised by larger loans, there was a greater attraction in making larger loans. But given that banks were profit-motivated firms, why would they want to subsidise small loans? Evidence that banks may have taken other considerations into account when making loans comes from the evidence of a representative of the Munster bank to the 1875 banking inquiry:

> Q: I hardly understood you, I think, correctly to say that if you found an account unprofitable for a series of years you would still continue to keep it?
> A: It is a most unusual thing to refuse to keep an account unless you anticipate an actual pecuniary loss; that is to say, that a man will not be able to pay his liabilities. If a man opens a cash account and does not leave a balance at all, or leaves so small a one that it is not worth keeping, it is a very unusual thing to say that you will not keep it longer.
> Q: That is, I suppose, because you hope that in course of time it will become a profitable account?
> A: We always court popularity, and if you turn a man out, he will tell other people what you have done to him, but he will not tell why you have done it, and therefore it tells against you. He may have a very respectable name outside, and yet keep very little money at his bankers, but he will not tell that. (sic)[196]

As was cited above, George Russell believed that the Raiffeisen societies were auxiliaries of the joint stock banks. So if we view the coalition of individual borrowers to borrow money from the joint stock banks from an economic perspective there appear to be gains from trade. Both parties, the joint stock banks, effectively their profit maximising shareholders, and the credit co-operatives, effectively their mutual coalition of members, stood to benefit. If co-operation amongst borrowers did not take place the outcome would not have been as beneficial to both parties and the players would not have been as well off had a different choice been made. There would have been a deadweight loss from the decisions that deviated from the borrower coalition as the borrowers were required to give up time during which the joint stock bank was opened for business. These hours of business were not normally

[195] *Report of the Departmental Committee on Agricultural Credit in Ireland,* paragraph 66, p. 26. [Cd. 7375], H.C. 1914 xiii, 1.
[196] *Report from the Select Committee on Banks of Issue; together with the proceedings of the committee, minutes of evidence, and appendix,* questions 2565-2566, p. 144, (351), H.C. 1875, ix, 1.

hours that suited agriculturalists. This would have resulted in a decrease in labour input in the production process and a decrease in overall production to the detriment of the borrower, and as the position is replicated the aggregated actions would have had an effect on the rural economy as a whole. The joint stock banks found the arrangement beneficial and according to George Russell the joint stock banks found lending at 4 per cent to the combined pool of borrowers more profitable than lending to each borrower individually at 7 per cent,[197] the reason being that banking was labour intensive, and each loan, regardless of value, had to be given the same treatment from the banks.

The economic analysis above illustrates that there were gains-from-trade from this banking agreement; therefore this raises the questions why this outcome only took place with the establishment of the credit co-operatives and why it did not take place at any time previously. It could be argued that the answer to this is that prior to the formation of credit co-operatives there was not a conduit which could effectively signal the borrowers' intention to combine and form a credible means of borrowing and disbursing funds amongst themselves. Borrower communication and combination was only realised with the formation of credit co-operatives. As co-operation was not static, future events could erode the benefits of co-operation. Joint stock banks were able to negotiate with larger borrowers and with the creation of credible property rights banks became willing to lend on mortgage. This undermined the benefits of the Raiffeisen system from the joint stock bank perspective.

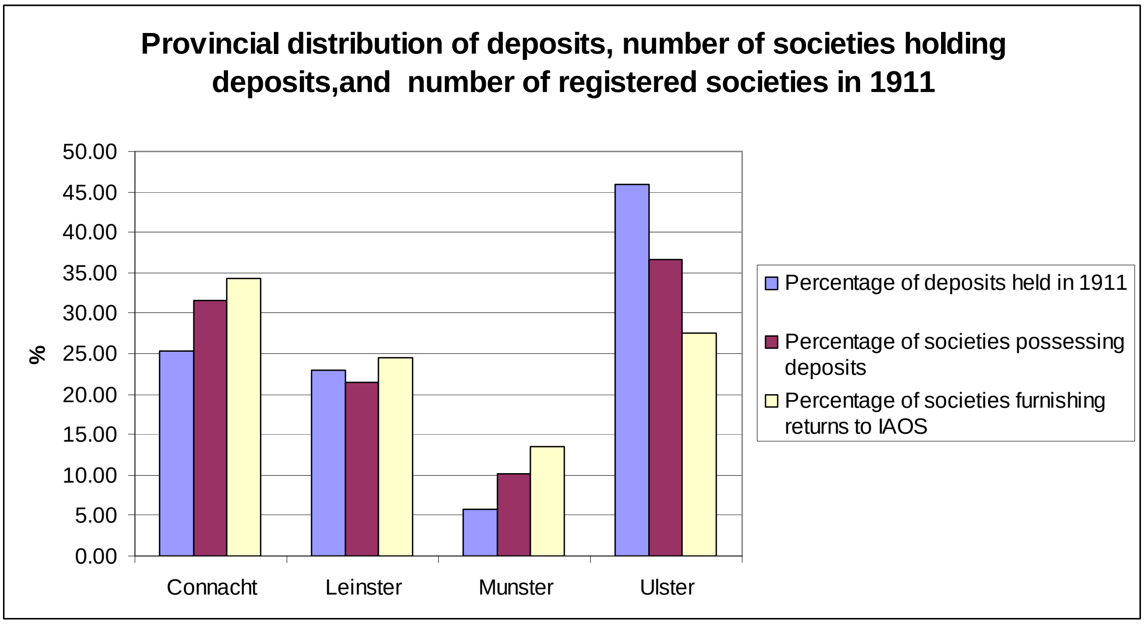
Bank managers may also have been able to capture information that the banks created. This seems plausible as it was stated by the IAOS that managers of the joint stock banks were attending society AGMs.[198] Joint stock bank managers attended the meetings of these societies as a way of monitoring the performance of loans and they had a right to attend as they had given the societies the wherewithal to allow them to operate. It is also likely that banks could capture co-operative information given the agreements, cited above, whereby banks lent money to Raiffeisen societies in return for Raiffeisen societies not mobilising savings.

In 1911 the total amount of capital held by the Raiffeisen societies was £56,554, with the total amount of deposits held by Raiffeisen societies equalling £27,290, 48

[197] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1913, p. 63. [Cd. 7376], H.C. 1914, xiii, 431.
[198] IAOS annual report 1906, p. 9.

per cent of their total capital. The provincial distribution of deposits in Raiffeisen societies in 1911 is shown in figure 6.13.

Figure 6.13

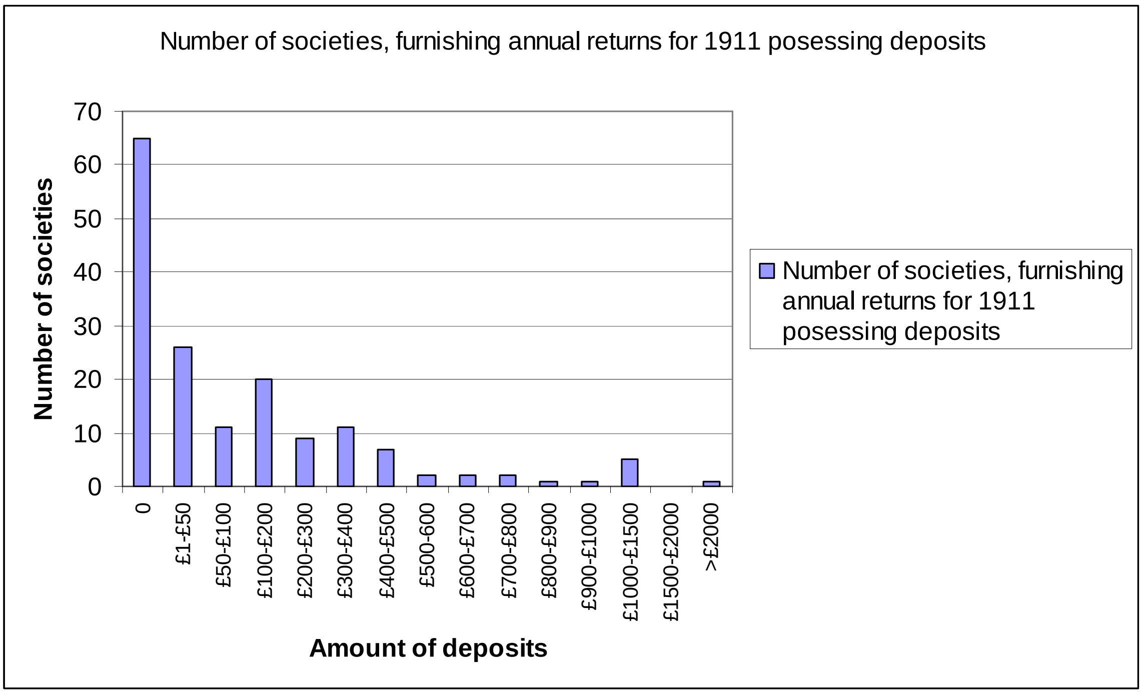


Source: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 159. [Cd. 7375], H.C. 1914, xiii, 1.

In 1911, of the total number of Raiffeisen societies in operation 39 per cent of them did not hold any deposits. The deposits that were held were distributed unevenly among the other societies in operation.[199] This is shown in figure 6.14.

[199] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 369, p. 159. [Cd. 7375], H.C. 1914 xiii, 1.

Figure 6.14



Source: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 158. [Cd. 7375], H.C. 1914, xiii, 1.

Reliance on external sources of capital is something which is common in many modern microfinance institutions, but it was, in hindsight, detrimental to the long-term sustainability of the credit co-operatives in Ireland. A number of plausible explanations can be brought forward to explain why there was not an increase in deposits held by the Raiffeisen societies.

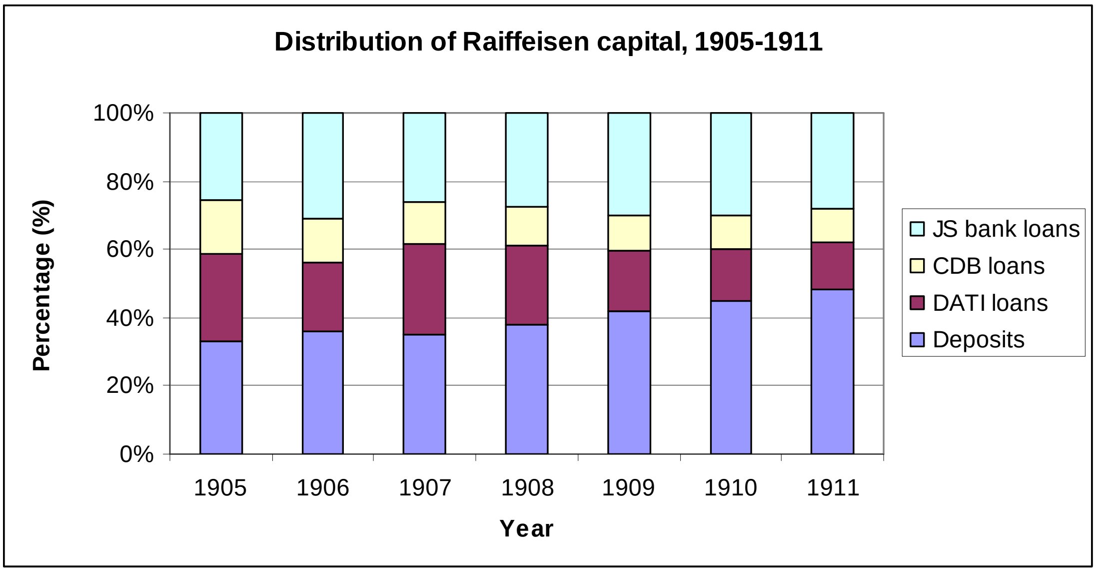
Perhaps the main reason is that savings were not particularly encouraged. The opinion of G. Russell, one of the first bank organisers for the IAOS, may give us an inkling as to why many societies did not possess deposits. G. Russell was frank and stated: 'I don't think that I feel strongly about the taking of local deposits'.[200]

Another key factor in explaining why deposit mobilisation did not take place is the fact that the rates of interest on governmental loans were less than the maximum rate, 4 per cent, which the Raiffeisen societies offered on deposits.[201] The inter-bank rate was equal if not less than this rate and although 4 per cent might appear to be equal, loans from joint stock banks were less costly in regards to the fact that they did not require deposits to be safely maintained and accounted for. Thus, the availability

[200] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*,, paragraphs 1957, p. 64. [Cd. 7376], H.C. 1914, xiii, 431.
[201] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 381, p. 164. [Cd. 7375], H.C. 1914, xiii, 1.

of alternative sources of funds, the availability of which was negotiated by the IAOS, undermined the need of many credit co-operatives to aggressively compete for available deposits in their localities. Figure 6.15 shows the distribution of capital of Raiffeisen societies by type, and it can be seen that at the early stages capital borrowed from public bodies and joint stock banks made up the largest proportion of capital. Although the proportion of deposits did increase, this was confined to a few societies.

Figure 6.15



Source: *Report of the Departmental Committee on Agricultural Credit in Ireland*, p. 128. [Cd. 7375], H.C. 1914, xiii, 1.

Another factor which affected the deposit accumulation of the credit co-operatives was the pre-existence of an established financial market, as was discussed above. There were well established savings services in operation which were reasonably competitive and quite competent. Poorer households are, in general, more concerned about the security and accessibility of their savings than the amount of interest which they can earn. This feature is not confined to poorer households and Raiffeisen societies were very risky and they would have had to pay a high risk premium to attract deposits. It is, therefore, not surprising that the POSB, given its government security, had the largest accumulation of microsavings as it was perceived to be the most secure and as such it was able to secure the confidence of savers.[202]

[202] This is discussed in chapter 4.

This perception of security was derived from the fact that the POSB was effectively a government bank and the government was the guarantor of these deposits. The Raiffeisen societies and the LFB loan funds, discussed in chapters 1 and 2, generally did not instil such levels of confidence in savers and as such were not able to attract deposits despite the fact that they offered higher interest rates. The credit co-operatives would have found it difficult to compete in this environment, for although their interest of 4 per cent exceeded the 2 ½ per cent offered by the POSB, the security and privacy of the POSB compensated for this 1 ½ per cent interest differential.

If the problem of savings is viewed from the perspective of agency theory a greater appreciation of security can be understood and why depositors would have been reluctant to save with the nascent co-operatives. In the case of savings, in contrast to the case of lending, depositors are the principals and the credit co-operative is the agent. In this case the principals are worried about the actions of the agent as to whether it will act responsibly with the savings in their custody and if it will undertake any risky ventures. Without means to create incentives for the co-operative to behave in their interests, depositors would be unwilling to save with the credit co-operative. Although savers may have information regarding the operation of credit co-operatives, this information may give them a signal that saving in other institutions would be the best course of action for them. Therefore, the 1.5 per cent interest rate differential did not adequately compensate depositors for the risk they were undertaking.

It must also be borne in mind that the POSB was paying above market interest rates, as was argued in chapter 4. The rate of 4 per cent paid by Raiffeisen societies might have been relatively more attractive in comparison to rates paid by the joint stock banks, but the joint stock banks adhered to market rates. The Raiffeisen societies were not designed with the Irish financial structure in mind. As was referred to in chapter 4, the joint stock banks were also aggrieved about POSB competition but they were adequately able to compete with it. If there was no POSB, the Raiffeisen banks would still have to compete with the deposit mobilisation policy of the joint stock banks. The joint stock banks would have been seen as less risky than the Raiffeisen societies to potential depositors, and the Raiffeisen societies would still have had to pay a high risk premium to attract depositors. Even in such a case, the high risk premium may not have made the Raiffeisen model profitable as the returns on small personal loans were negligible.

A key consideration in the above concessional loan policy of the CDB and the DATI is the role of Horace Plunkett. Plunkett was a permanent member of the CDB from its establishment in 1890 and was also a key figure in the establishment of the DATI. Plunkett was the first vice-president of the DATI in 1899 and remained in the office until 1907.[203] It is not a coincidence that a key figure in the co-operative movement held positions of power in two bodies that gave concessional loans to the Raiffeisen societies. What is interesting is that the policy of concessional loans highlights the contradictory views of Plunkett himself. For example, in his evidence to the committee on money lending Plunkett stated that:

> I should not myself wish to see the government at this stage advance money to these banks; it would be very demoralising that money should be advanced to these banks from any source, until they had justified the confidence of the lender.[204]

Yet within a few paragraphs he said that he had ‘no objection to England giving all the money she likes,’ but at the same time he would not recommend it.[205] He went on to say that the Raiffeisen societies would be set up with concessional loans from the CDB as it ‘was quite prepared to advance money to banks [Raiffeisen societies].’[206] So what Plunkett appears to be saying is that he does not agree to the principle of state loans to Raiffeisen societies, but if the state wishes to lend money well he would not say no. Coincidently, however, the report on money lending suggested that Raiffeisen societies could be a remedy to money lending, but did not recommend that the state provide start-up loans to Raiffeisen co-operatives.[207] The availability of concessional loans seems to have influenced the decisions to establish societies, so then the decision to withdraw loans would also be expected to affect the decision to continue a Raiffeisen society or not.

It should also be noted that Henry Wolff was not supportive of a policy of over-reliance on state aid, stating that:

> Not a single seedling of genuine co-operation has thus far sprung from these exotic roots. Nor can any spring. For the tendency of vegetation which it brings forth is in a different direction altogether from that of true co-operation. A simple test by which true co-

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[203] Trevor West, *Horace Plunkett: co-operation and politics, an Irish biography* (Washington D.C., 1986), pp 54 & 82.
[204] *Report from the Select Committee on Money Lending*, paragraph 1987, pp 102-103.
[205] *Report from the Select Committee on Money Lending*, paragraphs 2072-2073, p. 107.
[206] *Report from the Select Committee on Money Lending*, paragraph 2074, p.107.
[207] *Report from the Select Committee on Money Lending*, p. xi.

> operation may in every instance be distinguished from false is to be found in these questions: is it based on self help? And does it tend to make those who practice it self-reliant and independent? If it is not, and if it does not, it is certainly not co-operative.[208]

The advice of Henry Wolff and others was not heeded and the system of credit co-operatives supported by government loans would only have been quasi-sustainable, albeit heavily subsidised, if support for co-operation was maintained at a political level and government support continued unabated. Support for Raiffeisen societies could be based on economic grounds if it was proven that there was a market failure, as in such a situation the externalities from the market failure were a lag on economic development. There was pre-existing subsidisation of the savings market via the savings banks, discussed in chapter 3. So probably the only way to effectively subsidise the Raiffeisen societies, if there was a political willingness, would have been to dissolve the POSB and support the Raiffeisen societies. The German system gave greater government support to the co-operative banks by establishing state-administered central banks to give concessional loans to Raiffeisen banks.[209] These state-sponsored central banks also made concessional loans to co-operatives a policy of agricultural support during the agricultural crises of the 1880s.[210] In Ireland the state was already engaged as a subsidised lender to agriculture in the form of state-funded mortgages, discussed in greater detail in chapter 7, so a similar policy may not have been feasible.

Horace Plunkett lost his seat as an M.P. in 1900, but still held the position of vice-president of the DATI. This was slightly anomalous, and undemocratic, as the position was a junior ministerial post and the minister was supposed to answer questions in Parliament. Plunkett tried to regain a parliamentary seat on a number of occasions and was unsuccessful. It was not until a change in government in 1905 that there was a concerted putsch to remove Plunkett from office. Plunkett's successor as vice-president, and who also became a member of the CDB, was T.W. Russell. Horace Plunkett had established the system and under his influence government policy towards co-operation had been formed. By contrast, T.W. Russell, it has been claimed, was antipathetic towards co-operation in all its forms and did not see credit

[208] Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 45.
[209] Richard Deeg, 'On the development of universal banking in Germany' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), p. 96.
[210] Ibid, p. 96.

co-operation in a favourable light.[211] R.A. Anderson highlighted the level of his dislike for the credit co-operatives in particular stating that: 'He [T.W. Russell] declared publicly that the system under which the credit societies were formed was "rotten and indefensible" and gave it as his opinion that the £24,000 lent by the Board was "not worth more than half a crown in the £."'[212]

However, T.W. Russell's stance seems to have been consistent, as he was the chairman of the inquiry into money lending that did not recommend government support for Raiffeisen societies. T.W. Russell also did not indiscriminately recall loans issued by both the DATI and the CDB, but instead made inquiries as to how the loans were being used. On the basis of his inquiries he decided to recall a number of loans, and was forced to write off the loans made to three societies. But the ultimate withdrawal of state loans came at the onset of the First World War. When the IAOS highlighted the decrease in Raiffeisen activity it was stated that:

> The cause of this is clear; It is the decision of the Department of Agriculture to withdraw their loans from these societies and of the Congested Districts Board to recall most of their loans also. It is realised that, under war conditions, state capital, which might wisely continue to be lent to these societies is now required for the financing of other necessary operations for which the provision may be more and more sparingly made or may be withheld altogether.[213]

Societies that were over-reliant on government loans and failed to diversify their sources of capital were left with no alternative source of capital to fall back on. Evidence of this can be seen in figure 6.16 which shows the percentage of societies not possessing deposits, and the percentage of societies not possessing loan capital, capital on loan from government bodies and banks. If figure 6.16 is viewed with figure 6.4 in mind, it shows that as the number of societies decreased the number of societies that did not possess deposits decreased and the number of societies that did not have loan capital increased - something which suggests that deposit mobilisation was a key consideration to the long-term survival of Raiffeisen societies.

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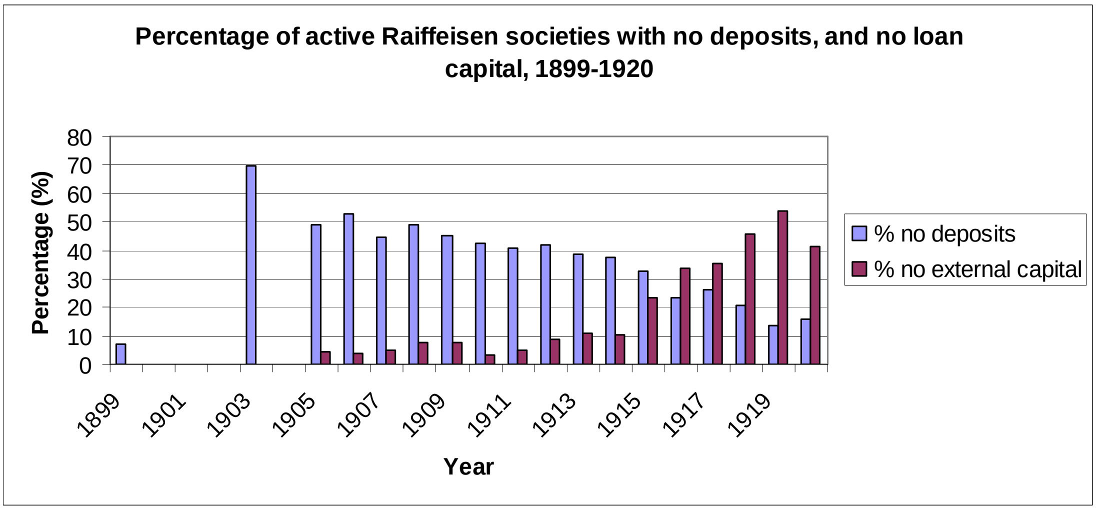
[211] Trevor West, *Horace Plunkett: co-operation and politics, an Irish biography* (Washington D.C., 1986), pp 75 & 83.
[212] R. A. Anderson, *With Plunkett in Ireland: the co-op organiser's story* (London, 1935, reprinted with foreword by William Ross, Dublin, 1983), p. 256.
[213] IAOS annual report 1915, pp 16-17.

Figure 6.16



Source: IAOS annual reports, 1899-1920.

Structurally, Raiffeisen societies were able to accept deposits from members, and from non-members post-1898, and therefore were bona fide financial intermediaries. But the majority of societies did not do this. Instead they chose to act as re-lending agencies. Credit co-operatives had the capacity to act as intermediaries between joint stock banks and borrowers, in effect re-lending funds received from joint stock banks. 'Gombeenmen', butter merchants, trust auctioneers *et al.* performed a similar function.[214] The difference was mainly that the Raiffeisen societies formed a mutual group which, theoretically, was to use the liability of the co-operative as security and borrow for the benefit of the group as a whole. This combined security was supposed to be greater than that which could be pledged by any one individual member of the society.

When analysing the Raiffeisen societies it should be taken into consideration that the joint stock banks did not experience the same difficulties as the Raiffeisen societies in terms of unpunctual repayment and debt default, etc. As was illustrated in chapter 3, evidence of this fact comes from the Money Lending Commission where it was observed that there were very few cases of foreclosure by the joint stock banks and that the banks experienced prompt repayment.[215] T.W. Russell posed the question whether 'the only thing in arrears is the payment of rent' to Joseph Pratt, a secretary of a Raiffeisen society in Enniscoe, Co. Mayo, and he received an affirmative

[214] Liam Kennedy, 'A sceptical view on the reincarnation of the Irish "Gombeenman"' in *The Economic and Social Review*, viii, no.3 (1977), pp 213-222; and Kennedy, Liam, 'Traders in the Irish Rural Economy, 1880-1914' in *The Economic History Review*, xxxii, no.2 (May, 1979), pp 201-210.
[215] *Report from the Select Committee on Money Lending*, questions 2341-2343, p. 119.

response.[216] Given that the joint stock banks held a large amount of deposits this is something which suggests that reciprocity, the enhanced possibility that depositors at a financial institution may have of obtaining loans from that financial institution,'[217] was a key factor in determining the success of a financial institution in Ireland. Both the LFB loan funds and the Raiffeisen societies experienced similar problems in terms of punctuality of loan repayments, and neither had broad deposit bases. What this suggests is that rather than the failure of the Raiffeisen societies being due to informal cultural constraints, it is more likely due to the institutional design, intentional and unintentional, of the Raiffeisen societies as advocated by their propagator, the IAOS.

6.5.1 Legislative constraints: The Friendly Societies Act v the Industrial and Provident Societies Act

This section will outline the legal context that faced co-operative societies forming and formed in Ireland in the late nineteenth and early twentieth centuries. Co-operatives could form under a number of legal acts, but the body of legislation most commonly associated with co-operatives was the Industrial and Provident Societies Acts. When Raiffeisen societies were established they faced a choice between registration under the 'Industrial and Provident Societies Act'[218] or the 'Friendly Societies Act.'[219] As was discussed in chapter 5, the Friendly Societies Acts were a body of legislation which gave legal recognition to friendly societies and any other societies that were not engaged in illegal activity.[220] Friendly societies were life and sickness insurance societies that came into existence in Britain and Ireland in the late eighteenth century. They were given legislative recognition in an attempt to encourage their development as it was believed that such insurance societies would place less of a burden on the community for poor relief.[221] The early British co-operatives registered under the Friendly Society legislation and were enabled to do so by the clause that they were not engaging in illegal activity. Further developments in

[216] Ibid, question 2372, p. 120.
[217] Robert C. Fogel and Paul Burkett, 'Deposit Mobilization in Developing Countries: The Importance of Reciprocity in Lending' in *The Journal of Developing Areas*, xx, No. 4 (Jul., 1986), p. 427.
[218] Industrial and Provident Societies Act, 1876 (56 & 57 Vict.), c. 45 and Industrial and Provident Societies Act, 1893 (56 & 57 Vict.), c. 39.
[219] Friendly Societies Act, 1875 (38 & 39 Vict.), c. 60 and Friendly Societies Act, 1896 (59 & 60 Vict.), c. 25.
[220] P. H. J. H. Gosden, *Self-help: Voluntary associations in nineteenth-century Britain* (London, 1973), p.191.
[221] Ibid, p. 64.

co-operative organisation and methodology in the 1840s, especially the payment of dividends on shares, led to the enactment of the Industrial and Provident Societies Act.[222] The Industrial and Provident Societies Acts diverged from the Friendly Societies Acts and converged with the Company Acts, especially with the granting of limited liability to industrial and provident societies in 1862.[223] Co-operative banking, which was prohibited under early legislation, was legalised in the 1876 Industrial and Provident Societies Act.[224]

When agricultural co-operatives were established by the IAOS all bar the Raiffeisen societies were registered as industrial and provident societies.[225] The overwhelming majority of credit co-operatives registered as specially authorised friendly societies under the 'Friendly Societies Act', as this allowed for unlimited liability. This does not seem to have been suitable due to a number of constraints that were immediately clear to the propagators. George Russell outlined the position in his evidence to the committee on agricultural credit:

> The system of co-operative credit desired by Raiffeisen seemed exactly the thing to suit our small Irish farmers, but when the attempt was made to draw up rules, embodying the full constitution of the Continental associations, the founders were met with these difficulties. There were two Acts – the Industrial and Provident Societies Act, which gave trading powers, but did not permit of the principle of joint and several liability, which was the essential feature of the German system, and there was also the Friendly Societies Act, which permitted societies to be constituted so that the members became jointly and severally liable for the debts of the association, and could mutually back each other up, but it did not permit of trading powers, and it was very inadequate in other ways for the purposes required, as the IAOS soon found out.[226]

Firstly, the Friendly Society legislation did not permit societies to borrow from non-members. The Raiffeisen societies that were initially established were identical to the friendly society loan funds discussed in chapter 5 in that they could only borrow from members and make loans to members. This meant that the Raiffeisen societies could not accept deposits or loans from third parties; this constraint was overcome in 1898 when a private members bill was passed which enabled Raiffeisen societies to borrow from non-members.[227] Coincidentally, Horace Plunkett played a significant role in the introduction of the Societies borrowing powers bill in parliament. The act

[222] Ibid, p. 192.
[223] Ibid, p. 193.
[224] Ibid, p. 202.
[225] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index,*, paragraphs 1894-1895, p. 62. [Cd. 7376], H.C. 1914, xiii, 431.
[226] Ibid, paragraph 1885, p. 60.
[227] An Act to empower certain societies to borrow money from persons and corporations other than members, 1898 (61 & 62 Vict.), c. *15*. [25 July 1898], section 1.

did not apply to the friendly society loan funds discussed in chapter 5 as it was only applicable to non-profit societies that had indivisible reserves. The friendly society loan funds annually divided profits between members. This was a practice common with friendly societies in the UK and it was one of the reasons why many friendly societies had ephemeral existences. The amendment to the friendly societies act also stipulated that loan use by members be constrained to those approved by the committee of a society.[228] It is also interesting that the borrowing restrictions were highlighted when the CDB realised it could not make loans to Raiffeisen societies.[229] This suggests that the legislation was aimed primarily at facilitating loans to the societies. This is an important factor in Raiffeisen development in Ireland as it permitted people, joint-stock banks, and government departments to lend money to the Raiffeisen societies. It also undermined efforts for Raiffeisen societies to be started and funded by the deposits of members. Given the small number of Raiffeisen societies that were established between 1894 and 1897, perhaps this is an indication that the movement was not going to be supported by thrifty members.

Although, from the perspective of the IAOS, the problem of borrowing from non-members was overcome, the remaining faults proved insurmountable. The Friendly Societies Acts did not allow the credit co-operatives registered under it to have corporate status, enjoy trading powers, or form centralised bodies, and it also placed a limit on the lending capacity of societies. Essentially this decision limited the scope of development for Raiffeisen societies as they could not develop ancillary structures similar to those that developed in Germany. In contrast, societies registered under the 'Industrial and Provident Societies Act' were permitted to have limited liability, trading powers, federation, and corporate status, and there was no restriction on loan size.

So what made the IAOS decide to establish the Raiffeisen societies as friendly societies? R.A. Anderson stated that 'at a very early stage, and acting on the advice of Mr Henry W. Wolff, it was decided to adopt the plan of Herr Raiffeisen and form our little credit societies on the unlimited liability principle.'[230] So the question should be asked, what made Henry Wolff choose the Friendly Societies Acts? Wolff in his evidence to the committee on agricultural credit in Ireland said that he 'found some

[228] Ibid, section 2 (a & b).
[229] *Report from the Select Committee on money lending*, paragraph 2001, p. 104.
[230] R. A. Anderson, *With Plunkett in Ireland: the co-op organiser's story* (London, 1935, reprinted with foreword by William Ross, Dublin, 1983), p. 251.

difficulty in selecting a convenient act'.[231] Wolff also said that it was on the advice of the Chief Registrar of Friendly Societies that he chose to have the Raiffeisen societies registered as specially authorised friendly societies.[232] Wolff, with the help of the Chief Registrar of Friendly Societies, drew up the model rules for Raiffeisen societies.[233] Wolff was aware of the immediate limitations of the Friendly Societies Acts. He knew that the societies could not borrow from non-members, and he did not think that it was a concern, as he believed that the societies should be self-financed from the deposits of members.[234] He was more concerned about the fact that legally the reserve fund of the society was dissolvable after the dissolution of a society; hence there would be an incentive to dissolve a society as was done with Friendly Societies.[235] The other difficulty was that friendly society legislation required that loans were to be secured by a reserve of a third of the amount on loan.[236] These were Wolff's main considerations writing in 1896, and he seems to have overlooked other legislative restrictions that Raiffeisen societies would face under the Friendly Societies Acts. These he recognised in later works. Writing in 1907 Wolff noted that:

> As our law at present stands in the United Kingdom – there is reason to hope that it will soon be modified – co-operative banks with limited liability (such must necessarily be Share banks), in addition to having things made easy for them in their individual, purely banking, action, also enjoy these two valuable advantages, that they are free to combine to federation or Central Banks, and to couple, in country districts, trading in goods with trading in money. Unlimited liability banks, registered under the Friendly Societies Act, can at present do neither the one thing or the other.[237]

As the Raiffeisen system had not developed as anticipated, efforts, such as the 'Thrift and credit societies bill',[238] were made to reform the friendly societies acts to make them compatible with the demands of Raiffeisenism. The Thrift and credit societies bill aimed to address three difficulties. Firstly, to give Raiffeisen banks corporate status; secondly, to enable Raiffeisen banks to federate and form central

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[231] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index,* paragraph 7273, p. 211. [Cd. 7376], H.C. 1914, xiii, 431.
[232] Ibid, paragraph 7273, p. 211.
[233] Henry Wolff, *Village Banks or Agricultural credit societies: how to start them, &c*. (London, 1894).
[234] Henry W. Wolff, *People's banks: a record of social and economic success* (2nd edition, London, 1896), p. 386.
[235] Ibid, p. 386.
[236] Ibid, pp 386-387.
[237] Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), pp 294-295.
[238] This Bill was written by Henry Wolff. It was originally called the thrift and credit banks bill, *Bill to facilitate the formation of Thrift and Credit Banks,* H.C. 1907, (235), i, 551; But the word society was used in place of Bank in the final bill: *Hansard 5* (*Lords*), v (26 April, 1910), p. 702.

institutions; and thirdly, to give Raiffeisen banks the right to possess trading powers.[239] Support for the 'thrift and credit banks bill' was unanimously agreed upon at the annual general meeting of the IAOS in 1910.[240] George Russell believed that the thrift and credit societies bill[241] was the only legislative support that the Raiffeisen societies needed as he felt that the Raiffeisen banks needed the trading powers to become self-sustainable.[242] When asked what he would do if the bill did not become law, G. Russell stated that preference would be given to the Industrial and Provident Societies Acts.[243] The bill was first introduced in the House of Lords in 1910 by the Earl of Shaftsbury, the chairman of the Agricultural Organisation Society (AOS).[244] The bill was passed in the Lords and sent down to the Commons, the lower house of the British parliament, in 1911,[245] but it appears as though it was ignored in the Commons.[246] Perhaps an explanation of this can be found in the constitutional crisis that the UK faced at the time.

Legislative constraints prevented the adoption of key institutional structures such as trading powers and federation, so the question that must be asked is if the Raiffeisen societies could have been registered as Industrial and Provident Societies. The key distinction between the Industrial and Provident Societies Act and the Friendly Societies Act was unlimited liability, so what was meant by it?

6.5.2 Unlimited v limited liability

The modern legal definition of unlimited liability is that 'the members of an unlimited company have an unlimited liability for the debts of a company in the event of a company being unable to meet its debts when due. The member cannot be personally sued by the company creditors, and it is the company liquidator, the person who

[239] Ibid, p. 700.
[240] IAOS annual report 1910, p. 32.
[241] George Russell gave a copy of the thrift and credit societies bill to the committee: 'Appendix 23: Thrift and Credit Societies Bill', *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, p. 559. [Cd. 7376], H.C. 1914, xiii, 431.
[242] Ibid, paragraph 1885, p. 61.
[243] Ibid, paragraph 1919, p. 68.
[244] The AOS was the English version of the IAOS. It was established after the IAOS.
[245] *Hansard 5* (*Commons),* xxxii (*2*9 November 1911), p. 384.
[246] *Return of the Number of Public Bills, distinguishing Government from other Bills, introduced into this House, or brought from the House of Lords, showing the Number which received the Royal Assent; the Number which were Passed by this House, but not by the House of Lords; the Number Passed by the House of Lords, but not by this House; and distinguishing the Stages at which such Bills as did not receive the Royal Assent were Dropped or Postponed and Rejected in either House of Parliament (in continuation of No. (0.123) of 1909).* (0.205) H.C. 1911, lxi. 69.

manages the liquidation of the company, who must pursue the members for the company debts.'[247] Henry Wolff maintained that it was not to be confused with unlimited liability associated with the City of Glasgow Bank which crashed in 1878, with debts of more than £6 million.[248] The City of Glasgow Bank is an important reference point because its failure influenced the introduction of shareholder liability under the companies act in 1879.[249] Members in a Raiffeisen society were actually limited in the amount for which they could be held liable.[250] When the IAOS set up a Raiffeisen co-operative, one of its first actions was to vote to limit the borrowing powers of the society to a fixed amount.[251] From some archival source material this seems to have been common practice. For example, at the A.G.M. of the Corrigan Agricultural Bank in 1914 it was voted to limit the borrowing power of the society at £250, but then this was subsequently increased to £300 at the Bank's 1915 A.G.M.[252] How the IAOS practised 'unlimited liability' begs the question why the IAOS did not recommend the Industrial and Provident Societies Acts as, in the words of G. Russell, 'to call it unlimited liability is a mistake'.[253] Unlimited liability may have been a factor that inhibited the adoption of Raiffeisen societies. As Plunkett noted:

> The farmers are anxious to have these agricultural banks [Schulze-Delitzsch limited liability banks], but there they object to the unlimited liability, and quite rightly, because it would mean, until the system was better understood, that the "have-nots" would be leaning upon the "haves."[254]

Evidence from the IAOS annual reports also shows that it was willing to forsake the principle of unlimited liability in the case of co-operative creameries and agricultural trading societies that offered credit facilities.[255] It may be argued that creameries and agricultural societies advancing loans is not immediately relevant to the Raiffeisen system, but if co-operative societies were able to advance credit to their

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[247] Sinead McGrath, *Company law* (Dublin, 2003), p. 26.
[248] Maxwell Gaskin, *The Scottish banks: a modern survey* (London, 1965), p. 58.
[249] Ibid, pp 57-58.
[250] Henry W. Wolff, *People's banks: a record of social and economic success* (1st edition, London, 1893), p. 86.
[251] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1897, p. 63. [Cd. 7376], H.C. 1914, xiii, 431.
[252] 'IAOS Agricultural Bank Organisers report', 23 November 1914 and 'J. Moore [IAOS Bank organiser] report from A.G.M. of the Corrigan Agricultural Bank,' 12 November 1915 (*N.A.I.*, 1088/280/1, Corrigan Agricultural Bank).
[253] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1897, p. 63. [Cd. 7376], H.C. 1914, xiii, 431.
[254] *Report from the Select Committee on money lending*, paragraph 2089, p. 108.
[255] IAOS annual report 1909, pp 9-10.

own members it would have undermined the need for a distinct credit branch within the co-operative movement.

Of the two distinct forms of German credit co-operatives that were available, the Schulze-Delitzsch model and the Raiffeisen model, the Raiffeisen model was chosen for Ireland. Henry Wolff stated that:

> There are districts and there are populations in which, and among whom, cooperative banking by means of sharebanks is not, or else is scarcely, possible. And those are precisely the districts and populations amid which the assistance to be rendered by co-operative banking is probably particularly needed. Working capital is wanted. And for want of it the field, the allotment, the little homestead, the country workshop, languish and opportunities must be allowed to run to waste.[256]

The Raiffeisen model had been active in rural environments, whereas the Schulze-Delitzsch was generally more urban based. The Raiffeisen model was assumed to be the best when dealing with a homogeneous rural population whereas the Schulze-Delitzsch was for heterogeneous urban populations. Schulze-Delitzsch had a golden rule which was 'that the more varied in respect of callings is the membership, the safer will be the foundation on which the banks rest, simply because in different callings want and abundance of money are apt mutually to supplement and equalise one another. A blending of callings, accordingly, tends to bring about the ideal state of balance between supply and demand which makes business easy.'[257] This diversification of membership was not a condition that could be met in rural Ireland. Henry Wolff, writing in 1898, stated that:

> None of the few attempts recently made to acclimatise Raiffeisen banking elsewhere can be said to have succeeded. It is only among a small, steady, stable, settled population, such as is provided by country parishes, that it can be expected to work well. Among such a population, in which there are few changes, few sudden departures and new arrivals, in which everyone knows his neighbours, and can, without inquisitive prying or any special trouble, watch and observe them, in which the circumstances, the wealth or poverty, the manner of life of every inhabitant are known to all, this system may truly be said to have worked wonders, raising up wealth out of apparently nothing, and educating economically and morally in an even more marked way.[258]
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> .

Unlimited liability was a contentious issue that the committee inquiring into agricultural credit in Ireland believed was hampering the development of the credit co-operatives. The committee believed that there should be a choice between the form

[256] Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), p. 89.
[257] Ibid, p. 45.
[258] Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 21.

of liability which a credit co-operative could and should take,[259] but the norm was for unlimited liability. This, as was outlined above, was due to the legislative choice taken by the IAOS.

From a game theoretic perspective unlimited liability ensures that everyone behaves, and if one person disobeys the rules all are penalised - hence an incentive to monitor all members. Unlimited liability implied that if a credit co-operative were to fold, all the members in unison would be liable for all debts outstanding, yet at the same time it did not imply that the liability would be shared equally. If the asset holding of members was not homogenous then those with greater assets would be forced to contribute more to the settlement of outstanding liabilities.

When all forms of credit co-operation began in the German states they were formed under unlimited liability. The reason for this was because limited liability was not legalised in Germany until 1889.[260] When they had formed, limited liability was not an option open to consideration, but when limited liability was legalised both Schulze-Delitzsch and Haas banks adopted it. The reason for this was that both forms of credit co-operatives were share banks and raised capital from the sale of shares. It was this share-capital that was to act as their security. Raiffeisen banks differed in this respect, as they did not have share capital; their unlimited liability was the only guarantee against losses made by the credit co-operative. As it was the Raiffeisen system that was introduced into Ireland, it was established incorporating the principle of unlimited liability.

Unlimited liability theoretically enabled the credit co-operatives to extend their outreach. Henry Wolff was an advocate of the use of both limited and unlimited liability, depending on the circumstances. His views on unlimited liability credit co-operatives were quite favourable. In one instance he noted that:

> The particular recommendation of this method [unlimited liability] is, that it enables the co-operative bank to offer its services and open its doors to the very poorest, to those who have not sixpence to contribute, so long as their honesty can be satisfactorily vouched for. This is, in very truth, one of the main reasons why the man who invented this particular form of organisation, the German Raiffeisen, resorted to it. He would help the very humblest. He would ask nothing of anyone who desired to be helped, except a warranty from his neighbours for his good character. By an ingenious device he managed to link rich and poor together in a thoroughly democratic, fraternal union, enabling one to help the other without setting himself above him or demoralising him by gifts. The system – which is, of course, open to abuse – has under proper management accomplished veritable wonders of good work. By dispensing with any ‘qualification; it

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[259] *Report of the departmental committee on agricultural credit in Ireland*, paragraph 309, p. 133. [Cd7375], H.C. 1914, xiii, 1.

[260] Henry W. Wolff, *Co-operative banking: its principles and practice* (Westminster, 1907), p. 260.

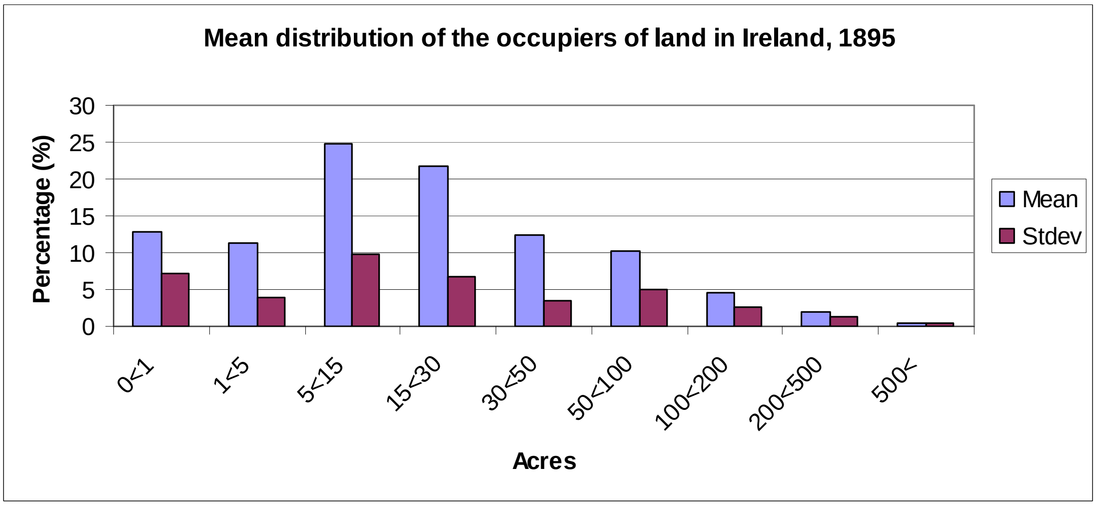
> has not only let in the very poor, but it has also served to emphasise still more the co-operative principle of 'no profit,' since, there being no shares, there can be no dividend.[261]

In principle, and in theory, the approach of pledging unlimited liability as security against a co-operative's debtors is quite admirable, but when it is put in practice in an environment where limited liability had been an established principle it became a hindrance to effective co-operative development. Limited liability had a longer history in the United Kingdom, where it was introduced in 1855,[262] and in Ireland where a form of limited liability was introduced in 1782.[263] It is therefore not surprising that there would be some reluctance for some members of rural society to join credit co-operatives adhering to unlimited liability. When the joint stock banks were formed in the early nineteenth century they were established as unlimited liability enterprises. But it must be recalled that these were joint stock companies where capital was raised through the sale of shares. The share values were quite high which meant that shareholders were self-selected as they were wealthier members of society. The joint stock banks were also profit-maximising companies. Neither holds true for a Raiffeisen society. As membership was not precluded due to inability to purchase shares, and membership gave voting privileges, it could mean that the society was not profit maximising.

Rural Ireland was not a homogenous society, and for success a credit co-operative required the co-operation and collaboration of the diverse elements of rural society. Unlimited liability would have been suitable for a homogenous society. Using the mean distribution of land occupation as an indicator for homogeneity it can be seen from figures 6.17 and 6.18 that rural Irish society was not homogenous.[264]

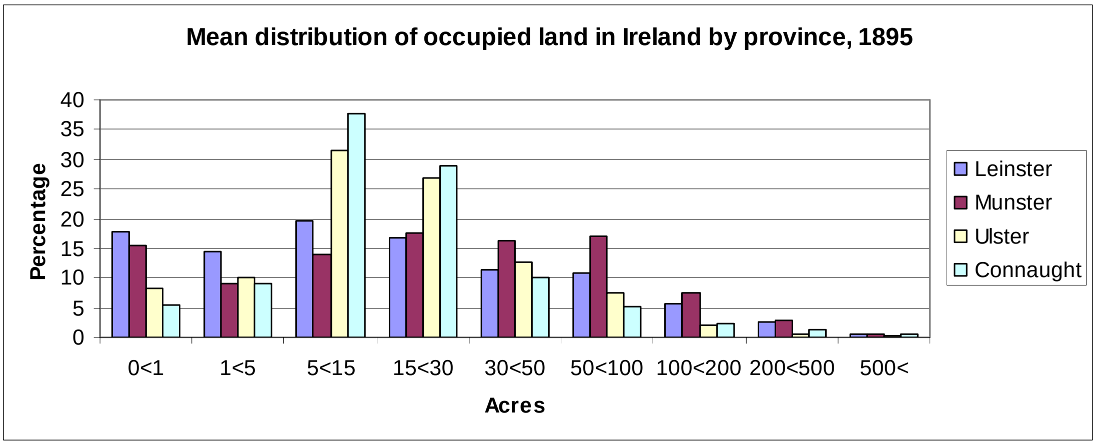
[261] Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 17.
[262] An Act for limiting the Liability of Members of certain Joint Stock Companies, 1855 (18 & 19 Vict.), c. 133.
[263] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 375.
[264] I have purposely chosen land occupation statistics because of the double counting that took place in the recording of landholding statistics.

Figure 6.17



Source: *Agricultural statistics of Ireland, with detailed report on agriculture, for the year 1895,* p. 12. [c. 8126] H.C. 1896, xcii, 309.

Figure 6.18



Source:*Agricultural statistics of Ireland, with detailed report on agriculture, for the year 1895,* p. 12. [c. 8126] H.C. 1896, xcii, 309.

Wealthier landholders had no pressing need to join a Raiffeisen society as they had access to other credit streams. They would also have been unwilling to accept unlimited liability. If the wealthier members of Irish society had joined Raiffeisen societies the quality of leadership and administration could have been enhanced, as they could have contributed their knowledge, expertise and wealth. As can be seen the distribution in figure 6.17 is skewed to the right and a greater percentage of occupiers hold land greater than 1 acre and less than 30 acres in size. This distribution does not indicate the existence of a homogenous rural society, as there was variance in the size of land occupation amongst the populace. This would mean that if a Raiffeisen society was established under the guise of unlimited liability, and if members were chosen randomly from each category of land occupation in figure 6.16, then the liability for the debts of a society, in the event of a society crashing, would fall heaviest on those occupying larger tracts of land. As membership was a voluntary decision, this would effectively discourage participation in a Raiffeisen society for many large land occupiers. But the large land occupier, who represented 29 per cent of the distribution of landholdings, also happened to be the wealthiest members of rural society, and therefore they were needed if the Raiffeisen society was to have a sustainable future.

Admittedly this line of argument suffers from some defects, most notably that land has been assumed to be of equal value and quality, but acknowledging this, I believe that the argument does carry weight. A society comprised in its entirety of members of limited means would find it difficult to raise capital, as their combined assets would not have amounted to much and their pledge of unlimited liability would have appeared to have been a hallow promise to outsiders. Wealthier members were needed by the co-operative, as it was these who could give additional value to the co-operative both in terms of assets which the co-operative could put into circulation, and in terms of credibility to the co-operative's pledge of unlimited liability.

Unlimited liability was more suited to areas where rural society was practically homogenous, and it was noted that the majority of credit co-operatives were to be found in Ulster and Connaught where, as can be seen in figure 6.17, social distinction was marginal. It is also interesting to note that the majority of Raiffeisen societies recorded by the IAOS in 1920 were active in Ulster, Connaught and Leinster: 39.22, 29.41 and 25.49 per cent respectively. Raiffeisen societies in Wexford and Wicklow comprised 50 per cent of active Raiffeisen societies in Leinster in 1920. Using the 1895 land occupation figures above, we can see that the majority of farms were less than 50 acres.[265] Munster, the province with the greatest share of large landholders plus a pre-established co-operative creamery tradition, only had 5 per cent of active Raiffeisen societies in 1920.

Unlimited liability was chosen for two reasons, firstly that it could be offered as security, as discussed above, and secondly because it was believed that unlimited

[265] 62 per cent in Wexford, and 54 per cent in Wicklow, of occupied land in 1895 was below 50 acres.

liability would influence the behaviour of members towards borrowers. Henry Wolff believed that:

> He does not want to be made liable. Hence he watches, he checks, he inquires, he lays aside all scruples of etiquette, he denies membership and refuses a loan, as he would not under the influence of any other consideration.[266]

Unlimited liability would give a society an incentive to monitor a borrower to ensure that he/she applied a given loan to the object for which it was originally stated and not to deviate from such course. If the borrower did not do so, then the members of the society as a whole would be responsible for the repayment of the sum borrowed. It was believed that if a society opted for limited liability, it would negate the influence of the incentives associated with unlimited liability. But if a Raiffeisen society had chosen limited liability, it might have been able to attract more deposits and this would have led to monitoring from depositors.

Unlimited liability may have deterred many prominent members of the community from becoming active members of the co-operative. Support may have been forthcoming in the form of deposits because, following the 1898 borrowers act, depositors were not required to be members. It was not just deposits that many credit co-operatives required; they needed members with practical experience which they could share with other members. It is also possible that the unlimited liability clause could have hampered the outreach capacity that the societies could possess, as members may have voted not to admit members who, they viewed, did not have sufficient means to join. Joseph Lee stated that:

> Agricultural credit banks, in which the members guaranteed loans to one another, formed an important component of the co-operative movement, but, as credit worthiness varied with the value of the farm, loans were naturally made to men with the most security. Those in least need managed to borrow most on the basis of local communal farmer guarantees. By helping to widen differences in income between larger and smaller farms, the co-operative movement fostered dissension and jealousy within the rural community.[267]

So it is possible that unlimited liability prevented an incentive harmonisation whereby both sustainability and outreach could have been maintained.

Other streams of the co-operative movement in Ireland did not adhere to the principle of unlimited liability, but rather chose to register as limited liability corporate bodies. This encouraged the active participation of wealthier farmers and ensured the success of the co-operative creamery system. It must also be noted that

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[266] Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 18.
[267] Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 126.

only one credit co-operative formed along the lines of limited liability, that being the Ballindaggin in Co. Wexford. The Ballindaggin society registered under the 'Industrial and Provident Societies Acts'.[268] Based on evidence received from the secretary of the Ballindaggin credit co-operative the committee reported that:

> The Society had never sought to obtain deposits, as the overdraft at the Joint Stock Bank provided quite sufficient for all requirements. The Reserve fund amounted in 1912 to £14. Since its inception the Society has made on an average only 6 loans per year, which seems a proof that the members, now numbering 44, do not in reality require, or at any rate do not feel the need of obtaining advances. Only three loans, amounting to £52 in all, were made in 1911. The total capital of the society in that year amounting to £38 18s. 1d. It is of interest to note that this society – the only one in Ireland based upon limited liability – is, with two exceptions, the oldest Credit Society in the country.[269]

The committee also noted the evidence it gave it regards to the Ballindaggin credit cooperative that it was not enough to adjudicate either for or against the issue of unlimited liability.

The existing legislation prevented societies registered under the Friendly Societies to have complementary trading powers. But the unlimited liability Raiffeisen societies were in some areas integrated with the existing limited liability co-operative infrastructure. Patrick Bolger claimed that some offices of the Raiffeisen societies were actually located within a co-operative creamery.[270] There are a few notable cases where Raiffeisen societies were located next to creameries; for example one of the registered Raiffeisen societies was called the 'Kilrea Dairy'.[271] Archival source material also shows that there a link between the established co-operatives and the Raiffeisen societies. In many cases the surviving correspondence from credit co-operatives was written on stationery with headings of the associated dairy co-operative, as in the case of the Ballymoyer credit co-operative whose letter heading stated 'the Whitecross agricultural and dairy co-operative'.[272] This was not coincidental as the IAOS bank organisers report for 1905 stated that the Ballymoyer Credit Society worked in conjunction with the Whitecross creamery and that loan

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[268] 'Industrial and Provident Societies Act', 1876 (56 & 57 Vict.), c. 45 and 'Industrial and Provident Societies Act', 1893 (56 & 57 Vict.), c.39.

[269] *Report of the departmental committee on agricultural credit in Ireland*, paragraph 340, p. 146. [Cd7375], H.C. 1914, xiii, 1.

[270] Pat Bolger, 'The Congested Districts Board and the co-ops in Donegal' in William Nolan, Liam Ronayne and Mairead Dunlevy (eds), *Donegal: history and society* (Dublin, 1995), pp 660-661.

[271] IAOS 1901.

[272] For example see: 'Letter from J. McDermott[manager Ballymoyer Credit society] to IAOS secretary,' 15 June 1910 (*N.A.I*, 1088/79/1, Ballymoyer Credit Society, Whitecross, Armagh).

repayments were made in both milk and cash.[273] The Columbkille Credit Society, which IAOS regarded as the most successful proponent of Raiffeisenism, was also associated with a Creamery. The Columbkille society used stationery with a heading in the name of the co-operative creamery. This led to confusion in 1914 when it tried to amend some of its rules. The members had sent a letter to the IAOS Secretary, R.A. Anderson, asking for the necessary forms to amend their rules, but because of the paper heading R.A. Anderson sent them the forms for an Industrial and Provident Society rather than for a Friendly Society. The Columbkille society was forced to resubmit its amendment based on this fault, which is also an indication of the high level of bureaucracy associated with co-operation. In a subsequent correspondence, R.A. Anderson suggested that:

> …apart from the fact that the mistake in this case arose in the manner I have indicated [that the society was confused with the creamery] it is important that any correspondence made in reference to the bank should be carried out on paper headed – Columbkille Credit Society. Failure to do this might involve the society in a prosecution as it is laid down in the act itself that this must be done.[274]

The Columbkille society was an outlier in that it was one of the few Raiffeisen societies that possessed deposits. But these deposits were invested in the creamery in Columbkille.[275]

Using some information from the annual reports of the IAOS, if we match the names of creamery societies and agricultural societies we can attempt to measure the prevalence of Raiffeisen societies being linked with a creamery. The annual reports of the IAOS provide information on the location of Raiffeisen societies based on the name under which they were registered.

Table 6.4: Percentage of Raiffeisen societies registered with the IAOS that shared the same name as a co-operative creamery and co-operative agricultural store in 1908 and 1920

Co-operative type	***Percentage (%)***
Co-op creamery 1908	15.67
Co-op creamery 1920	13.81
Co-op store 1908	17.54
Co-op store 1920	22.76

Sources: IAOS annual report 1909 and 1921.

[273] 'IAOS Bank organisers report,' 12 December 1905 (*N.A.I,* 1088/79/1, Ballymoyer Credit Society, Whitecross, Armagh).
[274] 'Letter IAOS secretary to Thomas C. Keohane [Secretary of the Columbkille Credit Society], 24 August 1914 (*N.A.I*, 1088/253a/2, Columbkille Credit Society**).**
[275] IAOS 1920, pp 17-18.

The methodology used to construct table 6.4 may be flawed as some societies may have registered under different names. But what table 6.4 suggests is that there was a low level of integration between the various forms of co-operation in Ireland.

The case of the agricultural societies is more relevant to the Raiffeisen banks as the agricultural societies were trading societies similar to those associated with the German Raiffeisen movement. Initially they mainly traded manure and seeds and they also gave credit to members.[276] In the 1909 annual report the IAOS stated that:

> It has been suggested that these societies might, with great benefit, amend their rules so as to be in a position to make loans to their members for productive purposes in the same way that the credit banks now make advances. Thus, the agricultural society would fulfil the dual function of a source of supply of agricultural requisites and a means whereby farmers needing capital could procure it at a reasonable rate.[277]

The IAOS repeatedly made similar statements as it believed that the agricultural societies were unprofitable as stand alone institutions and would have been better served providing both services. This was also the case for many of the Raiffeisen banks. The number of agricultural societies experienced a surge in growth in years following the outbreak of the First World War. This was due to the fact that they became general co-operative stores selling more goods and offering to rent machinery and they also provided members with credit. Through the active encouragement of the IAOS the unlimited liability Raiffeisen societies were displaced by alternative forms of limited liability co-operatives. The question then must be asked, why, if they were willing to allow limited liability co-operatives to offer credit services, could they not have encouraged the Raiffeisen banks to operate as limited liability operations? Or was there even a need for Raiffeisen banks?

The question as to whether or not a limited liability form of credit co-operation could have been introduced depends on whether it would have been possible to raise capital through the sale of shares. Using the data on mean paid-up share capital from the two main limited liability co-operatives we can get a sense of whether or not a limited liability form of credit co-operation could have been feasible.

[276] Ibid, p. 10.
[277] Ibid, p. 10.

Table 6.5: Mean paid up share capital per member in limited liability agricultural co-operatives, 1908 and 1920

	Paid up share capital per member – creameries 1908 (£)	Paid up share capital per member – creameries 1920 (£)	Paid up share capital per member – agricultural societies 1908 (£)	Paid up share capital per member – agricultural societies 1920 (£)
Ireland	4.52 (5.15)	5.21 (6.00)	0.88 (4.91)	2.33 (3.56)
Ulster	3.43 (2.59)	3.20 (1.93)	0.21 (0.18)	3.84 (5.30)
Munster	6.25 (5.82)	7.52 (8.07)	0.51 (0.66)	2.79 (4.08)
Leinster	4.73 (2.87)	4.58 (2.35)	2.63 (9.29)	1.37 (1.83)
Connaught	3.51 (9.38)	2.64 (3.07)	0.18 (0.11)	1.70 (2.02)

Note: The numbers in brackets refer to the standard deviation.

Sources: IAOS annual reports, 1909 and 1921.

The data from table 6.5 suggest that there was the capacity within the co-operative movement to raise capital via share issues as the mean paid-up share capital was relatively low.

6.5.3 Co-operative Federation

One of the major drawbacks of the Raiffeisen co-operatives in Ireland was the lack of co-operation between individual co-operatives to form federated bodies. This lack of inter-co-operative co-operation was not confined to the Raiffeisen societies. Breathnach observed that the 'dairy co-operatives also remained largely isolated units, showing no tendency to form the local, regional and national alliances which were a key factor in the success of the Danish co-operative system'.[278] But in terms of Raiffeisen development, federation was a key factor. M.L. Darling observed that in Germany:

> When a village society is formed, it is at once affiliated to three co-operative organisations, to a central bank for finance, an agricultural wholesale society for supplies, and to the local provincial union for audit, inspection and control.[279]

Although legally constrained as friendly societies from establishing the agricultural wholesale federations or central banks, there were no such restrictions on

[278] Proinnsias Breathnach, *The diffusion of the co-operative creamery system in Ireland, 1889-1920: a spatial analysis* , NUI Maynooth Department of Geography, PhD thesis, August 2006, p. 4.
[279] M. L. Darling, *Some aspects of co-operation in Germany, Italy and Ireland* (Lahore, 1922), paragraph 24, p. 36.

the formation of audit unions. So why did the Irish Raiffeisen societies not form audit unions? The absence of a federated auditing service in Ireland was due to the failure of Raiffeisen societies to co-operate with each other both at a regional and national level, but also due to the existence of a paternalistic apex institution. Audit unions in Germany provided the Raiffeisen societies with an important service, not only in auditing accounts but also by ensuring that the co-operative principles were understood and maintained.[280] On-the-spot auditing services could be beneficial and used as a teaching tool to ensure that the credit co-operatives were able to function.

The importance of auditing was more as a teaching tool, because many members of Raiffeisen societies had no prior banking experience. Auditing services in Ireland were provided by the IAOS, but audits took place in Dublin and not in the societies themselves. The IAOS subsidised the annual audit of all Raiffeisen societies, but as their numbers grew the IAOS began offering its services to the more successful societies. The services provided by the IAOS were inadequate; evidence of this is shown by the following passage from the 1906 annual report:

> There were some inevitable delays in the auditing of the accounts of the Credit Societies in the Spring of this year, owing to the large number of books sent up simultaneously, some of which were not fully written up, and required a good deal of time to put right. It is hoped that arrangements can be put in force next year which will obviate these delays, and enable the audit staff to deal with the books without the congestion occurring which has marked this and some previous years.[281]

The audit department of the IAOS conducted annual audits of the accounts of the Raiffeisen societies, but these were costly and the Raiffeisen societies did not contribute to the cost of these audits.[282] There was an over-reliance on the IAOS for auditing services, and as the co-operatives were not actually contributing to the services the IAOS was making losses on the service. The IAOS began curtailing its auditing services to the Raiffeisen societies as a result of them being loss-making activities. The existing Raiffeisen societies did not have an alternative auditing scheme with which to replace the increasing apathy of the IAOS towards the Raiffeisen system. Many societies were unable to afford annual audits from private accountants. The IAOS auditing services declined after the withdrawal of a government subsidy in 1907 and the IAOS neglected to audit the accounts of the surviving Raiffeisen banks in the 1920s, choosing instead to focus on the expanding

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280 Timothy W. Guinnane, ‘A "Friend and Advisor": external auditing and confidence in Germany's credit cooperatives, 1889-1914’ in *Business History Review*, lxxvii (Summer 2003), pp 235-264.
281 IAOS annual report 1906, p. 10.
282 IAOS annual report, 1911, p. 3.

agricultural societies.[283] The IAOS stated that it had 'to put aside this work in favour of the inspection of trading societies, which were in a position to make better if not adequate payment for the services they required.'[284] The importance of the trading societies to the IAOS was enhanced as they generated more income in the form of affiliation fees, and as a result pro rata government grants. The IAOS stated that the Raiffeisen societies:

> Have been of necessity passed over by the IAOS in favour of trading co-operation, from which alone could the Society derive the income from affiliation fees and societies subscriptions that for many years formed the basis of its claim for a grant from the State. If only for this reason is it desirable that State aid in future should take the form of a "block" grant. Obliged to spend the income obtained from trading societies and the added State subvention, upon specified services to those societies, funds could not be found for the educational propaganda, inspection etc of backward, remote and neglected credit societies, an expensive service, and one to which, as they do not trade, are not profit-making bodies, they cannot themselves adequately contribute.[285]

The Raiffeisen societies would have been better served had a federated body formed, but the paternalistic treatment of the IAOS prevented any such movement emerging.

The formation of central banks was also hindered by legal constraints, but the actions of the banks themselves show no signs that there was any effort at federation. Central banks were effectively clearing houses where co-operatives with surplus deposits could transfer these surpluses to other credit co-operatives with excess demand, or invest the surplus funds (i.e. introduce economies of scale). The central bank system could also be a way to overcome risk covariance as regional shocks would not affect the system as a whole; also a central bank could have insulated the Raiffeisen societies from macro-financial shocks. An example of this was the sudden increase in the rate of interest charged by joint stock banks in 1908.[286] The joint stock banks were forced to increase interest rates due to changes in money market conditions following a banking crisis in the United States,[287] but the IAOS had expected that the 4 per cent rate would be paid 'irrespective of the fluctuations of the bank rate'.[288] This system of central banks was a prominent feature of most forms of credit co-operation. The Raiffeisen union in Germany established many central banks in different regions, yet the Irish system never developed an effective system.

283 IAOS annual report, 1924, pp 17-18.
284 IAOS annual report, 1923, p. 15.
285 Ibid, pp 17-18.
286 IAOS annual report 1912, p. 12.
287 The 1907 crisis: Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005), p. 340.
288 IAOS annual report, 1908, p. 12.

The history of the attempts to establish a central bank for the Raiffeisen societies in Ireland is quite interesting. There were isolated incidents of local federation, most notably in Wexford where there was co-operation between a number of societies. [289] But this kind of federation was a local concern and was limited to Wexford, where a number of societies were actually limited liability credit co-operatives. Elsewhere federation was an uncommon occurrence.

There were numerous calls in the IAOS annual reports for the formation of a national co-operative central bank. There was a call for the formation of a national central bank in the IAOS report for 1901, the reason for this being the hesitant stance taken by the joint stock banks towards the co-operative movement. The IAOS saw a central bank as the solution to the financial problems of the co-operative movement as a whole, not just the Raiffeisen co-operatives.[290] But, as was previously stated, the establishment of a central bank seems to have been used as a veiled threat to the joint stock banks to co-operate with the IAOS and its affiliated societies. In the 1901 annual report the IAOS laid out a list of complaints against the joint stock banks in Ireland.[291] When the joint stock banks overcame their hesitancy in dealing with co-operative societies, as a result of negotiations with the IAOS,[292] the calls for the creation of a central bank were not as vociferous. The following year the IAOS believed that a federation of Raiffeisen banks was premature.[293]

The 1902 annual report of the IAOS note that as Raiffeisen societies could obtain credit from the joint stock banks at '4%, which is a reasonable rate and as low as could be expected,'[294] that federation was 'not a matter needing any very pressing consideration'.[295] In the 1904 report the IAOS stated that a new rule had been passed which permitted credit societies to lend to one another and that this rule would 'be a first step towards a more systematic organisation of agricultural credit by general co-operation among the societies'.[296] There was no further mention of establishing a central bank in the IAOS annual reports until the annual general meeting in 1909 where there was a call for the establishment of a co-operative central bank. But the

[289] IAOS annual report, 1901, p. 10.
[290] Ibid, p. 10.
[291] Ibid, pp 11-13.
[292] IAOS annual report 1904, p. 27.
[293] IAOS annual report 1902, pp 14-15.
[294] Ibid, p. 15.
[295] Ibid, p. 15.
[296] IAOS annual report 1904, p. 19.

call for a central bank was not a call for the federation of Raiffeisen societies, but rather a call for 'the federation of all the co-operative societies of Ireland for the establishment of a co-operative bank for Ireland, or one for each province'.[297] A Central Co-operative Credit Society (CCCS) was established in 1913 and its role outlined in the 1913 report. The IAOS stated that the CCCS:

> ….can act as a clearing house in collecting, from societies which have surplus deposits, sums which they may wish to dispose of and which the CCCS can lend out to other societies in need of additional loan capital. It can also – and this should become one of its most important functions – give attention to the societies with which it may have dealings, either directly or through the machinery for the inspection of the societies now started by the IAOS, or in both ways.[298]

The CCCS was a failure. In its duration it only made 5 loans to credit co-operatives and they were made in 1914. No other business was transacted between then and its cessation, which was continually threatened every year from 1916 onwards.[299]

The committee on agricultural credit was unsupportive of the formation of a central bank for the credit co-operatives. It was their belief that the functions performed by the joint stock banks were adequate and that a central bank was superfluous to the needs of the credit co-operatives. Arguably such a system of central banks was not required in Ireland as the Raiffeisen societies did not make a determined effort to mobilise savings. The Societies purposely limited the amount of deposits to the amount of business that they transacted. From the archival sources it appears as though there were a small number of depositors, but with a large average deposit size. George Russell's opinion was that the Raiffeisen societies should stop taking deposits if they could not use them.[300] As this seems to have been the policy of the IAOS, then there was definitely no need for a central bank. Yet, as evidence to the committee on agricultural credit showed, there were credit co-operatives who had surplus deposits. These surpluses were placed in accounts in the POSB or in accounts in joint stock banks.[301] Such funds could have been redistributed to other credit co-operatives had there been a central institution able to perform such a task.

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297 IAOS annual report 1909, p. 63.
298 IAOS annual report 1913, p. 21.
299 IAOS annual reports, 1913-1925.
300 *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1912, p. 63. [Cd. 7376], H.C. 1914 xiii, 431.
301 *Report of the departmental committee on agricultural credit in Ireland*, paragraph 432, p. 184. [Cd7375], H.C. 1914, xiii, 1.

Also a central bank, or some kind of central agency, could overcome the localism of the movement that greater awareness and confidence could be felt in the system. With a national identity it may have been possible to attract deposits. The POSB had such national characteristics which were lacking in other localised savings institutions. But the CCCS was not a federation of the existing Raiffeisen societies. It was a creation imposed on the system by the IAOS. Without the cooperation of the all societies, and members of these societies, the central bank could not feasibly work.

Smith-Gordon and Staples saw the potential benefits that a central co-operative bank could give. They stated that:

> In Ireland the Post Office Savings Banks hold deposits to the amount of £18,000,000 and the long term deposits in the joint stock banks amount to £65,000,000. A great proportion of this money is derived from agricultural sources, but most of it leaves the country altogether. If a central co-operative bank existed which was able to attract even one per cent. of this money, the lack of capital from which the movement suffers could be remedied at once, even if the joint-stock banks were to some extent alienated.[302]

Perhaps they were too optimistic - they saw the central bank as a means to finance the co-operative movement as a whole, rather than just the credit co-operatives. When Paul Gregan, the IAOS bank organiser, was asked if he thought that there was a financial need for a central bank, he said he did not think so. But when asked why he thought a central bank should be established he said, 'I want to bring the co-operative movement together.'[303]

The main reason for the failure to establish central banks was based on the business model chosen by the IAOS where their Raiffeisen banks were financed by concessional government loans and inter-bank loans. The IAOS did not encourage the mobilisation and maximisation of deposits, and as such Raiffeisen banks never emerged as a natural savings institution.

6.6 Conclusion

The initial rapid growth of the credit co-operatives was not to be sustained. As was stated in the introduction, at their peak there were 268 Raiffeisen societies, but after 1914 the numbers decreased. The Raiffeisen societies were introduced in Ireland by the IAOS in 1894 and were a top-down social movement. The societies had an

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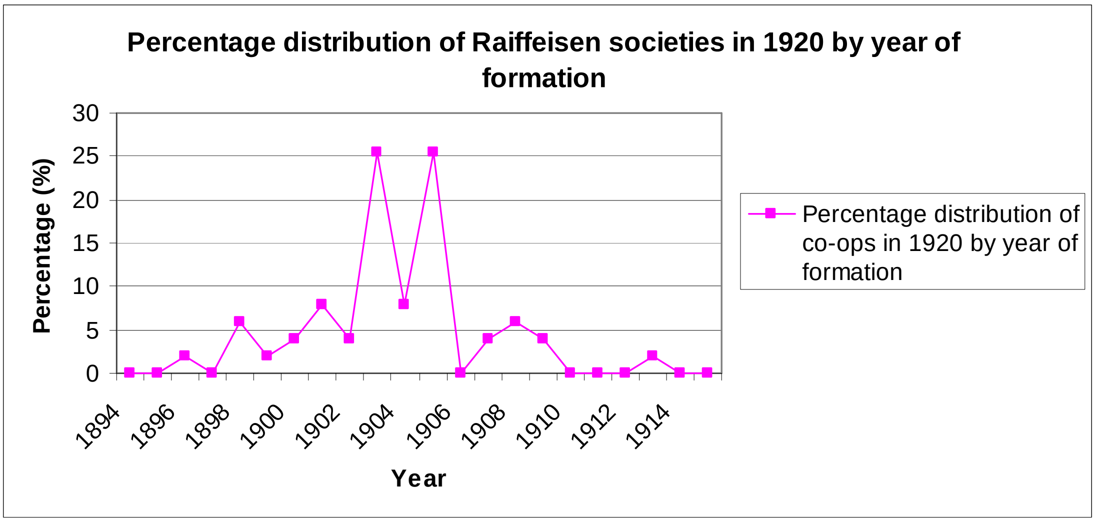
[302] Lionel Smith-Gordon and Laurence C. Staples, *Rural reconstruction in Ireland: a record of co-operative organisation* (Westminster, 1917), p. 149.
[303] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, paragraph 1606, p. 50. [Cd. 7376], H.C. 1914, xiii, 431.

ephemeral existence despite the resources devoted to them in the early 1900s. The Raiffeisen societies never mobilised savings to any great extent, and were mainly funded by concessional loans from government bodies. Not all societies failed in 1907 when there was a change in leadership of the government bodies dispersing concessional loans, but decline set in after 1914. The accessibility of cheap credit for members of rural Irish society from government bodies gave an incentive for many such co-operatives to form. When this avenue of credit was closed off the number of active credit co-operatives declined. The easily available government funds inflated the real number of genuine credit co-operatives. The remnants of the credit co-operative system continued operating until the 1950s.[304] Therefore, it can not be said that the credit co-operatives were a failure, or that they lacked that ill-defined concept which is 'co-operative spirit'. In 1920 there were 51 active Raiffeisen societies that were active and figure 6.19 shows the distribution of these societies by year of formation.

Figure 6.19

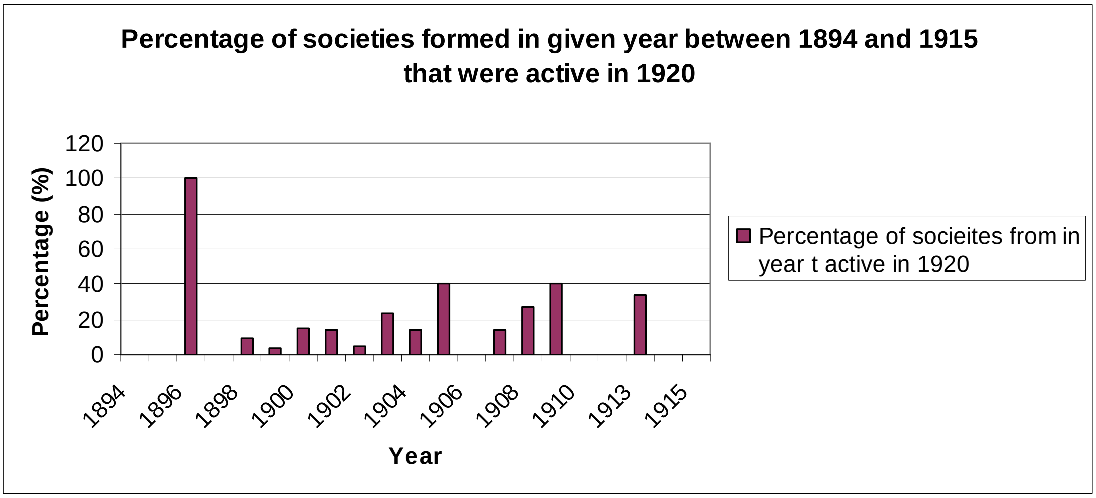


Source: IAOS annual report 1921.

It would be interesting to see what set these societies apart from the rest. The most logical answer is that these were the best managed societies, and that they were the ones that had access to alternative sources of capital.

[304] Patrick Bolger, *The Irish co-operative movement: its history and development*, (Dublin, 1977), p. 181.

Figure 6.20



Source: IAOS annual reports, 1902-1920

Figure 6.20 shows the portion of the societies formed in a given year in the period 1894-1915 that were active in 1920. What figure 6.20 shows is that, apart from the outlier in 1896, there was a very low survival rate of these societies. Given that all societies formed after 1900 faced similar economic conditions, this is something to suggest that the key difference was access to capital in the form of deposits and management.

Given that a number of Raiffeisen societies were still registered with the IAOS in 1920, it is possible to perform some econometric analysis in an attempt to determine what may have caused these societies to succeed, and others to fail. Data were taken from the year 1908, the year when the highest number of Raiffeisen societies were registered with the IAOS.

Table 6.6: Relationship between Societies registered with the IAOS 1908 (N=268) and key variables

Variable	Percent (%)
Survival in 1920	43.66
Survival and active 1920	17.91
Co-op creamery 1908	15.67
Co-op creamery 1920	13.81
Co-op store 1908	17.54
Co-op store 1920	22.76
Joint Stock Branch (1908)	5.60
JS sub-branch (1908)	8.21
Number of JS branches* (1908)	16.79
Post Office (1908)	45.15
POSB (1908)	32.46

Sources: IAOS annual reports, and *Thom's Directory*

The joint stock banks and POSB banks were matched to the Raiffeisen societies based on a shared name; this does not therefore include JS bank branches that are located outside of the area of operations indicated by the name of a Raiffeisen society. But the evidence from the maps, shown in an appendix to this chapter, of the Raiffeisen societies suggests that they were located in remote parts of the country. Therefore, it is not surprising that there were a low percentage of banks active in these areas. It is also interesting to note the low percentage of limited liability co-operatives that were linked to the Raiffeisen societies, something which highlights the low levels of integration within the Irish co-operative movement. The following regressions have been estimated using Logit models. The dependent variables being tested were whether a society in 1908 was still in existence (i.e. on the register of the IAOS) in 1920, and whether a society in 1908 was both in existence and active in 1920. This was done by using dummy variables (binary numbers: 1=active, 0=inactive) to distinguish between the societies that survived and those that did not. As was stated previously the IAOS annual reports recorded societies in their annual reports despite the fact that they did not submit any returns. Table 6.7 shows the results of a regression of all societies recorded for 1908. The independent variables are all dummy variables. It is interesting to note that the statistically significant relationships are between the limited liability co-operatives.

Table 6.7

Logit (MLE)	**Dependent variable: Survival in 1920**	**Survival and active 1920**
Independent variable		
Joint stock branch	-.2752 (0.636)	0.0515 (0.942)
Joint stock sub-branch	-0.0769 (0.877)	-9.4473 (0.237)
POSB	-0.4278 (0.164)	-0.1486 (0.699)
Co-op creamery 1920	0.7732 (0.04)**	1.1318 (0.009)***
Agricultural store 1920	1.42355 (0.000)***	0.9448 (0.012)**
Constant	-0.5159 (0.003)***	-1.8531 (0.000)***
Number of observations	266	266
Log-likelihood value	-171.22073	-119.73802
Pseudo R2	0.0612	0.0465

Notes: All explanatory variables are included in the regression as dummy variables. p values are in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Tables 6.8 and 6.9 show the results of regressions involving the active societies in 1908. In table 6.8 an attempt was made to isolate the influence of deposits on the survival of Raiffeisen societies, in this case a dummy variable was used to describe where a society had no deposits. There is a statistically significant negative relationship between a society having no deposits and the survival and activity of a society in 1920. Table 6.8 also shows the significance of a relationship between a Raiffeisen society and other forms of co-operation. Additionally it indicates that there is a negative relationship between the existence of a POSB and survival in 1920, and the existence of JS sub-branch and survival and activity in 1920.

Table 6.8

Logit (MLE)	**Survival 1920**	**Survival and active 1920**
JS branch	-0.5634 (0.470)	-0.2493 (0.762)
JS sub-branch	-0.3644 (0.619)	-1.9571 (0.095)*
POSB	-0.7932 (0.085)*	-0.4201 (0.402)
Co-op creamery 1920	0.8557 (0.133)	1.1805 (0.037)**
Co-op store 1920	1.2827 (0.007)***	1.0751 (0.023)**
No deposits	-0.5902 (0.127)	-1.4532 (0.004)***
Years in operation	-0.0994 (0.152)	-0.1494 (0.065)*
Membership	0.0018 (0.740)	0.0034 (0.515)
Amount of loans	0.0061 (0.000)***	0.0017 (0.106)
Constant	-0.5860 (0.349)	-1.0327 (0.072)*
Number of observations	182	182
Log likelihood	-92.270855	-77.973959
Pseudo R2	0.2558	0.2340

Note: p values are in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Table 6.9 includes information contained in the annual reports of the IAOS controlled for membership in each society. Again table 6.9 shows a significant positive relationship between Raiffeisen society survival and the existence of limited liability forms of co-operation in 1920. Survival and activity in 1920 is positively related to the proportion of deposits in total capital. The amount of loans per member is also positively linked to survival and activity in 1920.

Table 6.9

Logit (MLE)	Survival 1920	Survival and active 1920
JS branch	-.3313274 (0.671)	-.1257355 (0.883)
JS sub-branch	-.1667559 (0.818)	-2.035207 (0.093)*
POSB	-.7695481 (0.110)	-.4032801 (0.458)
Co-op creamery 1920	1.118381 (0.060)*	1.189157 (0.057)*
Co-op agricultural store 1920	1.724194 (0.001)***	1.125487 (0.028)
Loan capital per member	-.781041 (0.029)**	-.6360744 (0.268)
Ratio deposits per total capital	1.033315 (0.524)	5.428235 (0.003)***
Deposits per member	-.4728806 (0.303)	-1.433583 (0.037)**
Number of loans per member	.7518291 (0.256)	-.177983 (0.814)
Amount of loans per member	.4225557 (0.041)**	.3675268 (0.076)*
Amount of loans outstanding per member	.3940331 (0.267)	.5874653 (0.303)
Profit per member	-25.04619 (0.020)**	-10.50398 (0.314)
Reserves per member	7.022014 (0.026)**	3.552725 (0.304)
Expenses per member	6.100462 (0.361)	14.87765 (0.026)**
Ratio reserves to total capital	-.0254128 (0.671)	-.0452793 (0.542)
Years in operation	-.3039964 (0.002)***	-.267181 (0.021)**
Constants	.3776243 (0.600)	-2.269492 (0.007)***
Number of observations	182	182
Log-likelihood	-92.722156	-73.857345
Pseudo R2	0.2522	0.2744

Notes: p values are in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

What is not possible to measure is the effect of management on the long-run performance of a society. The low pseudo R2 values suggest that perhaps a significant missing variable in this context is the quality of management.

The results from these logit regressions support the statements made in this chapter about the importance of deposit mobilisation as a source of information and about the importance of integration with other co-operative enterprises, both as sources of information and for economies of scale. The importance of other forms of co-operative activity may also be a reflection that there was an element of cross-subsidisation present in the co-operative structure. Other forms of co-operation may have been more profitable and supported the Raiffeisen societies, or they may have had access to better management. The logit regression results suggest that it was the societies who inadvertently replicated the German conditions (i.e. co-op integration and savings mobilisation) that were successful; the reality was that not many societies did this.

Given the importance of Henry Wolff in establishing credit co-operation in Ireland it is only fair to give him a voice in the conclusion of this chapter:

> Co-operative Credit Societies have certainly conquered for themselves an honoured place among the useful institutions established in Ireland, upon which King Edward on his last visit to the country bestowed high and merited praise. If for the moment their splendour is a little obscured by the more vigorous agitation in progress for the formation of distributive stores, to free the small farmer from the oppressive yoke of the grasping gombeen man – whom the Department appears to favour – that is, of course, to be accounted for, in the first place by the fact that the need of stores has become acutely more urgent, and that its urgency has at last been realized by the farming community; and, in the second, by the circumstance that up to a certain point the banks formed, as is proper among impecunious people, upon the Raiffeisen principle – without shares and with unlimited liability – have done their work, placing the whilom struggling farmer on firmer ground, where his immediate want of cash is not as present as it was. He for the moment needs stores more than banks and cannot well fight two great battles at the same time. The temporary obscuring of the banks by no means signifies that credit societies are done with. Their utility has been too well ascertained and recognised for that. Only it seems likely that, being now in a more prosperous position, Irish farmers will be able to form some of their new banks on the share and limited liability system.[305]

Elsewhere in the same text Wolff used the Irish case as an example of the dangers of 'assisted' co-operation.[306] So what we can take from Henry Wolff's perspective is that the Raiffeisen societies were not a failure, but that there was a greater need for co-operative societies and therefore they were sidelined for the foreseeable future. This is an interesting observation given Wolff's role in writing the 'Thrift and Credit Societies' bill. Wolff's argument had always been that Raiffeisen societies could tackle gombeenism; the thrift and credit societies bill aimed to arm Raiffeisen societies with trading powers. Wolff stated, in evidence to the committee on agricultural credit in Ireland, that the trading powers for Raiffeisen societies were not demanded in England, but were demanded in Ireland.[307] The citation from Wolff above then seems to suggest that he reckoned that co-operative stores are the way to address gombeenism. Given that gombeenism was the initial 'problem' that he suggested Raiffeisen societies would combat, maybe this is a reflection that they were the wrong instrument to achieve this goal. Or perhaps there was a greater demand for co-operative stores?

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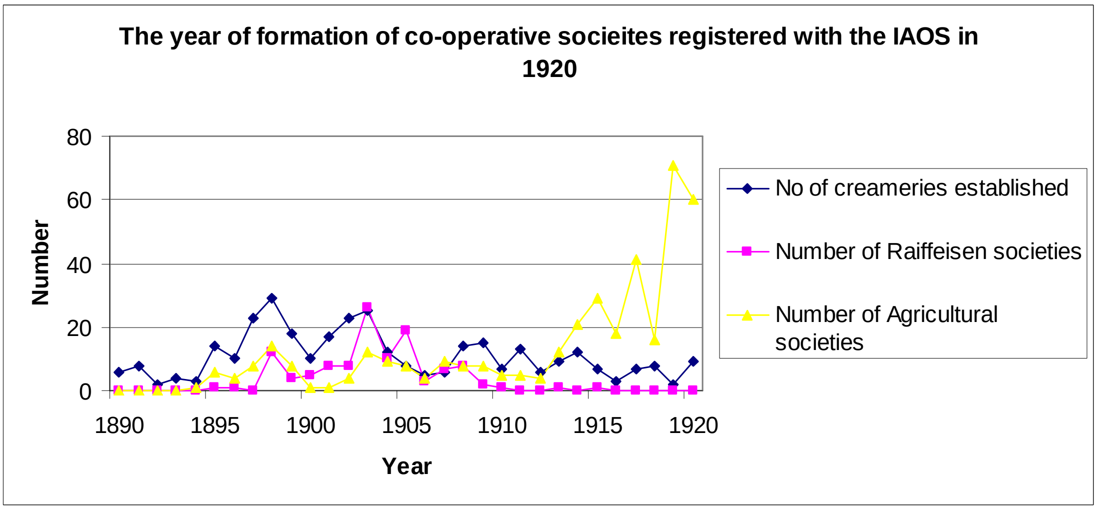
[305] Henry W. Wolff, *People's Banks: a record of social and economic success* (4th edition, London, 1919), pp 428-429.
[306] Ibid, p. 399.
[307] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 7087, p. 204. [Cd. 7376], H.C. 1914 xiii, 431.

In 1920 there were 387 agricultural societies, 335 co-operative creameries, and 117 Raiffeisen societies on the IAOS register. If we look at these by their year of formation, shown in figure 6.21, we can see that there was a shift in emphasis from the Raiffeisen societies to the agricultural societies. This was a conscious decision on the part of the IAOS, who believed that:

> There is a wide field for development in such directions, and it is possible that out of the agricultural will be evolved "the general purposes" society, to rival in importance, if not to surpass, the co-operative creamery. It should not be forgotten that many of the creameries do a large business in goods which, strictly speaking, come more properly within the sphere of the agricultural societies.[308]

Figure 6.21



Source: IAOS annual report 1921

The IAOS abandoned the Raiffeisen societies in favour of these new agricultural societies that were formed in the late 1920s. It is interesting to see that the agricultural societies experienced similar problems to the Raiffeisen societies that the IAOS attempted to establish earlier in the twentieth century. They were mismanaged and under-capitalised.[309] In relation to the trading societies the IAOS noted that there was a 'credit habit' in rural Ireland.[310] One of the ironies of the IAOS policy was that they ended up practising what they had defined as the 'gombeen' system despite the fact that they had stated they were trying to combat gombeenism.

The Raiffeisen system that was introduced in the period 1894 to 1915 was unsuccessful, but this did not stop the IAOS and the Free State DATI trying the same

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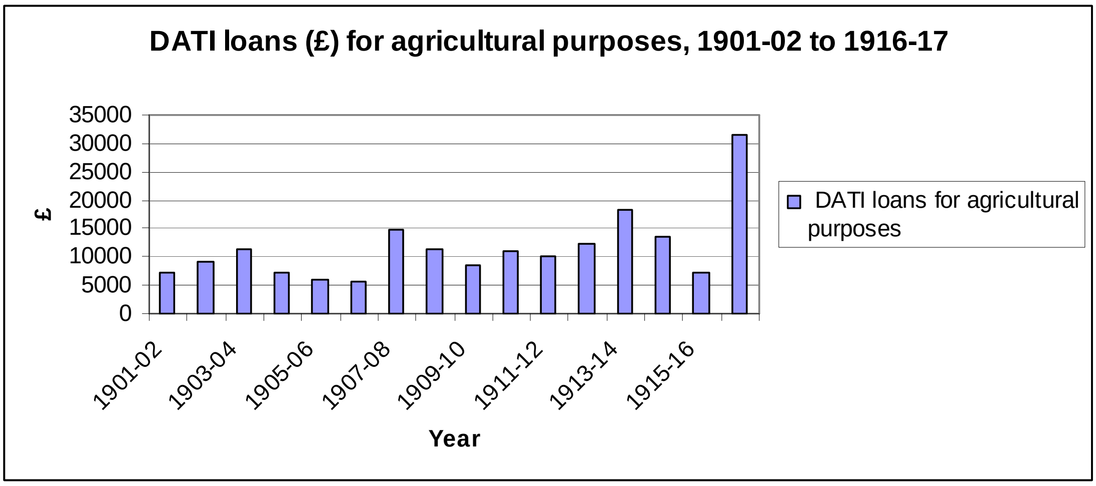
[308] IAOS annual report, 1918, p. 10.
[309] IAOS annual report, 1921, pp 14-15.
[310] IAOS annual report, 1921, pp 15-16.

lending methodology once more. A new strain of Raiffeisen societies, 'fluke societies', were introduced in the 1920s to distribute a loan of £100,000 from the DATI for the purpose of replacing stock loss caused by an outbreak of liver fluke.[311] These were not necessarily new, as loans were given to societies that had previously existed, but the terms of the loan were that they were only to be given to societies in the south of Ireland. The life cycle of these institutions was identical to the experience of the earlier Raiffeisen societies as they did not build up a deposit base. When loans were recalled or repaid the societies ceased to operate. Some also experienced similar problems to the earlier societies, namely loan renewals and unpunctual repayment of loans. But the case of the 'fluke societies' makes us question what the people thought these societies were used for. Were they to become bona fide financial institutions, or were they a more efficient means of distributing state aid? Both the DATI and the CDB offered short- and medium-term loan programmes in the early twentieth century,[312] and possibly the large number of loan applications may have induced them to outsource the loan distribution to the Raiffeisen societies.

Figure 6.22



Sources: Annual reports of the DATI, 1901-1917.

The DATI gave loans for a number of purposes, the amounts are shown in figure 6.21, but for small-term loans the existing government infrastructure would not have made such loans feasible and hence the Raiffeisen societies were used to distribute funds for short-term loans. Effectively the DATI outsourced the business of small loans.

311 IAOS annual report 1924, pp 17-18.
312 A copy of the terms of CDB loans is shown in appendix 3.

The credit co-operatives provided a conduit for government funds to be channelled to individuals in rural Ireland who required small loans for various purposes. Credit co-operatives made issuing such small loans feasible, as issuing small loans to individuals on such a scale would not have been practical for a centrally organised body. The credit co-operatives enabled individuals to self-select themselves so that the loans were given to those who believed they required them, rather than giving loans for the sake of giving loans.

It is worth noting that of the government funds lent to credit co-operatives most were repaid. Smith-Gordon and Laurence claimed that:

> The whole sums outstanding, with the exception of a few small loans, have been already repaid. The net loss to the Department on the fifteen years' experience was £91, or less than one year's interest. The C.D.B. has been even more fortunate, having lost practically nothing. These facts form a remarkable testimony to the honesty of the much-abused small farmer.[313]

This statement is supported by the DATI annual report for 1918 which stated that all outstanding loans had been repaid.[314] In the life-span of the DATI loan scheme only three loans, totalling £150 out of £18,000 (0.83%), were written off as irrecoverable.[315] This could be viewed as positive evidence of the monitoring system incorporated by the credit co-operatives and perhaps vindicate the view propagated by Henry Wolff in regards to the bank's safety. He stated that:

> It has made the banks so safe that leaders of the movement make it their boast that under it *never has a penny been lost*, which is true to this extent, that, so far as facts are known, never has a member had to be called upon to answer to his liability and make good by payment a loss sustained by the bank.[316]

One serious criticism which can be made of the credit co-operatives is that they never seriously competed in the savings market. As small localised banking units it cannot be believed that they would have been serious contenders to the deposit base of the joint stock banks; rather their realistic opponents would have been the POSB. The Raiffeisen co-operatives never established themselves as serious challengers to the POSB as an alternative mode of savings. There were numerous reasons for this as

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313 Lionel Smith-Gordon and Laurence C. Staples, *Rural reconstruction in Ireland: a record of co-operative organisation* (Westminster, 1917), p.139.
314 *Eighteenth Report of the Department of Agricultural and Technical Instruction for Ireland*, p. 69 [Cmd. 106] H.C. 1919, ix, 715.
315 *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 9, p. 3. [Cd. 7376], H.C. 1914 xiii, 431.
316 Henry William Wolff, *Co-operative credit banks* (London, 1898), p. 18.

highlighted above, but the sizeable amounts of Irish deposits which the POSB held in its possession were accumulated from all corners of the island. This vast collection of deposits was transferred from the communities and invested elsewhere. This can be seen as evidence that there was capital available within Ireland which could have been used to finance Irish economic development. The credit co-operatives could have facilitated such economic development had adequate support been given to them. If the credit co-operatives had been given a government guarantee for deposits that they held, effectively if the government offered deposit insurance, in the long run this would have been a better policy than offering concessional loans to societies. Smith-Gordon and Lawrence believed that a 1 per cent transfer of deposits from the prevailing institutions could have solved the capital inadequacies of the credit co-operatives, and of the co-operative movement as a whole. Perhaps more realistically if at the very minimum 1 per cent could have been diverted from the POSB to a government-backed system of credit co-operation it could have given the Irish people a more financially rewarding and economically efficacious return. But the availability of concessional government loans meant that the Raiffeisen societies had no incentive to mobilise savings.

The fact that Raiffeisen societies did not establish themselves as long-term financial institutions led commentators to believe that co-operative credit would never work in the South of Ireland. This view was changed however by the sustainable adoption of credit unionism in Ireland. The credit unionists have acknowledged the fact that they shared the same principles as the early Raiffeisen societies. For example, A. T. Culloty wrote that 'these agricultural credit societies, or "village banks" as they became known, were modelled on the Raiffeisen credit system which is the system on which the credit union is based.'[317] Credit Unions were first established in Canada by Alphonse Desjardins, and subsequently diffused in the United States. Ironically, given the role of Henry Wolff in advising the IAOS, it was claimed by Wolff that his friend Desjardins had learnt the principle of co-operative banking from reading his book. [318] Wolff maintained that the system of credit unions was not actually Raiffeisen in nature, but that it was in fact a variant of the Schulze-

[317] A. T. Culloty, *Nora Herlihy: Irish credit union pioneer* (Dublin, 1990), p. 51.
[318] *Departmental committee on Agricultural credit in Ireland: Evidence, Appendices, and Index*, question 7081, p. 203. [Cd. 7376], H.C. 1914 xiii, 431.

Delitzsch branch of credit co-operation,[319] i.e. that credit unions differed from Raiffeisen societies in that members were required to purchase shares.

So given that there is a link between credit unionism and Raiffeisenism, what caused the successful adoption of credit unionism? The credit union movement was propagated by a group of enthusiasts who did not confine their activities to small areas of the country, as was the initial policy of the IAOS. There was greater support for credit unions both within communities and from the clergy, with the Rev Lucey being an example of this clerical support. Credit unions when first introduced were also constrained by the existing legal structure, but successful lobbying overcame these constraints and a designated credit union act was formulated. Coincidentally this act allowed credit unions to have the benefit of the Industrial and Provident Societies Act that was discussed above.[320] The credit unions were limited liability societies and their main source of capital came from member savings. Noticeably the credit unions were not started with the promise of concessional loans from government bodies.

Admittedly shifts in social attitudes enabled the credit unions to develop, most noticeably the role of the clergy in the movement, but the concentrated emphasis on credit unions and not a general emphasis on multiple forms of co-operation gave potential adaptors better information. It seems that first hand accounts from foreign credit unions helped to spread information and induce adoption. Credit union members from the United States and Canada gave media interviews and speeches about the benefits of membership in a credit union. So credit unionism was not an abstract concept. The credit union movement was also broader; it encompassed different socio-economic groups. This is in contrast to the IAOS who specifically targeted the Raiffeisen societies at low-income farmers/labourers in the west of Ireland. The credit union movement was also both urban and rural in outlook and there was a greater dispersion of societies across the island, something which the Raiffeisen societies never achieved. In the words of John Hume, ‘it is a matter of fact to describe the credit union movement as the most successful co-operative movement in the history of Ireland.’[321]

Horace Plunkett, when discussing a paper on Agricultural banks in 1896, said that it was ‘his own experience in introducing co-operative enterprises of various

[319] Ibid, question 7081, p. 203.
[320] Credit Union Act 1966, 19/1966.
[321] John Hume ‘foreword’ in A. T. Culloty, *Nora Herlihy: Irish credit union pioneer* (Dublin, 1990), p. xiii.

kinds in Ireland that, although imitation from the continent was extremely helpful, at the same time exact and servile imitation was in practice most misleading and tended to barren results.'[322] From the experience of the Raiffeisen societies in Ireland it would seem as though he did not heed his own warning.

The key question to ask is whether or not there was a market failure in Irish credit markets, and if so, what could have been done to solve this. The evidence suggests that market failures were not present; this is evident if we look at the question in terms of competition. Interest rates were not excessive, and credit was accessible. The German model of Raiffeisen societies may have been more efficient in terms of establishing agricultural lending mechanisms. But these were difficult to introduce in Ireland based solely on the fact that there was an existing financial structure in place, and this financial structure was reasonably competitive. In terms of German Raiffeisen societies, they were not just credit institutions, they were also savings institutions and the Irish market was already well served with savings institutions. Given that it was shown in chapter 4 that savings banks were subsidised, this brought two government policies to subsidise financial institutions into conflict. It must not be forgotten that people, even to this day,[323] rarely switch bank accounts, so the pre-existing savings market made it almost impossible for the Raiffeisen banks to establish themselves.

[322] R. A. Yerburgh, 'Agricultural Credit Banks' in *Journal of the Royal Statistical Society* , lix, no. 3 (Sept, 1896), pp 481.
[323] There are very low rates for people switching bank accounts; for example see: 'On the follow up in retail financial services to the consumer markets scoreboard', EU Commission staff working document, SEC (2009) 1251 final, pp23-24:
Available online at: Http://ec.europa.eu/consumers/rights/docs/swd_retail_fin_services_en.pdf

7 State funded land purchase 1870-1909

7.1 Introduction

The 'land question', a name given to problems associated with the land ownership structure in Ireland, emerged as a central issue in Irish politics and political economy in the late nineteenth century, with various attempts made to ameliorate and solve it. The 'land question' is something which has attained significance in the wider Irish historiography; it is seen as key component in the development of Irish national and political identity.[1] A number of perceived solutions to the 'land question' saw the direct involvement of the state in landlord-tenant contractual relationships; also the introduction of long-term state-funded lending schemes. In fact the 'land question' is an illustration of the high level of government involvement in the Irish economy and it indicates the extent to which Irish agricultural development was influenced by dirigisme.

There are two aspects of government land policy which are significant to this thesis. Firstly, state land policy aimed to redistribute agricultural income from landlords to tenants.[2] Under the 1881 land act the state became an, arguably biased, arbitrator in landlord-tenant contracts and universally reduced rents paid by tenants. In terms of this thesis, the income effects of land policy are significant as they were in effect an alternative to microcredit programmes, and may in fact have stimulated demand for savings services. Secondly, state land policy shifted to the provision of loans to tenants to purchase their holdings and, from 1870 onwards,[3] the state played an active role as a mortgage provider to the agricultural sector of the Irish economy.

The state provision of long-term loans was a novel introduction to the Irish financial sector. State intermediation enabled both tenant farmers to purchase their holdings and landlords to sell their estates. During the period 1870 to 1914 the policy of land purchase was gradually made more accessible, with the aim of encouraging the transfer of ownership from landlords to tenants. The increasing accessibility of the

[1] For example see the discussion on the 'land question' in the following: F. S. L. Lyons, *Ireland since the famine* (London, 1971); D. George Boyce, *Nineteenth century Ireland: the search for stability* (Dublin, revised edition 2005); Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004).

[2] There were a number of income transfer policies introduced in the nineteenth and early twentieth century, most notably the introduction of the state-funded Old Age Pension in 1908. But these are beyond the scope of this thesis.

[3] The 1869 disestablishment of the Church of Ireland act can be considered as the point that marks the break in government policy as loans were made available to tenants to purchase church lands.

state land purchase schemes places them within the remit of a study of microfinance, as the loans were provided to small- and medium-sized borrowers of amounts and loan terms which could not have been provided within the existing financial structure. The existing financial structure, namely the lending institutions heretofore described in this thesis, did not have the capacity to make long-term loans as their lending methodology was secured by sureties, rather than by land which was the case with the state-funded land purchase schemes. Also, in the case of the microfinance institutions outlined in chapters 1 and 6, they were constrained by legally imposed lending ceilings. Put simply, prior to state entry into the mortgage market there was not a similar large-scale mortgage lender in the Irish market.

The primary focus of this chapter is to analyse the government policy of land purchase. The chapter will examine the complexities of the state mortgages from different perspectives. These will include analysing the state's lending contract, and its mechanisms for screening and monitoring loans. The chapter will make comparisons between state mortgages and the loan contracts offered by existing financial intermediary institutions to illustrate how the state was the sole agent that could have performed such a function.

The chapter will consider the hugely significant question as to whether these loans, although politically expedient, were economically desirable. This will be done by analysing the structure of the Irish agricultural sector, in terms of trends in land distribution, land ownership, and agricultural output. It will also analyse land purchase policy before the institution of a general land purchase policy in 1903. The chapter will argue that the land purchase policy led to the subsidisation of the entire Irish agricultural sector, and that the concentration on land purchase as a solution to the 'land question' led to more effective alternative policies being either completely overlooked or given insufficient support. The chapter will argue that structural problems, namely the high proportion of small farms, were a more significant factor than the concentration of land ownership, and that a policy of ownership transfers did not address these immediate structural problems. The chapter will conclude by questioning the role of the state in the economy, firstly, by assessing land purchase as a form of state banking as outlined by Verdier,[4] and secondly, based on the criteria raised by Gerschenkron.[5]

7.1 The origins of Government land policy: the 1870 Land Act, agricultural depression, and the 'land war'

There was prominent government intervention in the area of land law, and in particular landlord tenant contractual relations in the period 1870 to 1909. During the period of study, there were two significant acts passed in 1869 and 1870 which set precedents, in terms of land purchase, for subsequent legislation. The Irish Church Act was primarily an act which disestablished the Church of Ireland as a state-sponsored church in Ireland, but clauses in the act enabled tenants on church lands to purchase their holdings through a state-financed mortgage.[6] This was followed by the 1870 land act, which also included land purchase clauses, whereby the state would advance money for the purchase of a tenant's holding.[7] Neither of these acts had a high uptake in terms of land purchase, and of the two the 1869 act saw the greater number of tenant purchases.[8]

Admittedly, the primary purpose of the 1870 land act was not to introduce land purchase schemes; this was an afterthought included in the Act.[9] The primary aim of the act was to reform the existing law governing landlord tenant contracts. The 1870 land act is most commonly associated with the Liberal Prime Minister William Gladstone, who is cited as saying that 'his mission was to pacify Ireland'.[10] The initial reasoning behind the 1870 land act was due to a perception that agricultural investment was impeded by inadequate definition of property rights in Ireland. The case of the prosperity of farms in the northern counties of Ulster was used as an example of the benefits of reform, as it was believed that Ulster's prosperity was caused by what was known as the 'Ulster custom'. The Ulster custom consisted of what were known as the 'three F's'. Guinnane and Miller referred to the 'three F's' as:

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[4] Daniel Verdier, 'The rise and fall of state banking in OECD countries' in *Comparative political studies*, xxxiii, no. 3, (April 2000), pp 283-318.
[5] Alexander Gerschenkron, *Economic backwardness in historical perspective* (Harvard, 1962).
[6] Irish Church Act, 1869 (32 & 33 Vict.) C. 42, paragraphs 52-54.
[7] Landlord and tenant (Ireland) act, 1870 (33 & 34 Vict.) c. 46, part II.
[8] F.S.L. Lyons, *Ireland since the famine* (London, 1971), p. 146.
[9] It is commonly known as the 'Bright clause', named after John Bright at whose behest provisions for land purchase were included in the act.
[10] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971), p. 16.

> "Fixity of tenure" or the right to remain on a holding so long as rent was paid; the right to pay a "fair" rent; and the right to "free sale" of the tenant's interest or tenant right when a tenancy changed hands. Fixity of tenure amounted to an informal, perpetual lease. Fair rent meant to Irish peasants a rent less than the "rack" rent: a rent at which a holding would let should the landlord solicit bids on an open market.[11]

There was a common impression that the perceived prosperity of Ulster farming, small tillage farming, was based on the 'Ulster custom'. But Vaughan has suggested that this prosperity in Ulster may in fact have been a flax boom, as flax was a cash-crop used at the time. Vaughan has suggested that perhaps contemporaries were not able to distinguish between this flax boom and the customs prevailing in Ulster.[12] Support for Vaughan's argument comes from the general report of the 1871 census where it was stated that:

> Unless where grain is used for distillation, Irish agriculture outside the province of Ulster can scarcely be regarded as contributory to manufactures. In that province, however, throughout almost its entire extent, the cultivation of flax is connected with the one manufacture – that of linen - deserving to be called great. The remarkable growth of Belfast in population and extent, and the relatively considerable growth of other towns in the northern province, are attributable to the development of this particular manufacture, steadily and regularly progressive, during a long series of years, but expanded during the first half of the decade (1861-71), with a suddenness tending already to a contraction, which it is to be hoped may prove more gradual.[13]

The 1870 Land Act was an attempt to give formal legal recognition to informal traditional customs in Ulster. One of the main bases of the acts was that the tenancy system in Ireland was an impediment to agricultural investment. The assumption was that tenants were unwilling to invest in agricultural improvements because of a fear that such investment would lead to an increase in rents or arbitrary eviction. Solow and Vaughan have argued that this scenario did not exist, and that tenancies were relatively secure before the 1880s.[14] The evidence on evictions used in chapter 3 of this thesis also suggests that there was a low probability of eviction in post-famine Ireland. Solow summarised the situation by stating that:

> …If Ireland's economic difficulties were traceable to defects in tenure arrangements, the Land Act of 1870 was soundly conceived and well drafted. It was well designed to cure the evils it assumed. It would work to deter eviction and deter landlords from raising rents on tenant improvements. But if its assumptions were wrong, it could not hope to play a major role in improving the economic condition of Ireland. Its success rested

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[11] Timothy W. Guinnane and Ronald I. Miller, 'The limits to land reform: The land Acts in Ireland, 1870-1909' in *Economic Development and Cultural Change*, xlv, no. 3 (April, 1997), p. 594.
[12] W. E. Vaughan, *Landlords and tenants in mid-Victorian Ireland* (Oxford, 1994), p. 82.
[13] *Census of Ireland, 1871, part iii, general report, with illustrative maps and diagrams, summary tables, and appendix*, p. 7, [C. 1377] H.C. 1876, lxxxi, 1.
[14] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971), and W. E. Vaughan, *Landlords and tenants in mid-Victorian Ireland* (Oxford, 1994).

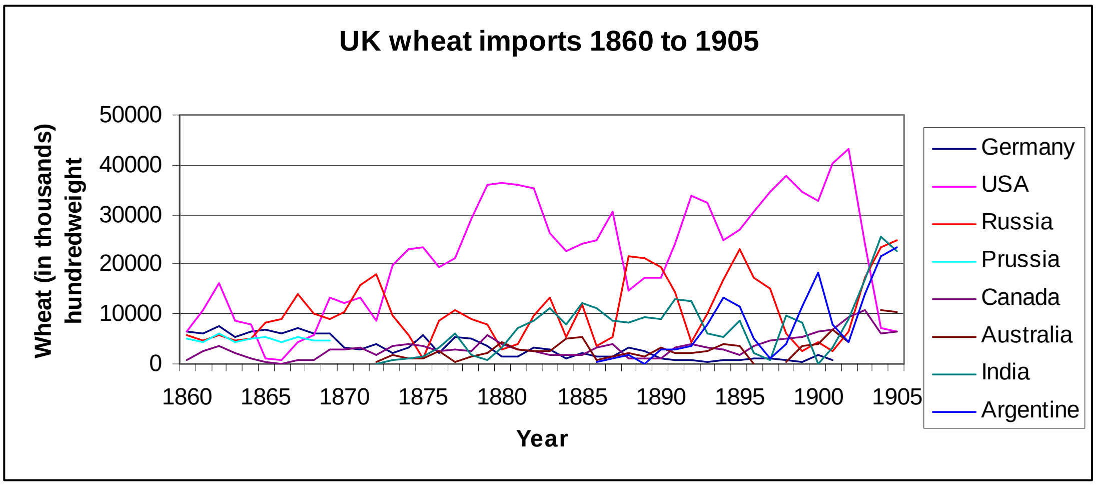
squarely on the historical facts about the frequency of evictions, the course of rents, and the nature of investment incentives.[15]

One of the consequences of the 1870 Land Act was an increase in government intervention in the agricultural economy in Ireland, and the reduction of landlord property rights. The continued intervention by the state in subsequent land legislation led to a debasement of the position of landlord, and landlords were eager to abandon their role.

The initial encroachment of the state in landlord-tenant relations in 1870 pre-dated two significant events. One was a very bad harvest in the late 1870s,[16] and the second was the new world 'grain invasion'.[17] An illustration of the 'grain invasion' is seen in figure 7.1, which is a graph of UK wheat imports from 1860 to 1905.

The economic problems facing Irish agriculture in the late 1870s were not unique to Ireland, but common across Europe. The increase in grain exports from granaries in the new world competed with traditional agricultural producers. A number of countries responded by placing tariffs on grain imports, notably France and Germany.[18] Other countries continued free trade policies. Of these, the two most important from a comparative perspective were the UK and Denmark.

Figure 7.1



Source: B. R. Mitchell, *British historical statistics* (Cambridge, 1988).

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[15] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971), p. 50.
[16] The effects of this harvest are shown in section 7.4.3.
[17] Kevin O'Rourke, 'The European grain invasion 1870-1913' in *University College Dublin Centre for Economic Research*, WP97/2 (January 1997).
[18] Ibid.

Following the repeal of the Corn Laws in the 1840s, the UK had implemented a free trade policy in agricultural produce. The UK had specialised in industrial production in the nineteenth century, and was increasingly reliant on foreign imports for its food supplies. The immediate beneficiaries of a free trade policy in the UK were the inhabitants of urban centres who required cheap supplies of food. Ireland, as a constituent member of the UK, also followed this free trade policy. There were objections to free trade in Ireland and calls for tariffs were raised,[19] but these went unheeded as they went against the economic interests of the UK as a whole. It is also interesting to note that when the Irish Free State was established in 1921 the agricultural sector was in favour of free trade with the UK.[20] The impression therefore was that protection from the foreign competition in UK markets would have been welcome, whereas protected Irish domestic markets were not required as Irish agriculture was export-orientated.

The combination of bad harvests in 1877, caused by continuous heavy rainfall,[21] and an increase in international competition meant that Irish agricultural producers experienced a reduction in income from farming. The response to events in Ireland came in the form of social agitation which resulted in a 'land war'. Subsequent land acts were part of a deliberate government policy to pacify the social agitation; therefore it can be seen as a form of social policy.

Denmark also continued a free trade policy in the wake of the grain invasion and concentrated on productive reforms in its agricultural sector. As Denmark had previously been a grain exporter to the UK, it shifted into other areas of production. The Danes developed co-operative methods of agricultural production, specialising in co-operative creameries, enabling them to export high-quality standardised butter, and co-operative pig curing stations enabling them to export bacon of a higher quality. Danish co-operative marketing and organisation also developed in the 1880s as a response to international competition.[22] The significance of both British and Danish actions was that Ireland did not have the luxury of agricultural protection, and it was

[19] For example there were numerous references to protection of both industry and agriculture in *Report from the Select Committee on Industries (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix,* H.C. 1884-85, (288), ix, 1.
[20] Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 114.
[21] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971), p. 121.
[22] For discussion on Danish co-operation see: C. R. Fay, *Cooperation at home and abroad,* third edition (London, 1925), and Johnston Birchall, *The international co-operative movement* (Manchester, 1997).

faced with a more productive competitor that began competing in traditional Irish export markets. It must be highlighted that Irish agriculture did receive some non-tariff protection in the form of infectious disease control, something which hindered the importation of livestock from countries outside the UK.[23] As Ireland was a constituent member of the UK it participated in this common UK policy, but it was largely exempt from the regulations on livestock that affected foreign exporters.[24]

The social and economic responses in Ireland and Denmark to the changing economic climate are worthy of comment. In Denmark co-operative production developed on a mass scale. This involved the combination of numerous economic agents to reduce costs in agricultural production. The Irish response was also the combination and cooperation of numerous economic agents, but with the intention reducing rents and of acquiring their own landholding. The Land League was attractive to many in Irish society as it promised a reduction in rents and aimed to achieve owner occupancy of farms. The supporters of the Land League, it seems, saw, or believed, that the payment of rent was the root cause of their problems. The 'land war' was an attack on landlordism, but this does not seem to be where the problems circa 1880 lay.

Irish historiography is somewhat divided on the issue regarding landlord-tenant relations. The traditional view was a scenario of heroes and villain history, with tenants portrayed as the heroes fighting rapacious landlords. This has led to a series of revisionist interpretations of landlord-tenant relations which argued that the relationship between landlords and tenants was not as malevolent as popularly supposed. A number of historical works which have been cited heretofore in this thesis fall into this 'revisionist' school.[25] In response came a 'second revision'[26] which aimed to question the findings of the first revision and redirect scholarship to a path closer to the traditional view of malevolent landlordism, or to show that the

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[23] Contagious Disease (Animals) Act, 1869 (32 &33 Vict.), c. 70.
[24] Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), p. 157.
[25] The main proponents of these arguments are: Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966); James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975); Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971); and W. E. Vaughan, *Landlords and tenants in mid-Victorian Ireland* (Oxford, 1994).
[26] This term is used by Hoppen to refer to the work of both himself and Michael Turner: see Theodore Hoppen, *Ireland since 1800: conflict and conformity* (Second edition, London, 1999), p. 98.

landlords were not 'genial all-the-year-round embodiments of Santa Claus himself'.[27] But the effectiveness of this 'second revision' is undermined by the cross-referencing of these revisionists. For example, Turner has cited Hoppen's earlier work to support his views,[28] while Hoppen's later work in turn cited Turner (who had originally cited Hoppen) to re-support himself.[29] The main gripe of the 'second revision' appears to be the estimations of agricultural output in the post-famine period and the distribution of this increase between landlord and tenant. Hoppen does not seem to refer to the fact that the majority of the original 'revisionist' research was based on both archival material, whereby data were generated from surviving estate records, and official records. The work of Turner does not suggest that such archival research was undertaken, and this is something which lends support to the case of the original 'revisionists'. This thesis has unintentionally sided with the revisionist view by presenting evidence in chapter 3 to suggest that evictions in the post-famine period were not as prevalent as made out to be, something which implies that landlords were not as rapacious and as malevolent as they are traditionally portrayed. The evidence from Solow, Donnelly and Vaughan indicates that rents were not as high as commonly regarded, nor were evictions as prevalent as made out to be.[30]

Under the auspices of the initial Land League - an umbrella coalition of interests groups - protests started in the west, in Mayo, and then spread across the island. The reason the protests started in the west was that this was an area comprised of small subsistence farming that was directly affected by the fall in tillage prices. The significance of the 'grain invasion' in the story of the 'land war' is that when there was a bad harvest in 1877 agricultural prices did not increase due to a decrease in domestic supply, but instead were internationally determined. The protests spread as other sectors of the economy were adversely affected by the bad weather conditions. Economic interests coincided and colluded to make the league economically and politically effective.[31] The economic conditions would have been worse in the western

[27] Theodore Hoppen, *Ireland since 1800: conflict and conformity* (Second edition, London, 1999), p. 98.
[28] Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), pp 205 and 212.
[29] Theodore Hoppen, *Ireland since 1800: conflict and conformity* (Second edition, London, 1999), p. 98.
[30] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971); James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975); and W. E. Vaughan, *Landlords and tenants in mid-Victorian Ireland* (Oxford, 1994).
[31] L. M. Cullen, *An economic history of Ireland since 1660* (Dublin, 1972), p. 149.

counties, and were not indicative of the experience of the rest of the island. The 'land war' inspired a social and economic mobilisation similar to what would be required for a co-operative movement, but it was directed towards land reform, or rather rent reductions and land purchase. Horace Plunkett, the founder of the co-operative movement in Ireland, saw the relation between the Land League and co-operation in Ireland. According to his biographer, Plunkett was aware that:

> The Land League had given the people insight into the power of combination and had educated them in the conduct of meetings; but little progress could be made by the Irish farmer acting alone, harassed as he was, first by cheaper production from vast tracts of soil in the uttermost parts of the earth, and second by a nearer and keener competition from the better organised and educated producers on the Continent.[32]

The immediate response of the government to the Land League agitation was to introduce new land law legislation.[33] The 1881 Land Act was essentially a rent control act, with a Land Commission established by the act to mediate in landlord-tenant contractual disputes. The aim of the act was to grant the tenants a 'fair rent', but the policy seems to have been to reduce rents regardless of their level. Initially the act had not extended to leaseholders or tenants in arrears, but thanks to the Arrears of Rent Act and the so-called Kilmainham Treaty, both groups received the benefits of the 1881 Land Act. The result of the 'land war' was the decline of landlordism in Ireland through the introduction of state land purchase schemes. The goal of land ownership was one common to many in Irish society, regardless of land quality. Comerford stated that:

> The land war underlined the extent to which the 'farming ideal' had taken hold of society over much of the island. The model of the independent farm was cherished not only by those who benefited from such an amenity, but also by those who had uneconomic holdings and by landless labourers – the latter a large element in many land meetings.[34]

This 'ideal' was solidified by the extension of land purchase to the masses. The 1881 Land Act attempted to reduce the pressure on the farming sector by establishing courts to judicially review landlord-tenant relations and reduce rents. A further act in 1882 legitimised rent strikes which had been used as a weapon during the 'land war'. Arrears of rent were to be met by the state,[35] with funds coming from the Irish Church Temporalities fund,[36] which arose from the surplus proceeds of the sale of church

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[32] Trevor West, *Horace Plunkett; cooperation and politics* (Washington D.C., 1986), p. 21.
[33]Land law (Ireland) Act, 1881 (44 & 45 Vict.) c. 49.
[34] R. V. Comerford, *The Fenians in context: Irish politics and society 1848-82* (Dublin, 1998 edition), p. 247.
[35] Arrears of Rent (Ireland) Act, 1882 (45 & 46 Vict.) c. 47.
[36] Arrears of Rent (Ireland) Act, 1882 (45 & 46 Vict.) c. 47, section 8.

lands under the disestablishment of the Church of Ireland act, cited above. One of the most significant aspects of the 1881 act was that it brought land purchase schemes to greater prominence than under the previous legislation. Subsequent legislation was specifically designed to encourage the greater transfer of ownership from landlords to their tenants, and this is immediately noticeable from the titles of the legislation which began to be called land purchase acts. The institution created under the 1881 land act to mediate rent disputes, the Land Commission, was transformed into an institution that supervised the sale of land. The Land Commission was to continue its existence in independent Ireland, with a bill for its dissolution only passed into law in 1999.[37]

It is interesting to note that at the same time as facilities were provided for the purchase of land from landlords, with purchase prices set at a number of years rent, the state was interfering with landlord-tenant contractual relations by judicially reducing rents. This is perhaps why land purchase schemes failed to attract much support in their initial phases; judicial rent reductions may have been seen as less costly than the terms of land purchase schemes discussed below. Future land purchases saw tenants purchase their holdings with the purchase price set in terms of judicially reduced rents.

7.2 Government land purchase schemes

A number of acts were passed between 1870 and 1925 which enabled tenants to purchase their holdings in Ireland.[38] Table 7.1 contains a summary of the various acts passed that related to land purchase.

[37] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), p. 199.

[38] There were a number of Land Acts passed by governments of the Free State and Republic, but these have not been included in table 7.1 as they are beyond the scope of this thesis.

Table 7.1: Land purchase acts; 1869-1925

Act	Year
Irish Church Act	1869
Landlord and Tenant Acts	1870 and 1872
Land Law (Ireland) Acts	1881
Land Purchase Act	1885
Land Law (Ireland) Act	1887
Land Purchase Acts	1888,1889, and 1891
Land Law (Ireland) Act	1896
Land Purchase Acts	1901
Irish Land Act	1903
Evicted Tenants Act	1907
Irish Land Act	1909
Land Act	1923
Land Bond act	1925

Sources: W. F. Bailey, *The Irish land acts: a short sketch of their history and development* (Dublin, 1917), and Joseph Thomas Sheehan, 'Land purchase policy in Ireland, 1917-23: from the Irish convention to the 1923 land act' (M. A. Thesis, National University of Ireland, St. Patrick's College, Maynooth, August 1993).

There were also a number of Acts which provided loans for buildings and permanent improvements on holdings. These are listed in table 7.2.

Table 7.2: Acts providing credit for buildings and permanent improvements or for other facilities

Acts	Years
The Congested Districts Board Acts	1891, 1893, 1894, 1899, and 1901
Public Works Loans Act	1892, section 4
Land Act	1896, part IV
Land Act	1903 part II
Land Act	1909 part III
Land Law (Commission) Act	1923
Labourers Acts	1883 to 1919

Sources: W. F. Bailey, *The Irish land acts: a short sketch of their history and development* (Dublin, 1917), and Joseph Thomas Sheehan, 'Land purchase policy in Ireland, 1917-23: from the Irish convention to the 1923 land act' (M. A. Thesis, National University of Ireland, St. Patrick's College, Maynooth, August 1993).

Table 7.2 is interesting as it illustrates the various public bodies that provided credit facilities. In terms of long-term investment the Board of Public Works was the supplier of finance for the purpose of drainage, something that was seen as synonymous with long-term, or permanent, investment in nineteenth century Irish agriculture.[39] Drainage loans were operated by the Board of Public Works from 1842. In the period 1842 to 1913 loans to the total of £2,917,106 were made by the Board of Public Works for the purpose of arterial drainage. Of this sum 71.37 per cent was lent during the period 1842 to 1863.[40] It was stated in the 1914 report on agricultural credit in Ireland that 'in recent years the advances made by the Commissioners of Public Works to farmers for the purpose of drainage have become practically negligible as compared with the real needs of the country in this respect'.[41] Drainage loans were to be increasingly unlikely given the trend in diffusion of land ownership, as investment in drainage was cost-effective when implemented on a large scale. Buildings were also another investment associated with long-term investment in Ireland. By 1914, 43,702 cottages were provided under the labourers acts shown in table 7.2 and interestingly, of these, 39.34 per cent were in arrears of rent.[42] The primary focus of this chapter is on land purchase schemes, but it is interesting to highlight that the main sources of credit for long-term 'investment' projects also came from public institutions. This may suggest that there were crowding-out effects, but also that the returns to such long-term, or what contemporaries called permanent investment, were negligible if not negative.

This chapter will focus on the land purchase schemes in the period 1870 to 1921. The reason for this is that it is within the scope of this thesis, but also happened to be when the majority of sales took place. From 1881 onwards the state land purchase schemes were conducted by the Land Commission. There were two other bodies established that catered to land purchase, the Congested Districts Board (CDB) established by the 1891 Land Act and the Estates Commissioners established by the 1903 Land Act. Both of these bodies were subsequently merged with the Land Commission in the period of independence. In Northern Ireland the affairs of the Land Commission were undertaken by the Land Purchase Commission, Northern Ireland, until the body was wound up in 1935 when its functions were transferred to other

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[39] Barbara Lewis Solow, *The Land question and the Irish economy, 1870-1903* (Harvard, 1971), p. 78.
[40] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 656, p. 279. [Cd. 7375], H.C. 1914, xiii, 1.
[41] Ibid.
[42] *Return showing the number of Cottages and allotments provided by each district council, the rents reserved, the cottages and allotments unoccupied, the rent in arrears, the number of cottages applied for, applications for extra land, applications sanctioned, the cost, and the number of advances made to Agricultural Labourers up to 31st March, 1914 (in continuation of No. 232 of 1908),* H.C. 1914, (276), lxv, 539.

government bodies.[43] Dooley discusses land purchase policy in 'independent Ireland',[44] but a criticism of this work is that it does not make reference to land purchase policy and land policy in the North of Ireland. The split in North and South provides us with natural experiment to see whether there were different long-run effects of land policy in both regions, and also to see whether continued state interference in agricultural production, *á la* the 26 counties, was replicated in the North. But such concerns are beyond the scope of this current work.

Table 7.3 is a breakdown of a number of land purchase acts from 1869 to 1909 into land purchase contracts, based on the percentage of the purchase price issued, loan term, and interest rate.

Table 7.3: Initial land purchase contracts for buyers

Year	Percentage of mortgage[a]	Loan term – (Annuity repayment)[b]	Interest Rates[d]	Issue of land stock[e]	Limit
1869	75%	32 years (64 half yearly repayments)	4%	No	-
1870	66%	35 years	5%	No	-
1881	75%	35 years	5%	No	-
1885	100%	49 years	4%	No	-
1891	100%	49years	4%	Yes	-
1896	100%	Decadal reductions [c]	4%	Yes	-
1903	100%	68.5 years	3.25%	Yes	£1,000
1909	100%	66 years	3.5%	Yes	£3,000

a- Refers to the percentage of the agreed purchase price which the state would advance under the act.
b- Loan terms were estimated by contemporaries based on the expected performance of sinking funds.
c- The 1896 land act introduced the concept of decadal reductions on the repayment of annuities.
d- Interest that borrowers were charged included interest, and a sinking fund rate charge. Interest here refers to both
e- Land stock refers to issue of land stock either as a means of payment, or as a means to raise cash on open markets, or both.

Sources: Irish Church Act, 1869 (32 & 33 Vict.) c. 42, section 52.
Landlord and tenant (Ireland) act, 1870 (33 & 34 Vict.) c. 46, part II, section 44.
Land law (Ireland) Act, 1881 (44 & 45 Vict.) c. 49, part V, sections 24 and 28.

[43] Northern Ireland Land Purchase (Winding Up) Act, 1935 (25 & 26 Geo. 5.), c. 21.
[44] Terrence Dooley, '*The land for the people': the land question in independent Ireland* (Dublin, 2004).

Purchase of land (Ireland) Act, 1885 (48 & 49 Vict.) c. 73, sections 2 and 4.
Purchase of land (Ireland) Act, 1891 (54 & 55 Vict.) c. 48, sections 1, 7, 9.
Land law (Ireland) Act, 1896 (59 & 60 Vict.) c. 47, part iii, sections 1 and 25.
Irish land act, 1903 (3 Edw. 7.) c. 37, sections 45, 46 and 53.
Irish land act, 1909 (9 Edw. 7.) c. 42, sections 1 and 15.
W. F. Bailey, *The Irish land acts: a short sketch of their history and development* (Dublin, 1917), and Joseph Thomas Sheehan, 'Land purchase policy in Ireland, 1917-23: from the Irish convention to the 1923 land act' (MA thesis, National University of Ireland, St.Patrick's College, Maynooth, August 1993).

As can be seen from table 7.3, there was an increase in the percentage of the mortgage which the state was willing to provide. The term mortgage is used because loans were secured on land, and if a borrower defaulted the land would be foreclosed. The term mortgage was also used in 1908 by R. A. Walker, a lecturer in land law in Dublin University, in lectures he gave to the Institute of Bankers on land as security in Ireland. Walker stated that 'the money is secured by what is practically a first mortgage of the tenant's holding, with a provision for re-payment of the debt by instalments'.[45] Initially, under the 1869 to 1881 acts, the state did not finance the entire purchase price, and it was up to the tenant to raise the necessary residual capital. This could be done by the tenants either by using savings or borrowing, or by selling their assets, but it appears that only the wealthier tenants were able to take advantage of this facility.

From 1885 onwards government support of land purchase was more prominent, and this can be seen in the increase in the percentage of the mortgage which the state advanced to tenants. Government bodies from 1885 onwards were issuing loans worth 100 per cent of the purchase price of a given holding. This is significant as it no longer excluded tenants who had insufficient assets to raise additional capital, and the state was made the primary mortgagee on the land. Stipulations in the acts restricted the amount that other mortgages, from private mortgage lenders, could be charged on the land. The 1903 land act stated that:

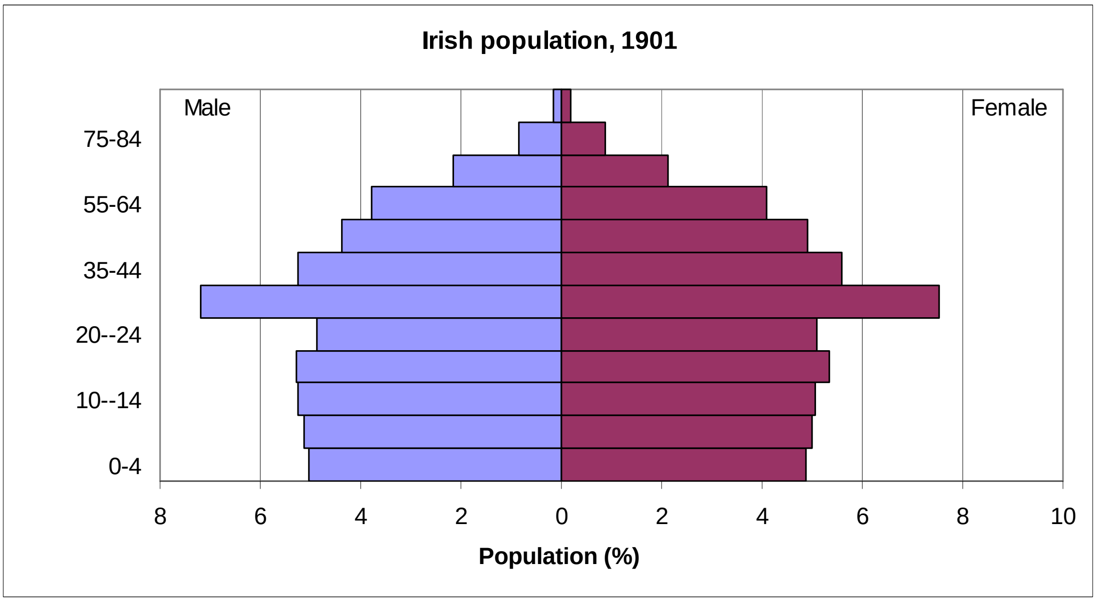
> The proprietor of the holding shall not, without the consent of the Land Commission, mortgage or charge the holding, or any part thereof, for any sum or sums exceeding in the aggregate ten times the amount of the purchase annuity payable in respect of the holding or part upon the making of the advance, and every instrument of mortgage or charge on a holding or part thereof, by which the holding or part is charged with any larger sum, shall be null and void as to the excess. Where part of a holding is mortgaged or charged, the Land Commission shall, for the purpose of this enactment, estimate the amount of the purchase annuity payable in respect of that part. The consent of the Land

[45] R. A. Walker, 'Irish land as security, parts i' in *Journal of the Institute of Bankers in Ireland*, x, nos. 1, 3 and 4 (April, July, and October, 1908), p. 140.

Commission under this enactment may, in the case of a charge created by a will, be given at any time, whether before or after the death of the testator.[46]

The increase in the percentage of the loans advanced was also coupled with increasing loan terms. The initial loan terms were for 32 years, but the later acts approximately doubled this loan term. The 1903 and 1909 acts issued loans on terms of 68.5 and 66 years. To put this in perspective figure 7.2 shows the population in Ireland in 1901, the closest census year to the 1903 act, by age cohort.

Figure 7.2



Source: Census of Ireland, 1901.

Assuming that the majority of tenant purchasers would have been in the age cohort groupings from 35 onwards it is very likely that the loan term would have been greater than their life expectancy. So, under this assumption, the average tenant purchaser would not have seen the loan term through to its conclusion, and would have bequeathed the farm to the next generation.[47] Mortgages taken on by this group for terms of 68.5 and 66 years would have essentially meant that these loans were inter-generational loans. If we compare this to the other lending institutions discussed heretofore in this thesis we can appreciate the significance of the loan terms. The lending models of the loan funds, joint stock banks and Raiffeisen societies were

[46] Irish land act, 1903 (3 Edw. 7.) c. 37, section 54, sub-section 2.

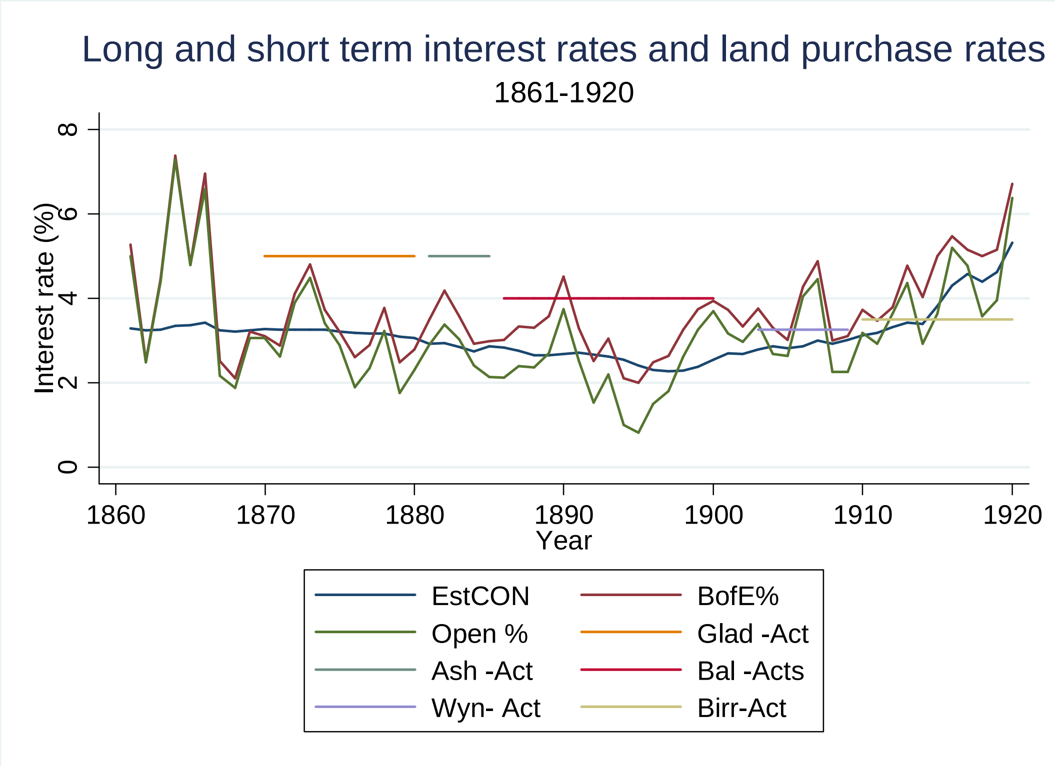
[47] For a discussion on intergenerational inheritance see: Timothy W. Guinanne, *The vanishing Irish: households, migration, and the rural economy in Ireland 1850- 1914* (New Jersey, 1997), pp 146-151.

based on personal security. Given the probability, or fear, of death of one of the participants in the lending procedure, this restricted the term for which a personal loan could be secured. In a recent document on agricultural risk, the European Commission outlined a number of risks associated with agriculture: human or personal risks, assets risks, production or yield risks, price risk, institutional risk, and financial risks.[48] The report also stated that 'the various risks are often interrelated'.[49] Therefore, the longer a loan term the more exposed a lender would be to any number of risks associated with agricultural production. The private market may have been able to provide some sort of mortgage lending facility, but at a much lesser extent and not on such lengthy loan terms.

The interest rates are also worthy of comment. The rates charged to buyers in 1869 to 1896 were reasonably high and at competitive market levels. Evidence on private mortgages in the early twentieth century suggests that rates charged for mortgages were at 4 to 10 per cent and were repaid in lump sums.[50] Comparing the rates charged under the acts with long- and short-term interest rates for the period 1861 to 1920 puts the land purchase schemes into perspective. Figure 7.3 illustrates the trend in long- and short-term interest rates in the UK from 1861 to 1920.

[48] European Commission Agriculture Directorate-General, 'Risk management tools for EU agriculture with a special focus on insurance', working document January 2001, pp 12- 13.
[49] Ibid, p. 13.
[50] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 823, p. 357. [Cd. 7375], H.C. 1914, xiii, 1.

Figure 7.3



Notes: EstCon=Estimated Consol yield; BofE%=Bank of England discount rate; Open %=Open market rate; Other variables refer to the interest rates prevailing at time of acts cited in table 7.3.

Sources: Bank of England discount rate and open market discount rate in Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005).
Estimated consol yield, 1850-1914 in Jan Tore Klovland, 'Pitfalls in the estimation of the yield on British Consols, 1850-1914' in *The Journal of Economic History*, liv, no. 1 (Mar., 1994), pp. 164-187.
Consol yields from 1914-1920 have been estimated from data in Sidney Homer and Richard Sylla.

The long-term interest rates are represented by Consol yields, and short-term interest rates are represented by the Bank of England discount rate and the open market discount rate. Although there were some discrepancies between the short-term interest rates in Ireland and Great Britain, the various banking companies in Ireland were prone to follow rates set by the Bank of England, as was illustrated in chapter 3, so monetary conditions in Ireland would not have been too dissimilar. Also a number of the Irish joint stock banks had their headquarters in London and operated branches in London.[51] So it is not implausible that the UK discount rates would have been representative for Ireland. The long-term interest rates in Ireland would have been represented by the yields on Consols. Prior to the Act of Union the public finances of

[51] Both the Provincial Bank and the National Bank had their headquarters in London, and both were large branch banking institutions in Ireland.

Ireland and Great Britain operated on a separate basis.[52] This situation was altered by the Union. The public finances of Britain and Ireland were merged and so too were the Irish and British national debts.[53] Therefore UK consol yields would have been the barometer for long term interest rates in Ireland.

The nineteenth century in the UK was a period of falling long term interest rates with a plateau reached in 1897. Thereafter long-term rates began rising, and they rose considerably as a result of the Boer war. The condition of the purchasers under the later acts should be seen in this perspective; they were the beneficiaries of concessional interest rates received on more favourable terms than purchasers under the previous acts. The differential between the rates paid and prevailing long-term interest rates decreased under the various acts. As the long-term rates increased during the war, the fixed interest rates paid by those purchasing under the 1903 and 1909 acts looked more attractive because the borrowers were paying rates less than the market rates. In terms of private mortgage lenders, their actions would have been much more constrained by market rates than those of government lenders. This is because their sources of capital, mainly deposits in the case of joint stock banks, would have been responsive to interest rate variability.

The issue of stock and loan limits was included in table 7.3 to emphasise the accessibility of the schemes. From 1891 to 1909, the acts were financed by the issue of government-guaranteed land bonds. It is worth emphasising that these loans were not financed out of UK exchequer funds, but were raised in the open market by government-backed bonds. John Edward Vernon, a governor of the Bank of Ireland, was one of the first people to suggest that the government raise money for land purchase through the issue of government-backed bonds.[54] Vernon viewed the fact that there was a large amount of money held on deposit in the joint stock banks as evidence ‘that there is an element of wealth there which might be tapped and applied to the purposes of the Land Commission’.[55] When he was asked ‘What do you consider the effect of bonds of that kind would be upon the general state of Ireland, if

[52] F. G. Hall, *The Bank of Ireland 1783-1943* (Dublin, 1948), p. 115.
[53] An Act to unite and consolidate into One Fund all the Public Revenues of Great Britain and Ireland; and to provide for the Application thereof to the General Service of the United Kingdom, 1816 (56 Geo. 3) c. 98.
[54] *First report from the Select Committee of the House of Lords on Land Law (Ireland); together with the proceedings of the committee, minutes of evidence, and appendix*, questions 4191-4193, p. 393, H.L. 1882, (249), xi, 1.
[55] Ibid, question 4192, p. 393.

held by the people of that country?' he replied: 'I think the effect would be very favourable to the stability of the government, and the peace and order of the country'.[56] Vernon also suggested that the issuance of land bonds would restore order to the countryside as the bonds would 'connect them with the primary security on which they would be charged, viz. the land itself, that is, the land sold to the occupiers'.[57] This policy of issuing bonds, secured by land, to fund agricultural mortgages is something which is very similar to the Prussian practice of *Landschaften* mortgage co-operatives, referred to in chapter 6. Such a means of raising funds to finance mortgage lending was not an option to the private market in Ireland, and as such capital would have to be raised elsewhere.

As is shown in table 7.3, the land purchase schemes began to issue bonds to fund payments in 1891. The initial bonds were issued with a coupon rate of 2 ¾ per cent,[58] but this was increased to 3 per cent under the 1909 act.[59] The issue of guaranteed land bonds enabled funds to be raised to finance land purchase. Under the 1891 and 1896 acts, vendors (landlords) were paid only in government-guaranteed land stock.[60] Landlords could then sell these bonds if they needed cash forthwith, or retain the bonds and receive a 2 ¾ per cent dividend on the stock. This was a very attractive offer to landlords in the late 1890s, because guaranteed land stock seems to have been regarded as equivalent to Consols[61] and Consol prices peaked during this period. Although a report on the finances of the 1903 land act gave evidence that guaranteed land stock was not equivalent to Consols and that the prices diverged,[62] the Consol price is a useful proxy in terms of this discussion as the guaranteed land stock seems to have fluctuated in a similar manner as Consols.[63] The yields would also have been different as the coupon rate on Consols changed from 3 per cent to 2.5 per cent, whereas the guaranteed land stock was 2 ¾ per cent.

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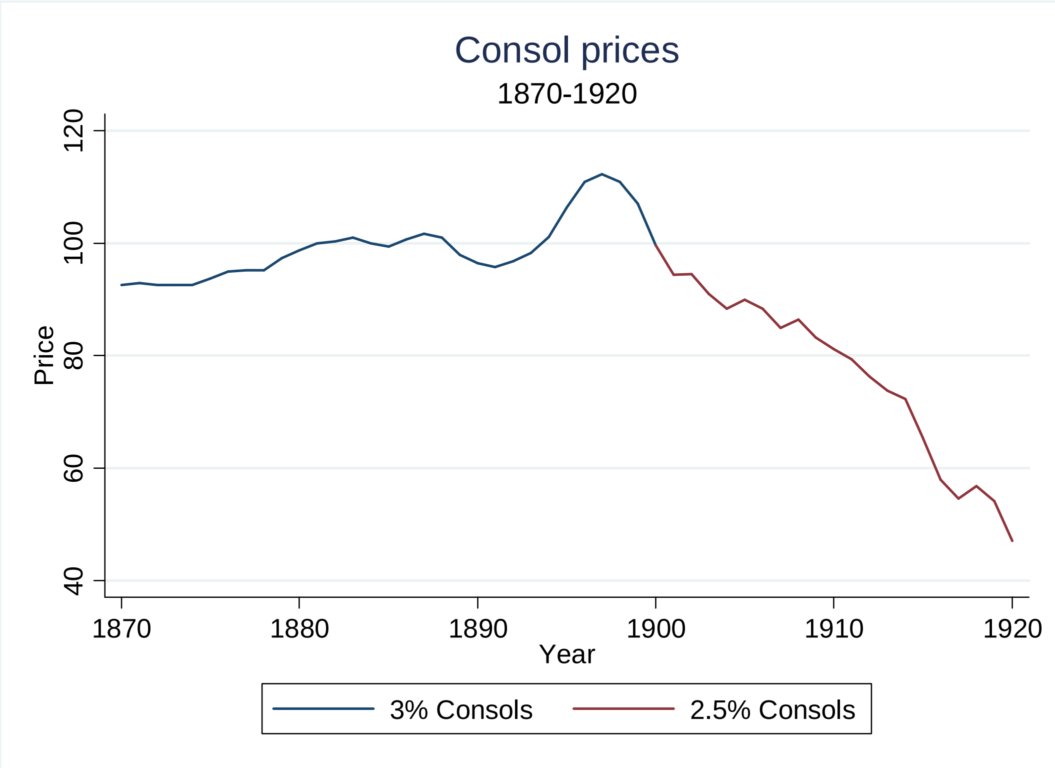
[56] Ibid, question 4214, pp 394-395.
[57] Ibid, question 4215, p. 395.
[58] Purchase of land (Ireland) Act, 1891 (54 & 55 Vict.) c. 48, section 1, and Irish land act, 1903 (3 Edw. 7.) c. 37, section 28.
[59] Irish land act, 1909 (9 Edw. 7.) c. 42, section 1.
[60] Purchase of land (Ireland) Act, 1891 (54 & 55 Vict.) c. 48, section 1.
[61] Moritz J. Bonn, *Modern Ireland and her agrarian problem* (Dublin, 1906), pp 98 and 104.
[62] I have asked a few people with more expertise in the area of land purchase and no one is aware of a price index for guaranteed land stock. It could be something for the future.
[63] *Report of the Departmental Committee appointed to enquire into Irish Land Purchase Finance in connection with the provision of Funds required for the purposes of the Irish Land Act, 1903*, paragraphs 61 and 62, p. 10. [Cd. 4005], H.C. 1908, xxiii, 267.

Figure 7.4



Source: Sidney Homer and Richard Sylla, *A history of interest rates* (4th ed. New Jersey, 2005).

The five-year period from 1894 to 1899 saw Consol prices rise above par. This, it seems, was due to confusion in the pricing of Consols caused by a revaluation in 1884, and by increased demand caused by increases in the savings bank limits.[64] Bonn, writing in 1906, referred to the high Consol prices as being one of the reasons for the success of land purchase during this period. Landlords receiving payment in stock were able to redeem this stock above par, something which was not possible after 1900. Bonn stated in 1906 that:

> The fall of Consols of course transformed the premium into a loss and was one of the main reasons why land purchase came to a standstill in recent years. To this must however be added a multitude of bureaucratic obstacles originating with the Land Commission.[65]

The fault regarding the finance of land purchase outlined by Bonn did not go unheeded and the 1903 act allowed vendors to receive payment in cash, which was raised through the sale of stock. The *de facto* 'premium' which Bonn refers to in the 1891 and 1896 acts was included in the 1903 act as a land purchase aid fund,

[64] Jan Tore Klovland, 'Pitfalls in the estimation of the yield on British Consols, 1850-1914' in *The Journal of Economic History*, liv, no. 1 (Mar., 1994), pp 181-182.
[65] Moritz J. Bonn, *Modern Ireland and her agrarian problem* (Dublin, 1906), p. 104.

‘bonus’.[66] This was a fund of £12,000,000 to be distributed to landlords ostensibly to cover legal costs involved in sales, but it has been perceived to be an inducement to encourage landlords to sell. The act also allowed landlords to sell their demesnes to the Land Commission and repurchase them under the terms in table 7.3,[67] essentially a soft loan. The loan limits were upper bounds, and Cosgrove showed that these were incorporated in the acts in an attempt to stop large graziers availing of the act.[68]

It should be noted that the financing of the land purchase by the issue of government-backed bonds was not financially sustainable. As can be seen from figure 7.4, Consols were trading below par after 1900, and each subsequent issue of government-backed bonds was sold below par.[69] Evidence from the Runciman report in 1908 suggests that there was a significant divergence between the Consol price and the price for the guaranteed land stock. This seems to have been caused by the amount of land stock issued between 1903 and 1908, and the fact that there were no new Consol issues after 1902.[70] This meant that there was a shortfall in the finances which the Runciman report estimated would be around £20 million over the 68.5 years of the 1903 act, on the assumption that the market prices were constant.[71] Deficiencies in stock issues were to be met from the Irish development grant, probabte duty grants and agricultural grants administered under the 1898 local government act.[72] The fact that the programme was financially unsustainable effectively meant that the purchasers of land under the government land purchase schemes actually received their farms under concessional terms, and that the programme therefore needed some form of state subsidisation. This subsidisation came via taxes in other areas of the economy.

The second issue, bureaucratic delays, raised by Bonn in the above citation, was also prominent under sales which took place under the 1903 act. The Land Commission was understaffed and unable to deal with the demand to take advantage

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[66] Irish land act, 1903 (3 Edw. 7.) c. 37, section 17.
[67] Irish land act, 1903 (3 Edw. 7.) c. 37, section 3.
[68] Patrick John Cosgrove, ‘The Wyndham land act 1903: the final solution to the Irish land question?’ (PhD thesis, NUI Maynooth Department of History, September 2008), p. 107.
[69] The bonds matured in 30 years. So for example each £100 issue would get £90 in cash. This cash would then be used to fund land purchase. But the borrower, i.e. the tenant, only had to repay the cash price, so there is a deficit of 10 per cent. This would have to have been met by some external source of finance, namely taxpayers.
[70] *Report of the Departmental Committee appointed to enquire into Irish Land Purchase Finance in connection with the provision of Funds required for the purposes of the Irish Land Act, 1903*, paragraph 67, p. 11. [Cd. 4005], H.C. 1908, xxiii, 267.
[71] Ibid, paragraph 38, p. 7.
[72] Irish land act, 1903 (3 Edw. 7.) c. 37, section 38.

of the generous terms offered by the 1903 Land Act. It appears as though the demand for land purchase under the 1903 Land Act was underestimated. Initially there were not enough funds available to purchase holdings which in turn created a backlog of cases; £5,000,000 was made available per annum but the demand exceeded this amount.[73]

All factors outlined in table 7.3 show that state mortgages were becoming more accessible to borrowers of lower means, and that there were greater inducements created for landlords to sell their estates. Land purchase was becoming an irreversible policy. Initially all land purchase arrangements were negotiated freely between landlords and tenants, but the 1903 Land Act introduced an element of compulsion by giving the state the power to force tenants to purchase land.[74] Subsequent legislation introduced compulsory purchase powers for the agencies of state-funded land purchase whereby they had powers to compel landlords to sell their land: this was done for the explicit purpose of transferring land ownership. Compulsory purchase of land was introduced in 1907 under the Labourers Act[75] and the Evicted Tenants Act.[76] Compulsory purchase was extended to wider land purchase policy in 1909 by the Land Law Act.[77] Compulsory purchase powers were also to be a constant feature of the legislation relating to land purchase in independent Ireland in the twentieth century.[78]

The 1903 Land Act stated that ‘every advance shall be repaid’[79] and repayment was supposed to be in accordance with the terms outlined in table 7.3 above, but this did not turn out to be the case. It is worth highlighting that in the long run tenant purchasers in the Irish Free State did not have to fully meet their debt obligations as outlined in table 7.3, as the terms of repayment were ‘fundamentally altered’.[80] This is because the 1933 Land Act permanently reduced all annuity payments by 50 per cent and also cleared arrears of defaulting purchasers under the pretext that tenant

[73] Patrick John Cosgrove, ‘The Wyndham land act 1903: the final solution to the Irish land question?’ (PhD thesis, NUI Maynooth Department of History, September 2008), p. 148.
[74] Irish land act, 1903 (3 Edw. 7.) c. 37, section 19.
[75] An Act to amend the Law with respect to Small Holdings and Allotments, 1907 (7 Edw. 7), c. 54, section 22.
[76] Evicted Tenants (Ireland) Act, 1907 (7 Edw. 7.), c. 56, section 1.
[77] Irish land act, 1909 (9 Edw. 7.) c. 42, sections 43, 59 and 60.
[78] Terence Dooley, *‘The land for the people’: the land question in independent Ireland* (Dublin, 2004).
[79] Irish land act, 1903 (3 Edw. 7.) c. 37, section 45, sub-section 1.
[80] *Report of the Irish Land Commissioners, for the year from 1st April 1933 to 31st March, 1934,* L1/8, (p. 1471), p. 31.

purchasers were overburdened by their debt.[81] This is an interesting angle on the story of Irish land purchase which is not often cited. It is also interesting given that the contemporary opinion seems to have been hesitant about borrowing funds from 'London'. For example, Cosgrove stated that there were:

> …doubts held by some tenants who perhaps realised that a government in Dublin or London would not be influenced as easily as the local landlord. Unlike a benevolent landlord, the government would demand that land purchase annuities be paid in full and on time, no matter how good or bad an agricultural year had been.[82]

But the reality is that governments can be influenced, based upon the fact that the borrowers are also voters. The extent of voter power determines the influence on the elected representative bodies. The scale of influence of the Irish voters to revise their debt obligations and cancel arrears in a UK legislative assembly would not be the same as the case where the Irish electorate have their own assembly, dominated by agrarian interest groups. The same cannot be said of landlords who would have been under no direct political pressure, *vis-à-vis* an electoral mandate, to reduce rents, although a landlord may have been sympathetic to a tenant's plight and granted some respite. This is also a key distinction between a public and private lender; private lenders would not have any political obligations to alter loan repayments. Loans could be renegotiated in order to minimise losses, but private lenders would not be as willing as the state to completely absolve debt obligations, especially on a grand scale.

It is also important to emphasise that without government intervention there would have been no alternative means to purchase land on such a scale for the majority of borrowers. Private mortgages were available but their dispersion was not widespread, nor were they accessible to the majority of tenant farmers. Landowners, namely landlords, had no difficulty accessing mortgages in the period before 1877. This was due to the fact that land (mortgage loans) was deemed to have been the 'soundest possible investments'.[83] But, as Curtis acknowledged, 'the larger or wealthier the estate, the easier loans at low interest were to obtain'.[84] Evidence from the 1914 report on agricultural credit suggests that only the wealthier farms had

[81] Land Act, 1933/38 [Éire], sections 12-27.
[82] Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008), pp 162-163.
[83] L. P. Curtis, 'Incumbered wealth: Landed indebtedness in post-famine Ireland' in *The American Historical Review* , lxxxv, no. 2 (April, 1980), p. 341.
[84] Ibid, p. 339

access to such mortgages. The suppliers of mortgages were private individuals who in many cases used solicitors as intermediaries.[85] Given that the majority of the farms in Ireland were actually very small, shown below, this would suggest that they would not have been able to access private mortgage funding to purchase land, and if they were the terms would not have been as generous as those of the state. The following is a mortgage advertisement that appeared in *Thom's Directory*[86] in 1881:

MORTGAGES
MONEY TO LEND
IN SUMS OF
£10,000 AND UPWARDS
ON FEE-SIMPLE LANDED PROPERTIES
Interest – FOUR to FOUR and a half per cent
ADVANCES also made on Mortgages of life interests, Reversions, Leasehold, and other approved Security.
LIFE INTERESTS AND REVERSIONS PURCHASED ON MOST FAVOURABLE TERMS.
TRUSTEES AND OTHERS REQUIRING GOOD LAND INVESTMENTS WILL BE SUPPLIED WITH SAME, *FREE OF CHARGE*, ON FURNISHING PARTICULARS OF THE FUNDS AVAILABLE FOR INVESTMENT.
J. A. O'SUILLIVAN,
INSURANCE, MORTGAGE, AND INVESTMENTS OFFICES,
42 DAWSON STREET, DUBLIN

Although one advertisement is not representative of all mortgage lenders, this advertisement gives an indication of the services that mortgage providers offered. They provided large loans on various forms of security.[87] The 1914 report on agricultural credit compared the situation in Ireland with that on the continent where mortgaging of smallholdings was more prevalent.[88]

The joint stock banks in Ireland were reluctant to make long-term loans on mortgage security. This was due to a number of complications, mainly the risk associated with long-term lending, illiquidity of landed assets, and the cost of determining property rights.[89] Illiquidity of lending on security of land was common at the time, mainly due to the fact that money is lent on land for a long period and the

[85] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 883, p. 361. [Cd. 7375], H.C. 1914, xiii, 1.
[86] *Thom's Directory* 1881, p. 39.
[87] Fee-simple, and mortgages of life interest etc are all different forms of tenure.
[88] *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 883, pp 334-338. [Cd. 7375], H.C. 1914, xiii, 1.
[89] Registration of deeds and titles were not kept in an orderly fashion and it is reported that it would take days and weeks to search for specific deeds and titles, i.e. a high cost. This cost could be reflected in a high opportunity cost if the individuals performed the search themselves, or in the form of a direct cost if they hired a solicitor to do the search.

lender will not have access to the money during this period. A problem in lending long term is the fact that many of the bank's liabilities were short term in nature, as was outlined in chapter 3. Long-term lending of this nature would not have been compatible with the bank's liability structure. The absence of a central bank with lender of last resort powers would also have deterred bank lending. The Bank of Ireland was ostensibly a central bank and could have acted as a lender of last resort, but its role in the collapse of the Munster Bank suggests that it was not a willing lender of last resort.[90] There was also the problem of sale of land in the event of default, and in Ireland this was a significant deterrent to the entry of the joint stock banks in the mortgage market. This became obvious in the 1926 banking commission as evidence was shown that the sale of foreclosed land was difficult due to social pressure on buyers.[91] Therefore, mortgage assets were practically worthless if a borrower defaulted on loan repayments. State entry into the mortgage market was a novel approach to the Irish credit market, and is thus worthy of consideration in this study of microfinance in nineteenth century Ireland. But novelty aside, the question of whether this policy was appropriate, or even necessary, also has to be addressed. Private mortgage lenders took commercial consideration when making loans, whereas state mortgage loans seem to have been based on a policy of social entitlement disregarding commercial considerations.

7.3 The outreach and impact of state mortgages

The aim of this section is to analyse the land purchase schemes from 1903 onwards. Information on earlier land purchase schemes is shown in table 7.4. As can be seen the earlier land acts did not have the same scope of operation as the later acts. Table 7.4 is interesting as it shows that there was not a large uptake in land purchases before 1903. If we use land occupation statistics for 1903 we can see that 13.55 per cent of occupiers were owners before the 1903 act.[92] The tenants who purchased under the initial acts were also atypical as they held more land than the average farmer. For

[90] Cormac Ó Gráda, 'Moral hazard and quasi-central banking: Should the Munster Bank have been saved?' in David Dickson and Cormac Ó Gráda (eds.), *Refiguring Ireland, essays in honour of L. M. Cullen* (Dublin, 2003), pp 316 -341.

[91] *Second interim report on agricultural credit; business credit; and public finance,* (Dublin, 1926), R33/2 Banking commission, 1926, pp 21-22.

[92] Land occupation statistics were used because of the inaccuracy of landholding statistics in this period; see below for discussion. This percentage was derived from using land occupation figures for 1903, and the holdings total in table 7.4; *Agricultural Statistics of Ireland, with detailed report on Agriculture for 1903,* p. 18 [Cd. 2196], H.C. 1904, cv, 333.

example, in 1903, 70.36 per cent of all land occupiers held under 30 aces, and 49.11 per cent of all land occupiers held less than 15 acres.[93]

Table 7.4: Land acts 1870 to 1896

Acts	Holdings	Acres	Average holding size	Amount of advances	Cash lodged by tenants	Total purchase money	Average loan
				£	£	£	£
1870	877	52,906	60.33	514,536	344,986	859,522	586.70
1881	731	30,657	41.94	240,801	114,793	355,594	329.41
1885-8	25,367	942,625	37.16	9,992,536	170,298	10,162,834	393.92
1891-6	46,834	1,482,749	31.66	13,146,892	254,334	13,401,226	280.71
Total	73,809	2,508,937	33.99	23,894,765	884,411	24,779,176	323.74

Source: *Report of the estates commissioners for the year ending 31st March,. 1920* [Cmd. 1150], H.C. 1921, xiv, 661, p. iv.

What does the information in table 7.4 tell us? That before the 1903 act, and before the terms for land purchase became more attractive to tenants, there was not a large uptake in land purchase. When term sizes increased and interest payments decreased, there was a higher uptake rate.

The following tables are derived from the report of the Estates Commissioners for the year ending 31 March 1920, Congested Districts Board reports, and appendices from ‘The Wyndham land act 1903: the final solution to the Irish land question?’[94] In some cases the data represented only include transactions completed up to a certain date, and as such they are incomplete. There were a number a cases still pending due to both bureaucratic delays and interruptions to land purchase during the war years. Firstly, it would be interesting to compare both the 1903 and 1909 Land Acts, shown in table 7.5, in respect to their outcomes.

[93] *Agricultural Statistics of Ireland, with detailed report on Agriculture for 1903*, p. 18 [Cd. 2196], H.C. 1904, cv, 333.

[94] Patrick John Cosgrove, ‘The Wyndham land act 1903: the final solution to the Irish land question?’ (PhD thesis, NUI Maynooth Department of History, September 2008).

Table 7.5: Number of estates sold, number of purchasers and amount advanced under the 1903 and 1909 land acts (1 November 1903 to 31 March 1920)

	Number of estates sold		Number of purchasers		Amount of advances (£)	
	1903	1909	1903	1909	1903	1909
Ulster	1,770	490	70,563	10,164	16,765,275	1,357,342
Leinster	2,286	628	44,183	5,215	22,481,377	2,110,840
Connaught	1,066	568	43,296	22,789	9,644,160	3,854,465
Munster	2,961	964	51,764	9,443	22,487,286	2,452,790
Ireland	8,083	2,650	209,806	47,611	71,378,098	9,775,437

Source: *Report of the estates commissioners for the year ending 31st March, 1920* [Cmd. 1150], H.C. 1921, xiv, 661.

The 1903 land act has commonly been referred to as the solution to the land question in Ireland, and in certain respects admittedly this is true. As can be seen from table 7.5, there were a greater number of purchasers under the 1903 act than under previous and subsequent acts. There were also 41,477 pending sales under the 1903 act, and 6,073 pending sales under the 1909 act.[95] By comparison, the total number of holdings sold under the previous acts from 1870 to 1896 was 73,809.[96] But the land purchase acts had not facilitated the complete transfer of land from landlord to tenants, and this led to a call for renewed land purchase schemes.

A significant aspect of the land acts was the role of the CDB as a land purchaser. The CDB was created under section II of the 1891 land purchase act[97] with the view to improve conditions in the west of Ireland. Congestion was somewhat arbitrarily defined as an area where the tax valuation divided by the population is equal to or less than £1.50.[98] Table 7.6 gives us some indication of the location of these Congested regions circa 1891. As can be seen, the CDB's work was focused mainly on areas in the west of Ireland. The remit of the CDB remained unchanged until 1909 when the areas defined as congested were increased and included within the jurisdiction of the CDB. When the remit of the CDB was extended in 1909 one-third of the land of Ireland was described as 'congested'.[99] An interesting feature of table 7.6 is that it shows us there was a low population density in the congested

[95] *Report of the estates commissioners for the year ending 31st March. 1920* [Cmd. 1150], H.C. 1921, xiv, 661, pp 16-19.
[96] For reference see table 7.4.
[97] Land purchase (Ireland) act, 1891 (54 & 55 Vict.) c. 48.
[98] *First annual report of the Congested Districts Board for Ireland*, p. 3. [C. 6908], H.C. 1893-94, lxxi, 525.
[99] *Nineteenth annual report of the Congested Districts Board for Ireland*, p. 6. [Cd. 5712], H.C. 1911, xiii.

districts, a common feature of areas of rural poverty.[100] In reality it seems that 'congestion' was not confined to the west. In fact there were areas of 'congestion' in other locations in Ireland.

Table 7.6: Congested districts, c. 1891

Congested Districts County	**Number of congested districts**[a]	**Area**	**Population in 1891**	**Poor law valuation**	**Poor law valuation per head**	**Population density**
		Statute acres		£	£	Per acre
Donegal	19.5	824,132	110,220	99,171	0.90	0.13
Leitrim	4.5	174,004	35,250	46,952	1.33	0.20
Sligo	2.5	148,099	32,565	41,382	1.27	0.22
Roscommon	5.5	104,862	26,185	29,838	1.14	0.25
Mayo	18.5	893,480	143,201	130,864	0.91	0.16
Galway	14.5	564,958	75,248	67,176	0.89	0.13
Kerry	13	661,042	86,981	93,876	1.08	0.13
Cork	6	237,992	39,866	46,882	1.18	0.17
	84	3,608,569	549,516	556,141	1.01	0.15

Notes: a – this refers to the number of congested districts within the county in first column. In some cases, only part of county was classified as congested, or only certain districts within the county. And some districts cross county boundaries.
Source: *First annual report of the Congested Districts Board for Ireland*, p. 4. [C. 6908], H.C. 1893-94, lxxi, 525.

Under section 37 of the 1891 land purchase act, the CDB's main goal was to amalgamate small holdings in the west. Up until the 1909 act the CDB's work had been constrained in this regard and it had been slow to undertake land purchase activity, focusing on other projects to relieve congestion. The CDB's role in land purchase changed significantly after the passing of the 1909 land act. A statement to this effect was made in the CDB's twentieth annual report:

> The chief and most important function of the Board is the purchase of land from landlords and its resale to tenants, after making such arrangements and improvements as the circumstances in each case seem to require.[101]

The 1909 Land Act gave the CDB the power and the financial ability to undertake this. As was stated above, the 1909 Land Act enabled the CDB to make compulsory purchases of land, and this accelerated the process of land purchase. The

[100] 'The Agenda for Agriculture-based Countries of Sub-Saharan Africa' in World Development Report 2008: Agriculture for Development, found at the World Bank website, www.worldbank.org.
[101] *Twentieth report of the Congested Districts Board for Ireland*, p. 8. [Cd. 6553], H.C. 1912-13, xvii.

CDB could force landlords to sell in cases where landlords were reluctant to sell. In such cases the CDB would make a final offer and the landlord would be forced to accept it. The legitimacy of such powers was challenged in a case taken by the Marquis of Clanricarde,[102] but the verdict from the House of Lords in 1915 favoured the CDB and firmly established the principle of compulsory purchase.[103]

Table 7.7: CDB estates before and after the 1909 land act (up to 31 March 1919)

	No of estates	**Tenanted**	**Untenanted**	**Resale to vendor**	**Total**	**Purchase money**
		Acreage	Acreage	Acreage	Acreage	£
1891-1910 [a]	204	378,435	100,003	19,114	497,552	2,261,079
Sales agreed under 1909 act	733	1,390,761	365,816	11,450	1,768,027	6,730,525
Offers pending under 1909 act [b]	8	19,581	3,635	284	23,500	71,801

Notes: a – These are the sales under the land acts before 1909
b –These are offers to purchase under the 1909 act that were still pending in 1920.

Source: *Twenty seventh report of the Congested Districts Board for Ireland,* [Cmd. 759], H.C. 1920, xix

As can be seen from table 7.7, the CDB purchased more land under the 1909 act than it had done in the preceding nineteen years of its existence. The majority of land purchases came within the period 1910 to 1914, as the Treasury ordered the suspension of land purchase due to the outbreak of the First World War.[104] It must be stressed that the majority of the CDB sales would not have been possible if there was no recourse to state lending. The existing private market may have funded mortgage schemes in the prosperous parts of the island, but the tenants in the west would have found it very difficult, if not impossible, to access similar funds from a free and

[102] *Twenty-first report of the Congested Districts Board for Ireland*, p. 16.[Cd 7312], H.C. 1914, xvi.
[103] *Twenty-third report of the Congested Districts Board for Ireland,* p.8.[Cd. 8076] H.C. 1914-16, xxiv.
[104] Ibid, p.8.

private market. In some respects this liberated landlords in the west whose land portfolios were not worth much.

Table 7.8 puts the CDB's land purchase activities in perspective. Under the 1903 legislation, CDB land purchase was a small percentage of all land purchase activity. Given that the poorest landholders, by definition, were in the region administered by the CDB, this would suggest a failure of the 1903 land act if the aim of land purchase was to encourage widespread owner-occupancy. It also suggests a failure in the sense that the majority of borrowers who took advantage of the 1903 act were from wealthier agricultural lands and less in need of government assistance and subsidisation. The activity of the CDB as a land purchaser was more pronounced under the 1909 Land Act than it had been in the earlier legislation. This is shown by its percentage of all activity in table 7.8, and by the expansion of activity in table 7.7.

Table 7.8: CDB land purchase activity as a percentage of all land purchase activity from 1 November 1903 to 31 March 1920

Act	Percentage of estates	Percentage of purchasers	Percentage of advances
1903	3.20	6.62	3.69
1909	15.58	56.69	40.28

Source: *Report of the Estates Commissioners for the year ending 31st March 1920* [Cmd. 1150] H.C. 1921, xiv, 661.

The following tables are used to give a comparison of land purchase conditions and existing microfinance arrangements. Firstly, table 7.9 is an account of the government lending for the purposes of land purchase under the 1903 land act.

Table 7.9: Number of purchasers who received advances and total amount of advances under the 1903 Wyndham land Act

Province	Number of purchasers who received advances	Percentage of total purchasers (%)	Total Amount advanced (£)	Percentage of amount advanced (%)
Connaught	45,418	20.70	10,949,066	13.25
Leinster	46,163	21.04	26,362,935	31.90
Munster	53,724	24.48	25,536,608	30.90
Ulster	74,118	33.78	19,787,934	23.95

Source: Derived from appendix x in Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008).

During the operation of the 1903 Land Act a total of £82,636,543 was advanced to 219,423 tenants for the purchase of land. The distribution of the average price paid to landlords, and the average amount lent to tenants is shown in table 7.10.

Table 7.10: Average prices paid to landlords and advanced to tenants under the 1903 Wyndham land act[105]

Province	**Average price paid to vendors(£)**	**Average amount advanced to tenants (£)**
Connaught	8,981	241
Leinster	10,068	571
Munster	7,604	475
Ulster	9,371	267

Source: Derived from appendix x in Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008).

The loans were required to be repaid on a bi-annual basis, replacing the traditional 'gale days' for the payment of rents.[106] Given that we know the loan term, 68.5 years, and the interest rate, 3.25 per cent, it is possible to work out what the average annual and bi-annual repayment was. The average bi-annual repayments are important for comparing the land purchase loans with microfinance loans, for reasons outlined below.

A slight difficulty with the figures is that they do not explicitly state whether the interest is included in the total sum advanced or not, but this is not a major concern as it is possible to make allowances for the inclusion or omission. If interest is included in the total sum, the bi-annual repayment would be £2.75, and if not then by adding 3.25 per cent to the data the bi-annual repayment would be £2.84.[107] Table 7.11 gives an indication of what the provincial distribution of the bi-annual repayments were.[108]

[105] In the calculation of this statistics, the numerator contains both sums advanced and those pending.
[106] Joseph Thomas Sheehan, 'Land purchase policy in Ireland, 1917-23: from the Irish convention to the 1923 land act' (MA thesis, National University of Ireland, St.Patrick's College, Maynooth, August 1993)., p. 30.
[107] I have decimalised the currency, as £1=240d, 0.84 of 240d = 16s 7d.
[108] Comments from Free State Land Commission reports state that loan repayments include interest. The report for the period 1927-28 cited the amount of annuities due, 'including interest': *Report of the*

Table 7.11: Calculation of average bi-annual repayment under terms of the 1903 Land act

Province	Bi-annual repayment, (assuming interest included in original data) £1=240d	Bi-annual repayment (adding interest to the original data) £1=240d
Leinster	4.17	4.30
Munster	3.47	3.58
Ulster	1.95	2.01
Connaught	1.76	1.82

Source: Derived from information in appendix x in Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008).

These are interesting statistics which are usually overlooked in the debates on the issues of state finance involved in land purchase. The important point which should be observed here is that the structure of the land purchase schemes enabled tenants of land of varying quality and quantity to purchase their holdings and offered favourable repayment facilities. Dooley has illustrated that the Land Commission, the body supervising loan dispersal, did not actually have a set *modus operandi*. Dooley stated that the 1938 banking commission 'were rather surprised to find that there was no formal policy, no written document setting out the role of the land commissioners other than directions issued in the various land acts'.[109] It appears that the loans were advanced, in many cases, with little evidence of the potential cash flow from the investment, and this could have the effect of crippling the borrower and diminishing the prospects of long-term economic development. The state land purchase schemes also had legacy effects, as mortgages were given to inefficient farms. These farms would still remain inefficient (why increase productivity if inefficiency is rewarded?), and would expect further government support. Effectively it poses the question of whether the provision of purchase for a large number of farmers effectively tied them to economically unviable farms which in the long term would not be efficient producers and would be uncompetitive in a free market economic environment.

The average loan sizes as shown in table 7.10, and annual repayments in table 7.11, are useful for analysing the role of microcredit providers in land purchase. The information contained in tables 7.9 and 7.10 illustrates the scale of the state land

Irish Land Commissioners, for the period from 1st April 1923, to 31st March 1928, and for the prior period ended 31st March 1923, L1/2, p. 28.

[109] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), p. 11.

purchase schemes, and it shows us that the existing microfinance infrastructure would not have been able to match the funds required to fund these mortgages. The existing financial intermediaries discussed heretofore in this thesis were primarily providers of short-term loans and as such were not designed to offer long-term credit facilities. For example, the LFB loan fund system, discussed in chapters 1 and 2, would not have been able to offer such favourable facilities for the purchase of land. This was mainly because its loan sizes were restricted to £10, but also because its loan terms were for 20 weeks, and it charged a discount rate of 1.67 per cent on loans. All three factors militated against providing long-term loans required, and it seems desired, by tenant farmers. The land purchase schemes also dealt with any legal costs that might have arisen in the process of purchasing land - if these costs were to be borne by the borrower they would have added significantly to the cost.

The Raiffeisen system that was established in Ireland, discussed in chapter 6, was inadequately structured to facilitate borrowers who wished to purchase land. The Raiffeisen banks were subject to a size restriction, £50 in their case, and although loan terms were flexible, 68.5 years is something which they would not have been able to offer. Raiffeisen banks in Germany offered long loan terms but the average loan term was about 5 years; in Ireland the average loan term was about 1 year. The Raiffeisen banks also charged a higher interest rate than that offered by the land purchase schemes. In both cases the primary element that prevented both institutions facilitating land purchase was the loan terms that would have been required.

The land purchase schemes were not designed to compete with the existing market structure, as the market was not providing long-term credit contracts to the majority of the rural community. But the features of the land purchase schemes led to indirect effects on existing credit institutions. The loan terms offered by the land purchase schemes were also offered in terms of years purchase, and this was commonly used as the scale to measure the loans under the 1903 acts.[110]

[110] Chapter 5 in Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008).

Table 7.12: Average number of years purchase rent under the 1903 land act for tenanted land (1 November 1903–31 March 1920), and average rental saving over loan term.

	Average number of years purchase rent	Average rental saving over loan term (%)- [a]
Ulster	23.86	65.17
Leinster	22.52	67.12
Connaught	21.93	67.99
Munster	21.23	69.01
Ireland	22.52	67.12

Note: a - savings are based on the percentage of 1 minus the number of years purchase rent divided by the loan term: (1-(years purchase/68.5)*100), where 1 represents the value of 68.5 years constant rent.

Source: *Report of the estates commissioners for the year ending 31st March. 1920* [Cmd. 1150] H.C. 1921, xiv, 661.

Table 7.12 shows the average number of years purchase rent on sales. Given that the loan terms were for 68.5 years, shown in table 7.3, and purchase prices were based on annual rentals, this would indicate a saving to tenants-purchasers. They would no longer pay their existing rent, but instead they would repay a loan by instalments and these instalments were less than their original rent. Furthermore, when purchase prices were set, in many cases they were based on reduced rents, the judicial rents discussed above. It must also be stressed that the loan repayments were fixed amounts, so unlike rents there was no possibility of increases or decreases during the term of the loan. The net effect of this would be to increase disposable income of a borrower, through the redistribution of income from landlord to tenant, which would have influenced the demand for financial services. In fact it appears that the increase in income was saved,[111] and this in turn may have led to a decrease in demand for credit. This would have affected institutions that were primarily focused on credit disbursement, namely loan funds and Raiffeisen societies, whereas institutions that had been competitive in savings markets would have seen increases in savings deposits.

Another feature of the land purchase schemes which indirectly affected the demand for credit was the fact that borrowers were able to delay the payment of their

[111] Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 89. Also chapters 3 and 4 have shown that there were increases in deposits in both the POSB and JS banks in the late nineteenth and early twentieth century.

instalments, and use the instalment as a quasi-loan. No action would be taken against a borrower provided that they repaid the instalment following a warning. This was observed by the 1914 commission on agricultural credit, and it was stated that:

> Several witnesses brought under our notice a practice adopted by a considerable number of purchasers who, with a view to obtaining the use of money at a low rate of interest at the cost of a small fine, intentionally allow the repayment of their land purchase annuities to get into arrear, and a process to issue, the arrears being paid without allowing the case to come into court.[112]

If we observe some of the repayment behaviour of borrowers under the land purchase schemes we can see some evidence that such credit strategies may have been pursued. For example, information on loan repayment is available for Free State borrowers in the period at the end of the 1920s and the early 1930s. Information on early periods is unavailable, and later periods do not give us the comparable information. Table 7.13 provides us with information on the arrears of annuity repayments in the Irish Free State somewhat before the slump associated with the Great Depression.

Table 7.13: Arrears of annuity repayments in the Irish Free State, 1927-28, 1930-31.

Purchase acts	Arrears 1927-1928	Arrears 1928-29	Amount of 1928-1929 arrears uncollected at 31 July 1929	Arrears, 1929-1930	Amount of 1929-1930 arrears uncollected at 31 July 1930	Arrears, 1930-31	Amount of 1930-1931 arrears uncollected at 31 July 1931
	£	£	£	£	£	£	£
1881-1888	26,573	26,459	19,065	23,453	15,236	24,988	16,312
1891-1896	25,684	24,220	16,847	22,365	15,755	22,137	15,422
1903	292,807	287,259	208,747	278,092	198,342	296,060	215,040
1909	42,830	44,109	31,574	42,211	30,409	46,599	33,463
1923-1927	37,044	31,474	16,560	17,807	13,106	26,342	19,209
	424,938	413,521	292,793	383,928	272,848	416,126	299,446

Note: The bureaucratic calendar year runs from 1 April to 31 March.

Sources: *Report of the Irish Land Commissioners, for the period from 1st April 1928, to 31st March 1929*, L1/3 (p. 55); *Report of the Irish Land Commissioners, for the period from 1st April 1929, to 31st March 1930*, L1/4 (p. 302); *Report of the Irish Land Commissioners, for the period from 1st April 1930, to 31st March 1931*, L1/5 (p. 550).

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112 *Report of the Departmental Committee on Agricultural Credit in Ireland*, paragraph 753, p. 326. [Cd. 7375] H.C. 1914, xiii, 1.

If we compare the information in table 7.13 with additional information on the amount of instalments due we can see that the arrears made up roughly 10 per cent of the instalments due. But if we look at the information on the arrears repaid within 4 months of the instalment due date we can see that there were a significant number of borrowers who repaid instalments within this four-month window. What tables 7.13 and 7.14 tell us is that there were genuine arrears, but also delayed arrears. This is evidence to support the claims made by the 1914 report on agricultural credit that there was an intentional credit-augmenting strategy being pursued on the part of land purchase borrowers. The Great Depression did have an impact on Irish agriculture, and in the period 1931-32 total arrears outstanding had risen to £607,172, which amounted to 14.71 per cent of the total instalments due in the period.[113] By 1932-33 the proportion of arrears had risen to 42.90 per cent of instalments.[114] But the increase seems to be related to the Irish government's failure 'to honour the July "gale" in 1932.'[115] This was a deliberate Fianna Fáil policy to renege on the annuity repayments to the UK government. In fact, the actions by tenant-purchasers can be seen as a continuation of long-established strategies in respect to rent payment, or rather non-payment.

[113] *Report of the Irish Land Commissioners, for the year from 1st April 1931 to 31st March, 1932*, L1/6, (p. 764).
[114] *Report of the Irish Land Commissioners, for the year from 1st April 1932 to 31st March, 1933,* L1/7, (p. 1239).
[115] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 412.

Table 7.14: Arrears as a percentage of instalments due and arrears paid within 4 months of instalment, 1928-29 to 1930-31.

purchase acts	Arrears as a % of instalments due, 1928-29	Arrears as a % of instalments due, 1929-30	Arrears as a % of instalments due, 1930-31	Arrears repaid within 4 months of instalment due, 1928-29	Arrears repaid within 4 months of instalment due, 1929-30	Arrears repaid within 4 months of instalment due, 1930-31
	%	%	%	%	%	%
1881-1888	11.38	10.12	10.94	27.95	35.04	34.72
1891-1896	8.49	8.14	8.39	30.44	29.56	30.33
1903	11.48	11.12	11.86	27.33	28.68	27.37
1909	12.23	11.06	11.64	28.42	27.96	28.19
1923-1927	24.13	10.65	12.31	47.39	26.40	27.08
	11.38	10.43	11.17	29.20	28.93	28.04

Sources: *Report of the Irish Land Commissioners, for the period from 1st April 1928, to 31st March 1929*, L1/3 (p. 55); *Report of the Irish Land Commissioners, for the period from 1st April 1929, to 31st March 1930*, L1/4 (p. 302); *Report of the Irish Land Commissioners, for the period from 1st April 1930, to 31st March 1931*, L1/5 (p. 550).

7.4 Agricultural structure in Ireland

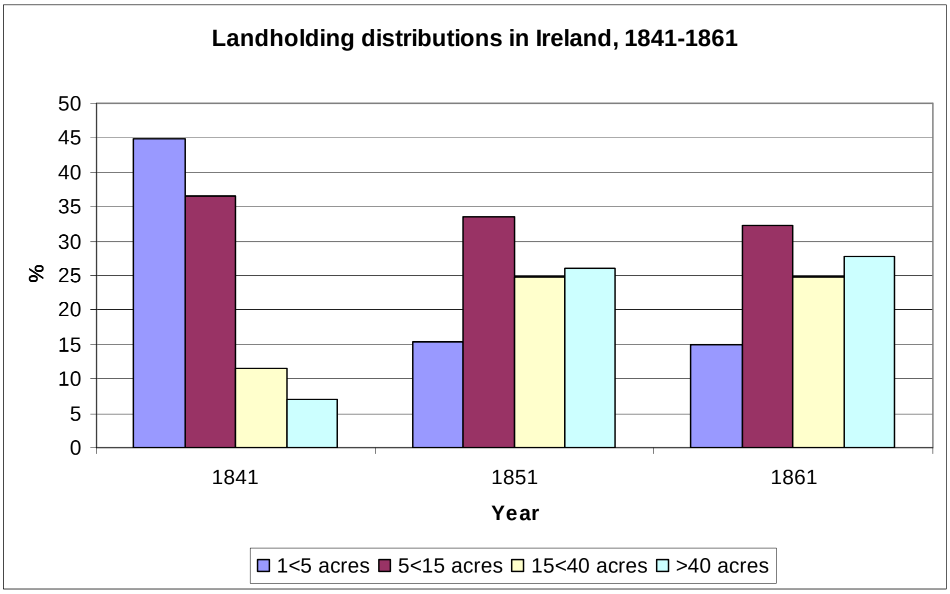
This section will assess the structure of the Irish agricultural sector in order to determine how important ownership was in Irish agriculture. The land purchase acts described in the previous sections were designed to transfer the ownership of landholdings from landlords to their tenants. The assumption, as stated in section 7.2, was that property rights for tenants were lacking formal definition. Underlying this policy was the assumption that the lack of formal property rights distorted incentives and discouraged tenants from making long-term investments. The assumption was that by creating more formal property rights there would no longer be inhibitors to long-term agricultural investment.

The following sub-sections will discuss developments and trends in agricultural structure in Ireland. It will outline trends in landholding distribution, the dispersion of land ownership before land purchase policy was instigated, and trends in agricultural output during the late nineteenth and early twentieth centuries.

7.4.1 Land distribution

This section will analyse the trends in landholding distribution in Ireland from 1841 to 1917. The aim in analysing landholding distributions is to see whether or not there was a trend towards land consolidation over the period in question. If there were signs of consolidation it would indicate that there were trends towards more efficient land usage.

Figure 7.5



Sources: Census of Ireland, 1841, 1851 and 1861.

We discussed the distribution of landholdings from the 1841, 1851 and 1861 census in chapter 1. The census returns showed significant changes in the percentage distribution of landholdings from 1841 to 1861. Prior to the famine there were a large number of landholdings in the category 1-5 acres, and in the category of 5-15 aces. This pattern changed significantly in 1851 and 1861, with a considerable decrease in the proportion of farms in the 1-5 acre category. Figure 7.5 highlights the major structural changes which occurred within Irish agriculture as a result of the famine of the late 1840s.[116] In chapter 1 we also discussed the limitation of the 1841 census in terms of the reported landholding returns and highlighted the poignant criticism made by P. M. Austin Bourke. Bourke showed that returns of holdings were not reported in

[116] Straying into the realms of hypothetical history: if such structural changes did not take place there might have been a greater support for the radical wing of the 'land war'. Michael Davitt, influenced by the economic thought of the American political economist Henry George, wished to nationalise the land in Ireland. But this solution was not politically feasible at the time.

a consistent unit of measurement, with some reported in terms of Irish acres, Cunningham Acres and Statute acres.[117] Therefore, the data presented for the census year 1841 in figure 7.5 must be treated with caution. Thus, what Bourke's criticism suggests is that, instead of a dramatic shock-induced consolidation from 1841 to 1851, there is more likely to have been a more gradual drive towards land consolidation. By 1861 there was an evident trend towards land consolidation, even though the pace of consolidation was not dramatic, and this continued during the remainder of the period, as will be seen in the following graphs in this section. However, there are some important caveats regarding the data which must be acknowledged.

The collection of the annual statistics of Irish agriculture commenced in 1847 and continued throughout the nineteenth century. The collection and publication of the agricultural statistics was subsequently transferred to the Department of Agriculture and Technical Instruction when it was established in 1900. In most works analysing land distribution and landholdings in Ireland, the decadal census returns on landholdings are either directly used or referred to in appendices.[118] These are included in the agricultural statistics, and updated on an annual basis. The use of the annual statistics can give an indication as to whether or not there are any evident trends in landholding distribution.

Also, the use of annual statistics points to some faults in the data itself, a pitfall which those using decadal census would be unaware of.[119] In 1914 there was a 6.8 per cent decrease in the number of recorded landholdings. This was caused by the realisation that the number of landholdings had been over-estimated.[120] This meant that:

> The figures published in previous reports were considerably too high in the case of holdings from 1 to 100 acres and appreciably too low in the case of holdings over 200 acres. Some of the latter holdings were cut by townland boundaries and were counted as two or more smaller holdings. This appears to have added as many to the class from 100 to 200 acres as were deducted from this class by the fact that some were divided by townland boundaries and counted as two or more holdings under 100 acres.[121]

[117] P. M. Austin Bourke, 'Uncertainties in the statistics of farm size in Ireland, 1841-1851' in *Journal of the Statistical and Social Inquiry Society of Ireland,* xx, 3 (1959-60), pp 20-26.
[118] See appendix 11, Arnold Schrier, *Ireland and the American emigration 1850-1900* (Minnesota, 1958, reprint 1997), p. 163, and Appendix 1a in Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p.351; Appendix I in Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), pp 233 and 235.
[119] Turner has also highlighted this data problem: Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), pp 65-96.
[120]*Agricultural Statistics of Ireland; with Detailed Report for 1914*, p. xvii [Cd. 8266], H.C. 1916, xxxii, 621.
[121] Ibid, p. xix.

The new measure of landholdings was continued from 1914 onwards. As such there is a discrepancy between data pre- and post-1914. The report suggested a way to correct for the measurement error in previous years[122] and these are shown in table 7.15.

Table 7.15: correction for measurement error in landholdings

Land distribution (acres)	**Correction (%)**
Less than 1	+0.7
1-5	-17.1
5-15	-14.2
15-30	-9.9
30-50	-7.1
50-100	- 4.2
100-200	+1
200-500	+ 7.1
Over 500	+ 41.3
All holdings	- 8.6

Source: *Agricultural Statistics of Ireland; with Detailed Report for 1914*, 1916, [Cd. 8266].

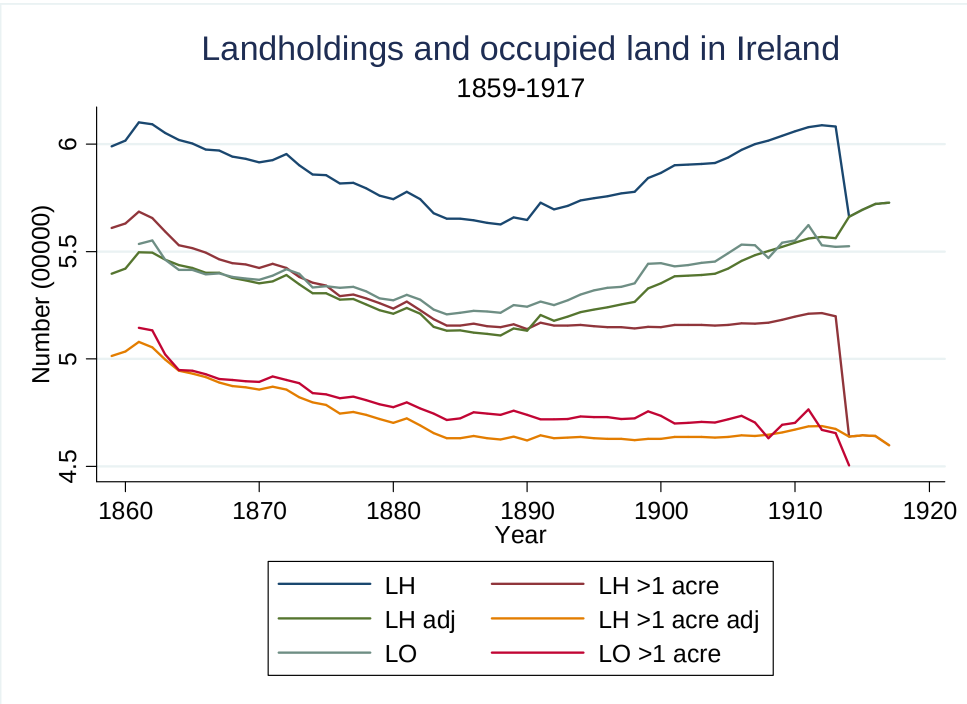
Undoubtedly, it is important to be aware of the existence of such measurement error before analysing landholding distributions in nineteenth century Ireland, especially since it appears that it was the smaller sized landholdings which were over-represented. There are alternative statistics relating to farm sizes available, land occupation, from the 1860s onwards and they converge towards the corrections suggested for landholdings in table 7.15. If one is unaware of this data inconsistency one might be lured into making fallacious statements. For example, in a recent history of the CDB, Ciara Breathnach used evidence of changes in landholding distribution in 1881, 1891 and 1917 to assess CDB land policy.[123] But what Breathnach is observing is the change in the way statistics were collected. It would have been more appropriate to look at the land occupation statistics as they do no suffer from the problems outlined above. The only fault with the land occupation statistics is that other pieces of useful information are presented in relation to the landholding

[122] Ibid, p. xix.
[123] Ciara Breathnach, *The Congested Districts Board* (Dublin, 2005), p. 159.

statistics. For example, there is information regarding livestock per holding size, but not for land occupiers. Hence while we must still use the landholding statistics, we must also be aware of their limitations.

Figure 7.6 shows the number of landholdings in the period 1859 to 1917, using both adjusted and unadjusted data, and the number of occupiers. Landholdings and occupiers in figure 7.6 are divided into two categories. One grouping includes landholdings under 1 acre, and the other excludes them. When the total number of landholdings are graphed it appears that there is an increase in the number of landholdings, but when the holdings less than one acre are excluded one can see that there is a decrease in the number of landholdings over time. It is also interesting to note that the adjustments of landholdings, as suggested above, are similar to the land occupation data.

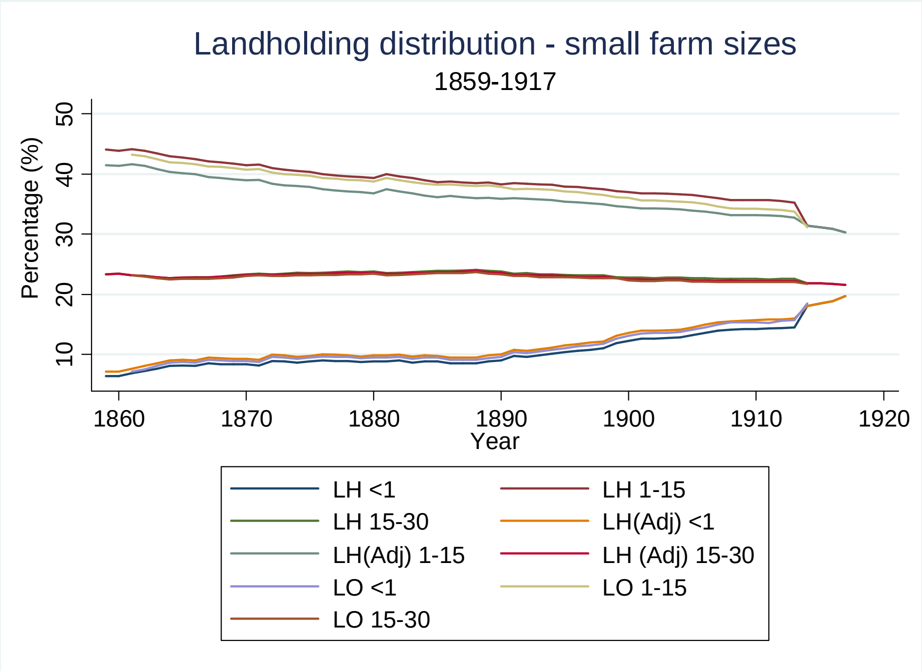
Figure 7.6



Note: LH = landholding
LH adj = Landholdings adjusted with criteria in table 7.15
LO = Occupied land.
Source: *Agricultural statistics of Ireland*, various years.

The percentage distribution of all landholdings, and adjusted variants based on table 7.15 and occupiers can be seen in figures 7.7 and 7.8. In figures 7.7 and 7.8 landholdings of less than 1 acre are included. This is done to illustrate how the growth in the number in this category can affect the total number of landholdings shown in figure 7.6.

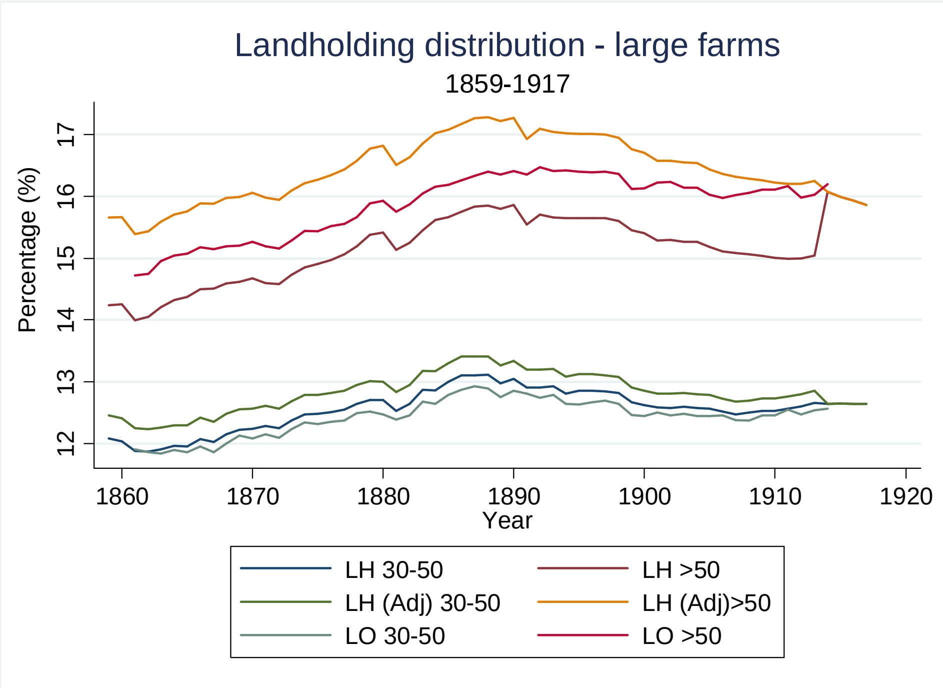
Figure 7.7



Source: *Agricultural statistics of Ireland*, various years.

The measurement error as reported in the 1914 Agricultural statistics would suggest that the occurrence of small holdings is somewhat over stated. It is worth highlighting that when one analyses both the adjusted and unadjusted data, there is a decrease in the proportion of small farms in the category 1 to 15 acres.

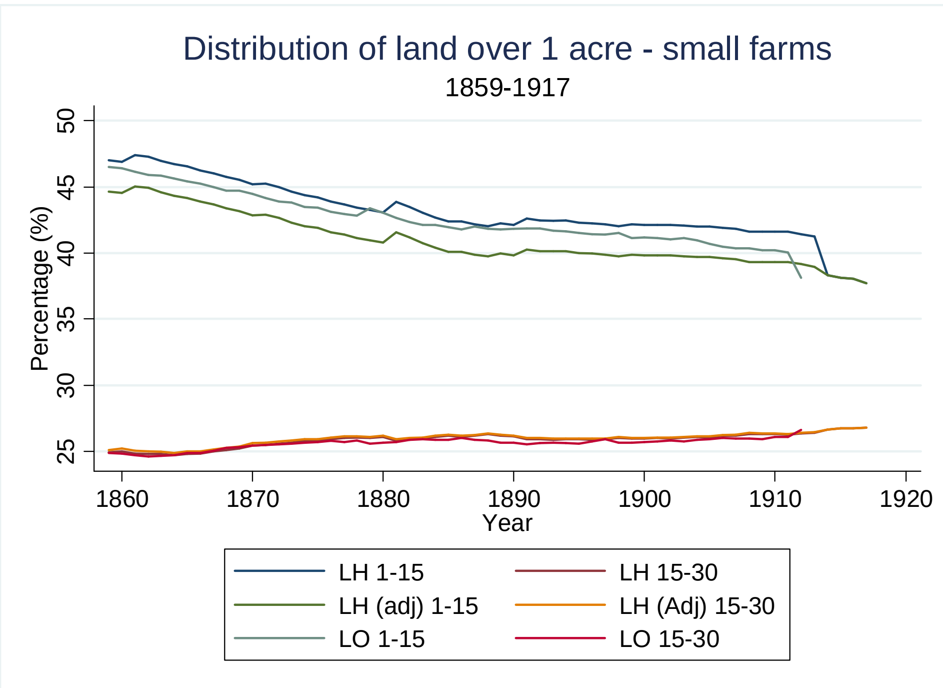
Figure 7.8



Source: *Agricultural statistics of Ireland*, various years.

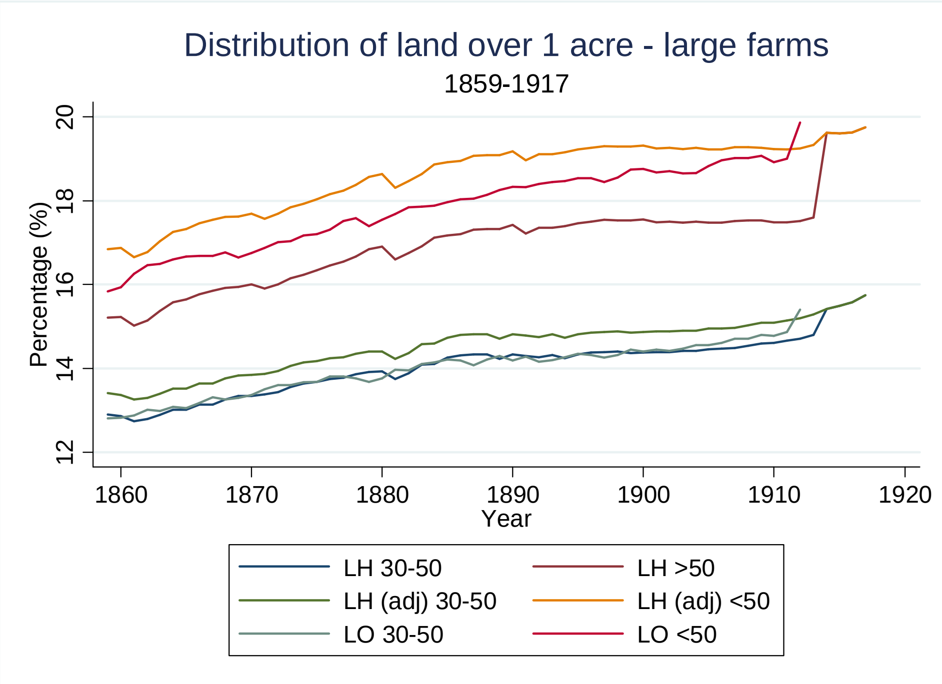
Excluding landholdings below 1 acre gives us a different set of graphs, shown in figures 7.9 and 7.10.

Figure 7.9



Note: The distribution has been calculated by excluding the number of landholdings under 1 acre. Therefore the aggregate total used is not the same used in figures 7.7 and 7.8.
Source: *Agricultural statistics of Ireland*, various years

Figure 7.10



Note: The distribution has been calculated by excluding the number of landholdings under 1 acre. Therefore the aggregate total used is not the same used in figures 7.7 and 7.8.
Source: *Agricultural statistics of Ireland*, various years.

It is evident from figures 7.7 to 7.10 that there was a trend towards consolidation of landholdings in the period 1859 to 1917. There was a decrease in the number of landholdings in the category 1-15 acres, and an increase in the larger landholding categories. It must also be noted that this trend is evident before the commencement of government land purchase schemes, discussed in sections 7.2 and 7.3. Furthermore, it must be stated that the majority of land purchases took place under the 1903 Land Act, as was illustrated above. The evidence suggests that, taking measurement error into account, there was a trend in land consolidation in the post-famine period.

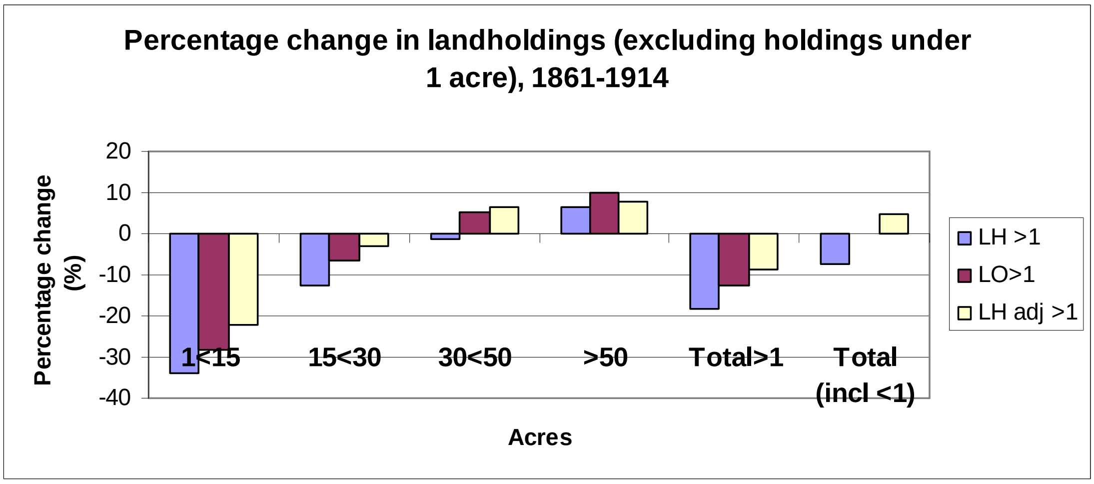
The holdings in the category not exceeding 1 acre, while large in number, did not contribute much to the agricultural output of the country,[124] and it was recommended that they be excluded from calculations where landholdings are used. In the period 1861 to 1911 the mean percentage change in the number of landholdings under one acre was 123.55 per cent (the standard deviation was 117.50).[125] Only three counties, Galway, Roscommon and Sligo, experienced negative percentage changes in

[124] *Agricultural Statistics of Ireland; with Detailed Report for 1914*, p. xx. [Cd. 8266], H.C. 1916, xxxii, 621.
[125] This is the mean and standard deviation in percentage change across the 32 counties.

the number of landholdings under 1 acre in this period. The growth in the number of holdings under 1 acre may have been caused by an increase in labourer holdings, but it is not immediately discernible from the available statistics if this was in fact the case.

Based on the information from figures 7.6 to 7.10, it appears that there was a large proportion of small landholdings in Ireland, but that the number and percentage of small landholdings decreased in the period 1861 to 1917.

Figure 7.11



Source: *Agricultural statistics of Ireland*, various years.

Figure 7.11 summarises the point that there was a decrease in the number of landholdings. The acknowledgement of measurement error, or not, influences the magnitude of this change.

7.4.2 Land ownership in Ireland and the UK, c 1875-76

Since government land-purchase policy involved the transfer of ownership from landlord to tenant, it would be useful to analyse trends in land ownership in Ireland. As was stated previously, the premise of this policy was that land transfers would improve property rights and thereby encourage agricultural investment. Unfortunately, there were no annual returns of land ownership in Ireland or in Great Britain, but we can use some proxies to assess the logic of the land purchase policy.

Firstly, if we look at the distribution of lease holders we can get an understanding of the scale to which security or insecurity was a factor. Table 7.16 has been derived from a report on the types of tenure held by occupiers of Irish land c. 1870. The information from the land tenure report gives us information regarding the different forms of tenancies. In total there were 12 forms of tenancies, and of these 10 were forms of leases of varying lengths. Tenancy at will was a form of tenancy which could be renewable annually, or could be terminated annually.

Table 7.16: Tenancy at will and Leases in Ireland c. 1870

Holding valuation	Occupiers	Tenancy at will	Leases (of some description)
	%	%	%
Under £15	75.67	86.48	13.52
£15 less than £30	13.85	68.87	31.13
£30 less than £50	5.55	57.47	42.53
£50 less than £100	3.43	45.04	54.96
Over £100	1.50	31.22	68.78
All holdings		79.55	20.45

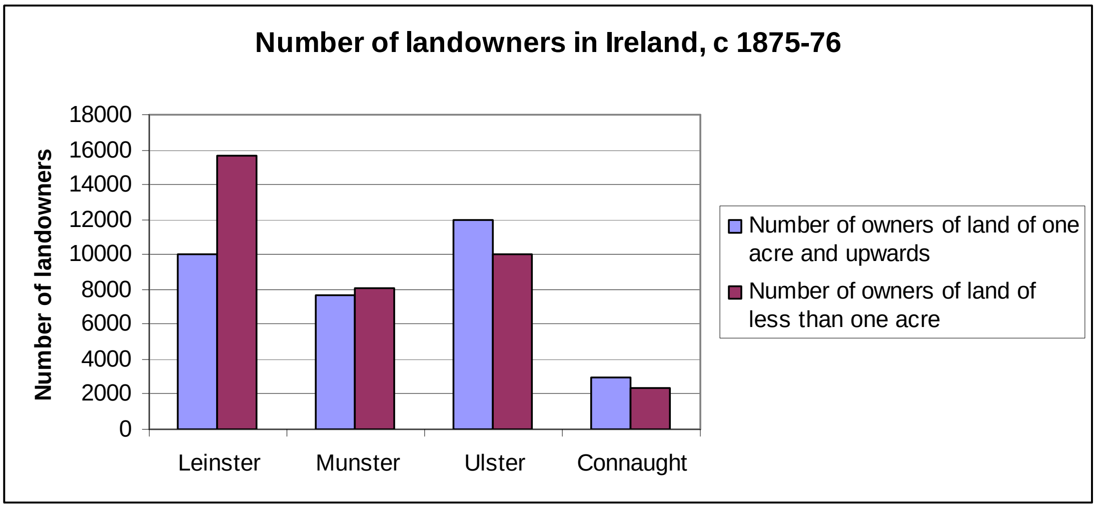
Source: *Return of Number of Agricultural Holdings in Ireland, and Tenure held by Occupiers*, [C. 32], H.C. 1870, lvi, 737.

From table 7.16 we can see that a large proportion of farms valued under £15 were held in the form of tenancy at will, but leases were more common in farms of greater value. Table 7.16 also gives us information on the distribution of the various occupiers and, as we can see, the largest proportion of tenants was found in the category under £15. What this suggests is that the incentive problems associated with insecure property rights were found on smaller farms (i.e. lower value), but that similar incentive problems did not exist for owners of larger farms. Therefore, it would seem more appropriate to state that the problem facing Irish agriculture circa 1870 was one involving the distribution of land and the large proportion of small holders. The policy of ownership transfer from landlord to tenant can be considered the equivalent of abolishing tenancy at will forms of tenure and making leases uniform. If we look at the policy from this perspective we can see, based on table 7.16, that this would not affect the distribution of land and small farms would remain small and economically unviable.

In 1875-76 there was an attempt to determine the number of landowners in the UK. This report provides some useful information regarding the distribution of land ownership in the UK, and it is a useful comparison of the constituent countries. Firstly, figure 7.12 is a graph of the provincial distribution of the number of landowners. Ulster, with approximately 37 per cent, had the largest percentage of landowners owning more than 1 acre of land, Leinster had 30 per cent, and Munster had 23.5 per cent. Connaught scored lowest with 9 per cent. These are useful statistics for a number of relevant issues. For example, they can be used as indicators for the number of landlords, and in terms of chapters 1 and 4 may help explain the dearth of LFB loan funds and TSBs in Connaught, both institutions which were reliant on landlord support in rural areas.

It is important to state that the population and area of the four provinces varied. If we look at the number of landowners as a percentage of the provincial population we will see that the points made in the following graphs are not invalid. Connaught had the lowest percentage of landowners over 1 acre at 0.35 per cent, followed by Munster at 0.55 per cent, Ulster at 0.65 per cent, and Leinster with the highest at 0.75 per cent. In terms of area the lowest landowners (over 1 acre) per acre was in Connaught at 0.07, this was followed by Munster at 0.13, Leinster at 0.21 and Ulster had the highest at 0.22.[126]

Figure 7.12

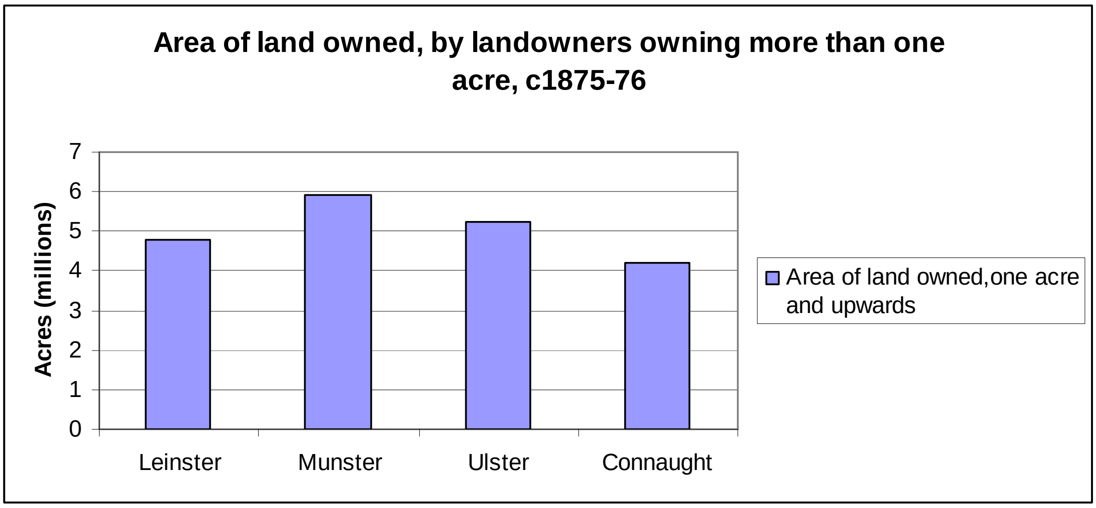


Source: *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61.

[126] Population and area figures are from the 1871 census of Ireland; *Census of Ireland 1871, part III*, [C. 1377], H.C. 1876, lxxxi, 1.

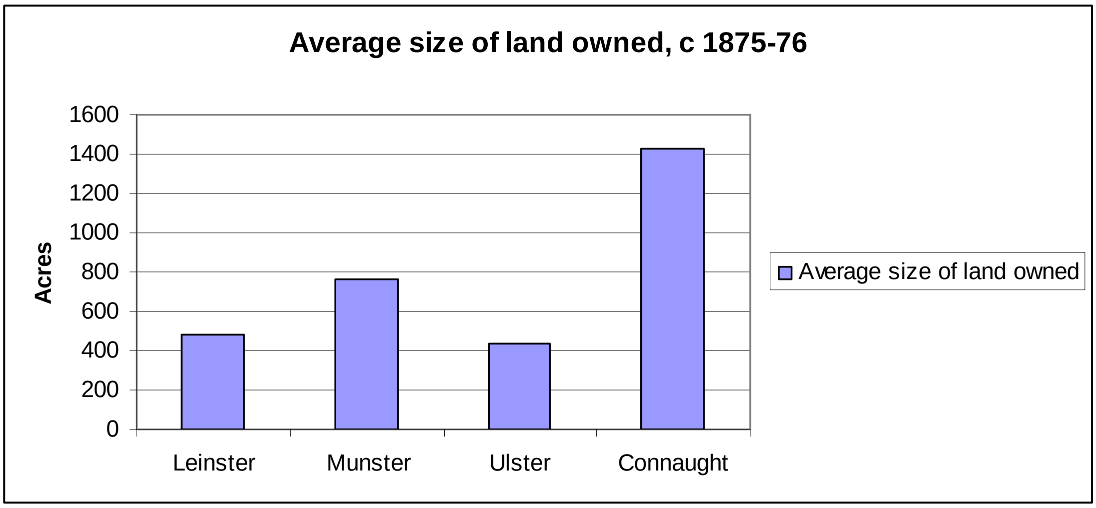
Figure 7.13 shows the distribution of the area of land owned. It does not include the area of land owned by those owning less than 1 acre, as the amount of land that they owned was trivial. Figure 7.14 is an indication of the average amount of land owned per landowner. In terms of the land in Ireland, landowners in Munster were in possession of 30 per cent of the land, those in Ulster owned 27 per cent, those in Leinster owned 25 per cent, and those in Connaught owned 21 per cent. Given the difference in the provincial distribution of landowners and land owned, it is not surprising that the size of the average acreage owned per landowner, shown in figure 7.14, was highest in Connaught.

Figure 7.13



Source: Source: *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61.

Figure 7.14

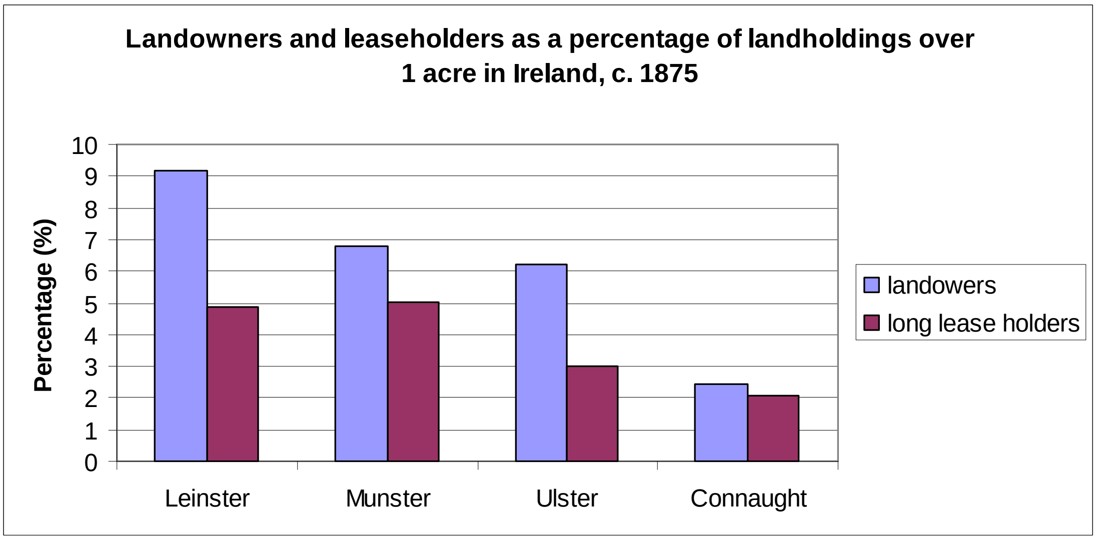


Source: Source: *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61.

As was stated in the introduction to this section, the goal of land purchase policy was to transfer ownership from landlords to tenants. Therefore the issue of land ownership prior to this policy shift is relevant. The land purchase acts, as outlined in section 7.3, did not address land occupation. They primarily created a 'peasant-proprietorship', and so the ownership structure prior to the change in land policy is significant.

Figures 7.12 to 7.14 would suggest that if there was to be a reform in land ownership, and if the aim was to encourage a greater variance in land ownership, then the province that should be targeted ought to have been Connaught, and possibly, to a lesser extent, Munster.

Figure 7.15



Sources: *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61 and *The agricultural statistics of Ireland, for the year 1875*, [C. 1568], H.C. 1876, lxxviii, 413.

Figure 7.15 is a comparison of landowners and long lease holders as a percentage of landholdings over 1 acre circa 1875.[127] In figure 7.15, Connaught makes a poor comparison with the other provinces as it has the smallest percentage of landowners to land holdings circa 1875.

The report on land ownership in Ireland in 1875-76 was part of a UK wide attempt to determine the value of rentals in the UK. It was possible to do this for England and Scotland, but unfortunately this was not possible for Ireland and Griffith's valuations were used as a substitute. Although it was not possible for contemporaries to make comparisons regarding rentals on both islands, the reports do allow comparisons regarding the distribution of land ownership. Table 7.17 shows the

[127] *The agricultural statistics of Ireland, for the year 1875*, [C. 1568], H.C. 1876, lxxviii, 413.

distribution of land ownership and land owned in the UK by constituent kingdom. But it must be noted that the population of each constituent kingdom differed, so therefore we must first look at the number of landowners as a percentage of the population. England and Wales had the highest percentage at 4.28 per cent, followed by Scotland at 3.93 per cent and Ireland at 1.27 per cent.[128] It is quite noticeable that the Irish trend in land ownership falls below that in the UK. If we look at table 7.17 we can find out where the difference originated from.

Table 7.17 shows the distribution in land ownership within the UK by land size classification; this enables us to see the variance in land ownership. The distribution of landowners, as opposed to the percentage of landowners, in Ireland differs marginally from that in Great Britain, and this may be due to the introduction of land purchase acts in 1869 and 1870 which were discussed above. In fact, there were no equivalents to the land purchase acts in Great Britain.

Table 7.17: Percentage distribution of land owners and of the land held by owners in England and Wales, Scotland, and Ireland, c. 1875-76

	England & Wales[a & b]		Scotland [b]		Ireland [c]	
	Land owners	Land (acres) held by owners	Land owners	Land (acres) held by owners	Landowners	Land (acres) held by owners
Acres	%	%	%	%	%	%
Less than 1	72.29	0.46	85.52	0.15	52.60	0.04
1<10	12.54	1.45	7.17	0.15	10.03	0.14
10<50	7.47	5.30	2.63	0.41	11.27	0.97
50<100	2.66	5.43	0.92	0.46	5.06	1.24
100<500	3.32	20.68	1.79	2.94	11.63	9.70
500<1000	0.49	10.05	0.63	3.08	3.95	9.50
1000<2000	0.28	11.51	0.45	4.41	2.62	12.48
2000<5000	0.19	16.75	0.44	9.73	1.74	18.23
5000<10000	0.06	12.04	0.19	9.11	0.66	15.65
10000<20000	0.02	9.39	0.12	11.35	0.27	12.30
20000<50000	0.01	5.81	0.08	16.21	0.13	12.69
50000<100000	0.0003	0.59	0.03	15.97	0.02	5.08
Greater than 100000	0.0001	0.55	0.02	26.03	0.004	1.97

[128] These figures have been calculated using the 1871 census figures. The figures for England & Wales are biased as the population figures include London whereas the land ownership figures do not. The Irish figures include all landowners, even less than 1 acre; *Census of England and Wales 1871, vol IV* [C.872-I], lxxi, pt 11, 1; *Census of Scotland 1871, vol I* [C. 592], H.C. 1872, lxviii, 1; *Census of Ireland 1871, part III*, [C. 1377], H.C. 1876, lxxxi,1.

Note: a - The figures for England and Wales are exclusive of the metropolis (London).
b - The owners were 'classed, according to their acreage, on the actual numbers given in each separate county, without reference to the fact that some of such owners held property in more counties than one'.
c - In Ireland 'when the returns for all the unions in any county were received and examined, and had been subjected to revision where necessary, a return for the entire county was prepared and from then in the office – the names of the owners being arranged alphabetically; and when the same owner appeared in the returns for more than one union, the acreage and valuation were amalgamated'.

Sources: *Summary of Returns of Owners of Land in England, Wales and Scotland,* H.C. 1876, (335), lxxx, 1; and *Return of Owners of Land of One Acre and upwards in Counties, Cities and Towns in Ireland* [C. 1492], H.C. 1876, lxxx, 61.

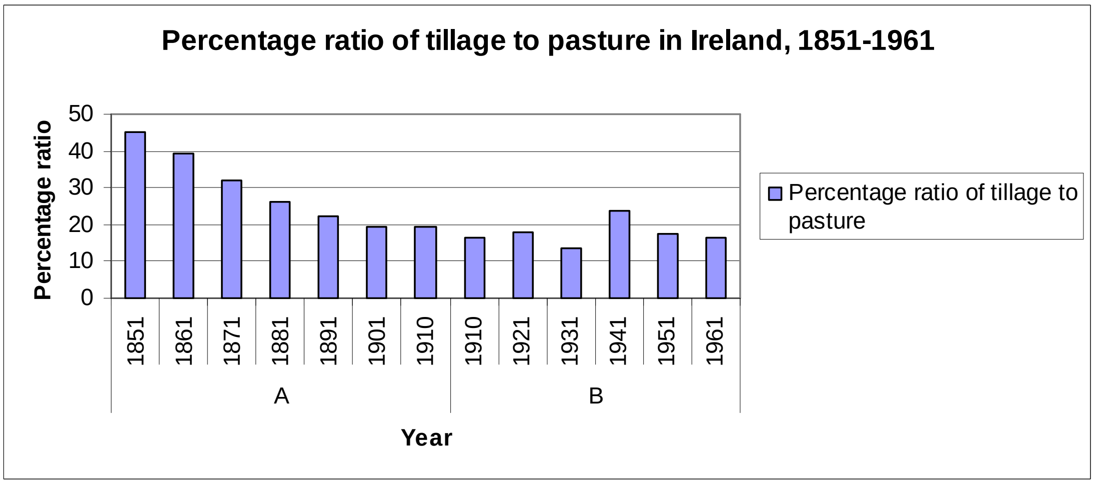
Table 7.17 shows there were broadly similar trends in land ownership across the UK, but that there was a small proportion of landowners owning less than 1 acre in Ireland. There was a greater percentage of land ownership evident in the categories up to 1000 acres in Ireland than there was in England and Scotland. Table 7.16 highlights the extent of variance in terms of land ownership and amount of land owned. The highest grouping of land owners, those owning land under 1 acre,[129] owned 0.26 per cent of the UK land, despite them making up 72 per cent of land owners in the UK. This inequality is prevalent across the UK, but it shows that Ireland is not so different from trends in GB overall. Ireland shared a similar variance in land ownership with GB as a whole, which makes the state intervention in land ownership in Ireland seem somewhat anomalous. It would appear that the policy of land purchase in Ireland was driven politically rather than by a desire to achieve a more egalitarian solution throughout the UK. [130] This places the land purchase schemes in Ireland in a similar bracket as the other microfinance programmes that had socially driven goals, such as the Monts-de-Piété and the Raiffeisen societies, rather than being economically driven and profit motivated like the joint stock banks.

7.4.3 Agricultural output in Ireland

This section will outline some of the trends that were evident in Irish agricultural output. Firstly, it is worth illustrating the ratio of tillage to pasture in the period.

[129] The return did not specify if the landowners were urban or rural. The return for Great Britain excluded London.
[130] Cosgrove cited cases of English farmers calling for access to land purchase schemes similar to Ireland, but these were not provided.

Figure 7.16



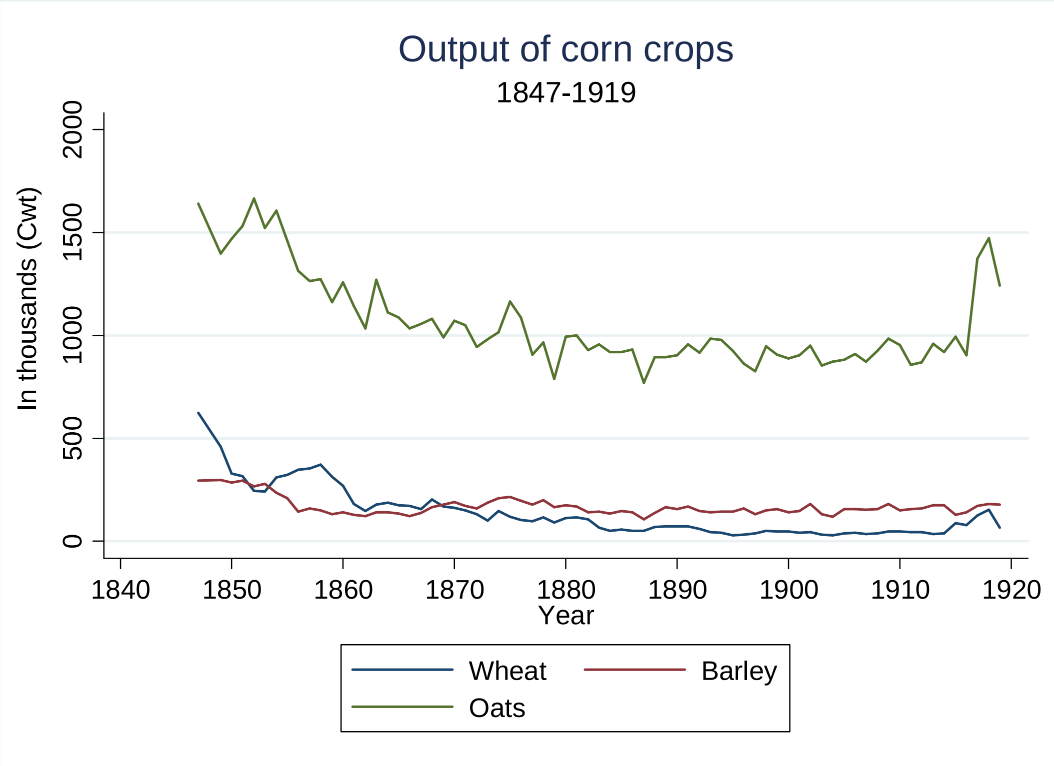
Note: A refers to the island of Ireland as a whole, B refers to the 26 counties.

Source: Appendix table II 'Area of crops and pasture' in Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 351.

As can be seen from figure 7.16 the area of land devoted to tillage decreased over the period from 1851 to 1910, and the trend was evident in period B from 1910 to 1961. Period B in figure 7.16 is also interesting since there were government schemes in existence which deliberately tried to encourage an increase in tillage. This explains the rise in the ratio in 1941 as compulsory tillage schemes were introduced, but the ratio fell when compulsory legislation was removed.

Figure 7.17 shows the output of corn crops from 1847 to 1919. As can be seen, there was a gradual decrease in the output of corn crops, but with an increase at the end of the period. This was due to war-time incentive schemes designed to increase the output of corn crops.

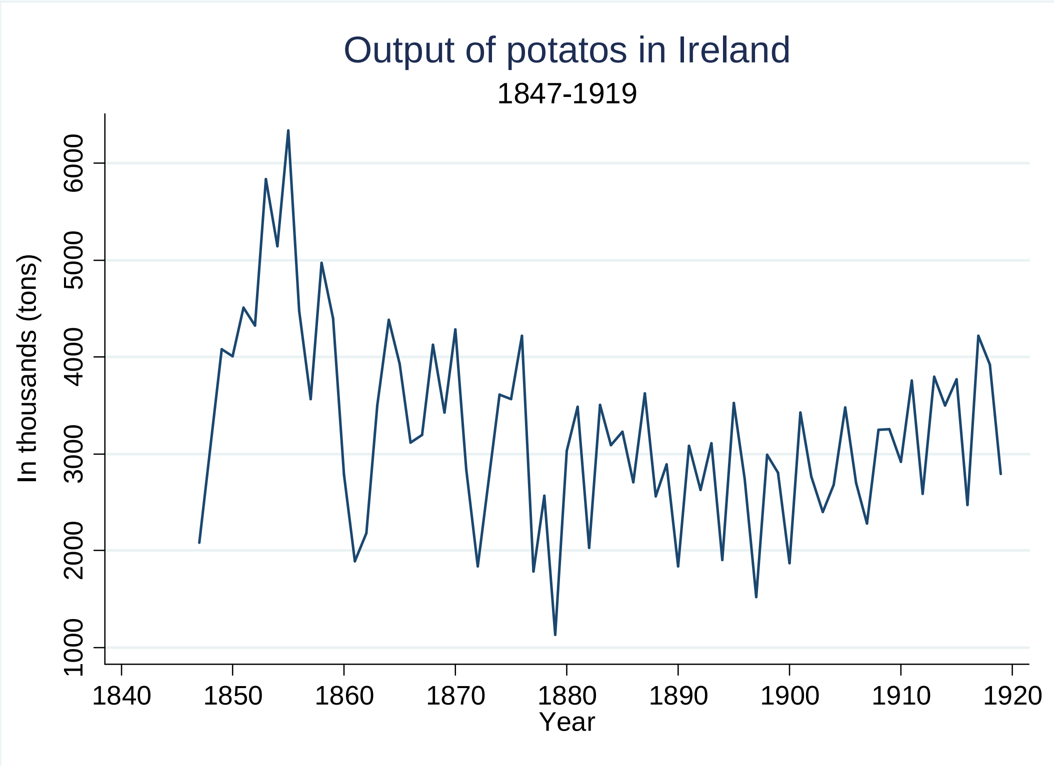
Figure 7.17



Source: B. R. Mitchell, *European historical statistics 1750-1970* (London, 1975).

Figure 7.18 shows the output of potatoes over the period 1847 to 1919, as can be seen the potato output was very volatile. This is due to the continued susceptibility of potato crop to blight which affected potato output from the 1840s onwards. Decreases in the output of potatoes are also useful indicators of agricultural depression in Ireland. The period 1850 to 1864 was a period of agricultural depression which saw a sharp drop in potato output; so too was the period 1877 to 1882.

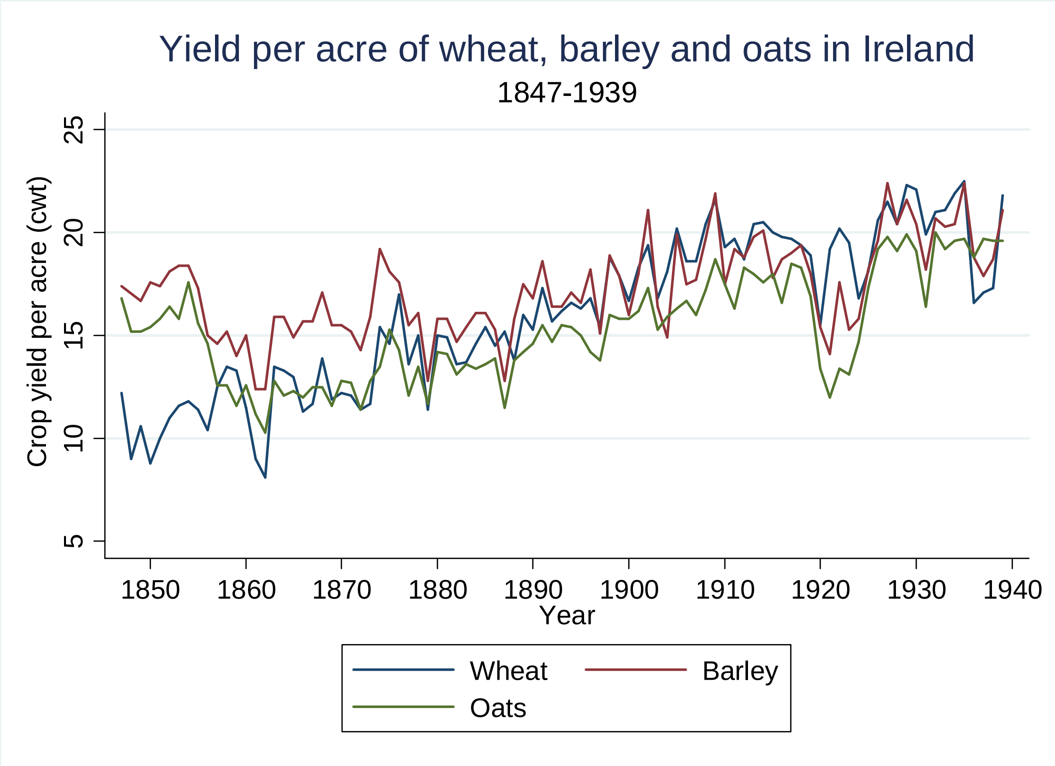
Figure 7.18



Source: B. R. Mitchell, *European historical statistics 1750-1970* (London, 1975).

Figure 7.19 shows the yield per acre of corn crops from 1847 to 1939. As can be seen, there was a trend in increasing crop yields, but this must be weighted against the fact that crop output was decreasing. The growth in crop yields also pre-dates many of the land purchase schemes.

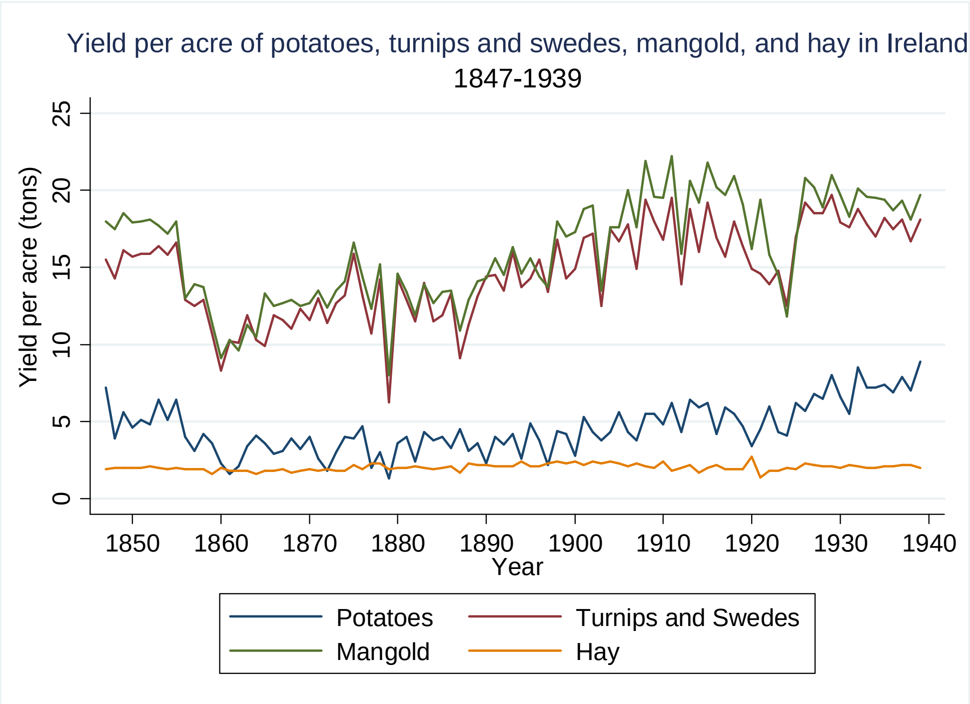
Figure 7.19



Source: B. R. Mitchell, *Abstract of British historical statistics* (Cambridge, 1962)

Figure 7.20 shows the crop yields of root and green crops and hay. Here too there is evidence to suggest that crop yields were improving before the introduction of land purchase schemes.

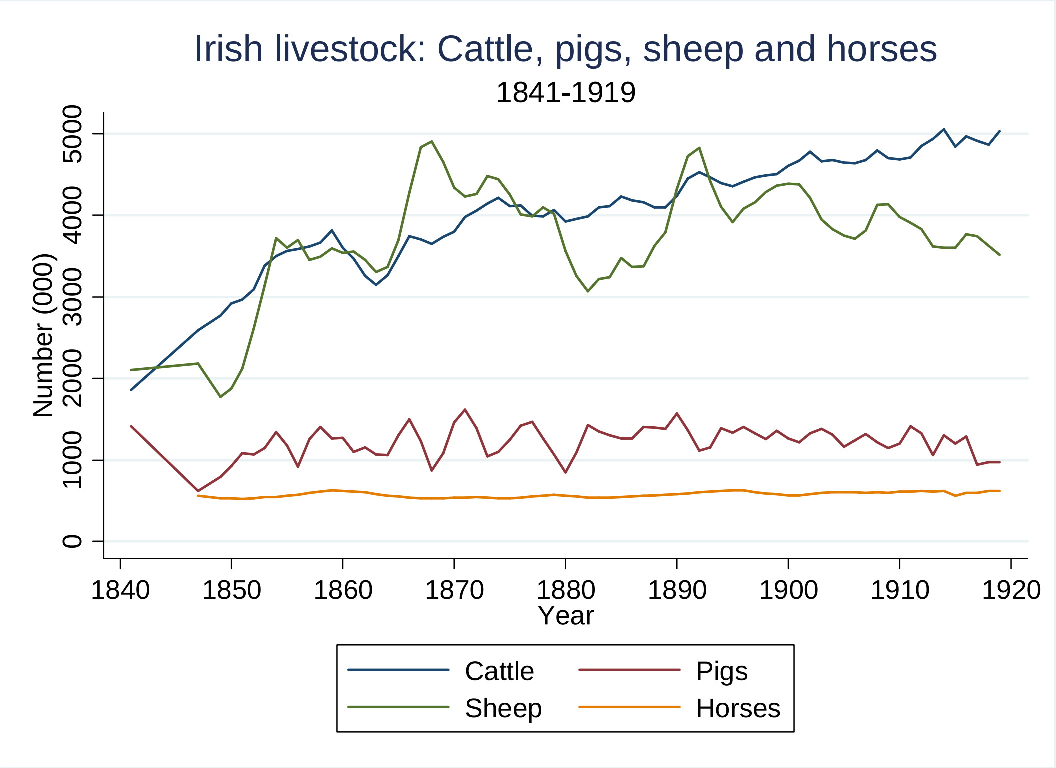
Figure 7.20



Source: B. R. Mitchell, *Abstract of British historical statistics* (Cambridge, 1962)

Figures 7.21 to 7.23 show the number of livestock in Ireland from 1841 to 1919. In figure 7.21 it can be seen that there was an increase in the number of cattle and sheep. The number of pigs did not seem to experience the same rate of growth as cattle and sheep, but this may be explained by the fact that potatoes, a volatile crop in the period, had been one of the main inputs in swine farming.

Figure 7.21

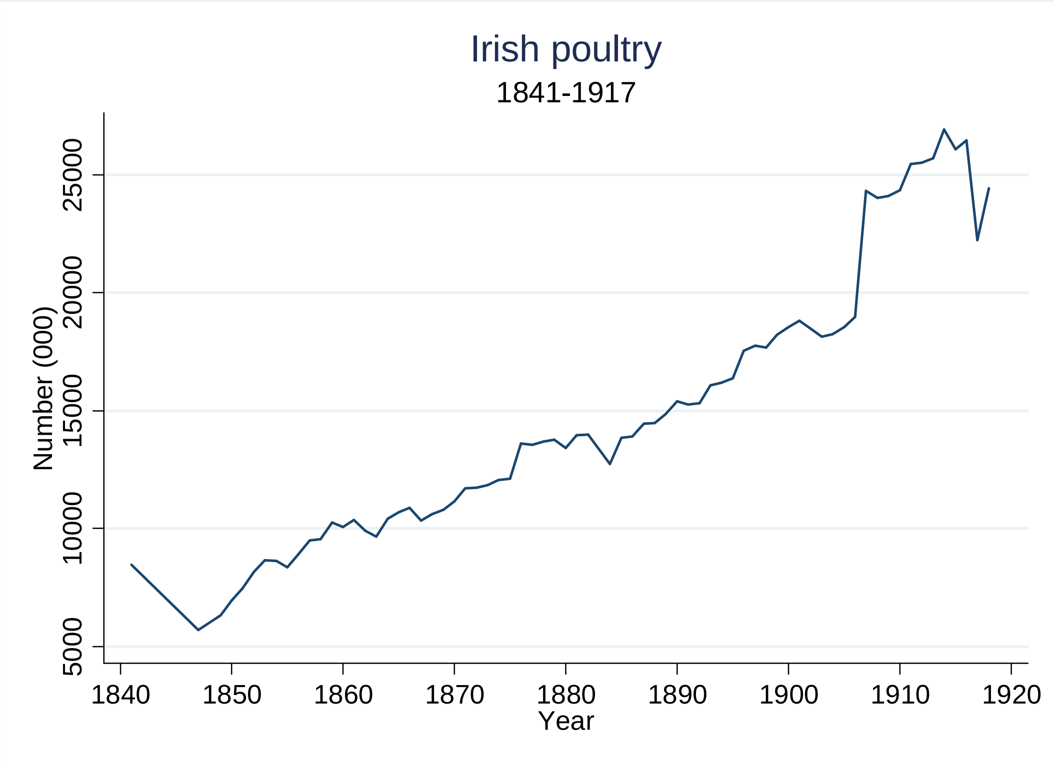


Note: There were data gaps from 1842-1846, and in 1848. These have automatically been estimated by STATA.

Source: B. R. Mitchell, *European historical statistics 1750-1970* (London, 1975).

Figure 7.22 shows the number of poultry in Ireland, and it can also be used as a proxy for the number of eggs produced. As can be seen, there was a trend in the increase of poultry throughout the nineteenth century.

Figure 7.22



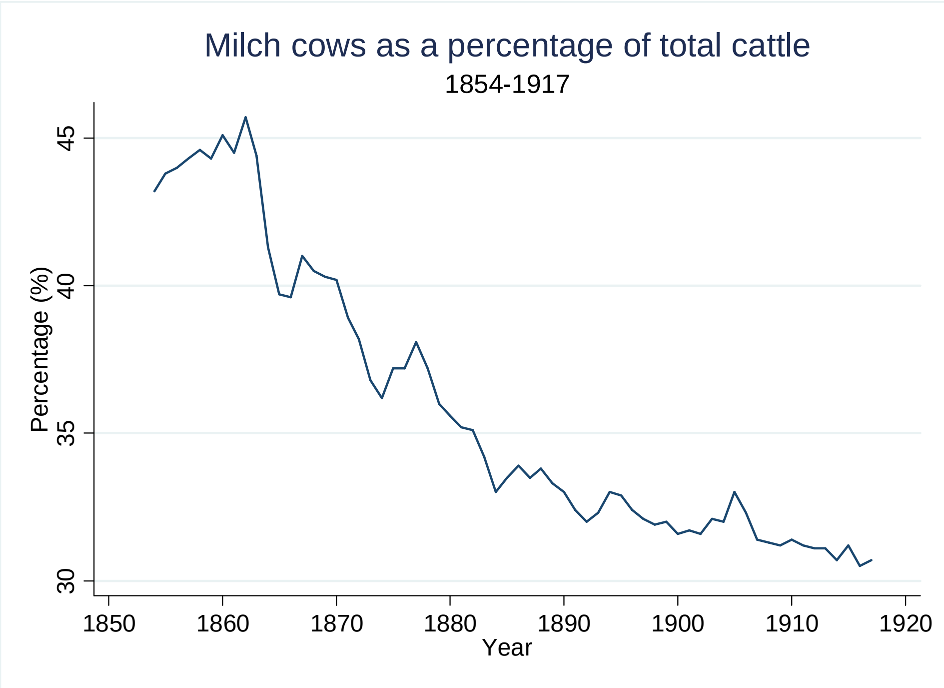
Note: There were data gaps from 1842-1846, and in 1848. These have automatically been estimated by STATA.

Source: B. R. Mitchell, *European historical statistics 1750-1970* (London, 1975).

Finally, figure 7.23 shows milch cows as a percentage of total cattle. The numbers of milch cows were relatively constant during the period, whereas the number of dry cattle increased over the period. This explains the trend in a decreasing proportion of milch cattle in Ireland. Milch cows also showed a high regional variation. For example, 41.48 per cent of milch cows were found in Munster in 1910,[131] the area with the richest pasture. This was followed by Ulster with 28.69 per cent, Leinster with 15.56 per cent and Connaught with 14.28 per cent.

[131] *Agricultural Statistics of Ireland; with Detailed Report for 1910*, p. 99. [Cd. 5964], H.C. 1911, c, 517.

Figure 7.23



Source: *Agricultural Statistics of Ireland with detailed report for 1917*, p. 8 [Cmd. 1316], H.C. 1921, xli, 135.

To summarise the changes in agricultural output over the period in question, table 7.18 shows the percentage change in output from 1841 to 1914. Table 7.18 clearly illustrates that there was a decrease in tillage products, but an increase in products derived from livestock. Table 7.18 combined with the preceding figures 7.17 to 7.23 do not suggest that there was a lack of investment in Irish agriculture. This was the argument which the proponents of land legislation inferred, believing that tenurial insecurity was an impediment to agricultural investment. But the foregoing evidence suggests that perhaps contemporaries were biased as to what they felt constituted agricultural investment. We have seen in the previous chapters of this thesis that there were institutions that made loans to agriculture. The joint stock banks were willing lenders, but on average they were debtors to the agricultural sector. This indicates that the failing was not the lack of agricultural investment opportunities, but the lack of profitable investment opportunities. It must also be borne in mind that Irish agriculture at this time did not have the luxury of tariff barriers on agricultural imports. The decreasing prices of tillage goods relative to livestock products would have encouraged a shift to livestock production, and this would not have required as much long-term investment. So it would be accurate to conjecture that the existing financial structure did not hamper agricultural development.

Table 7.18: Percentage change in agricultural output 1841 to 1914

	Percentage change in output
Wheat	-92
Oats	-50
Barley	-50
Hay	+100
Potatoes	-33
Butter	Cow numbers: no change
Pork	+20
Eggs	+260
Mutton	+70
Cattle 1-2 year old	+104
Cattle 2-3	+119

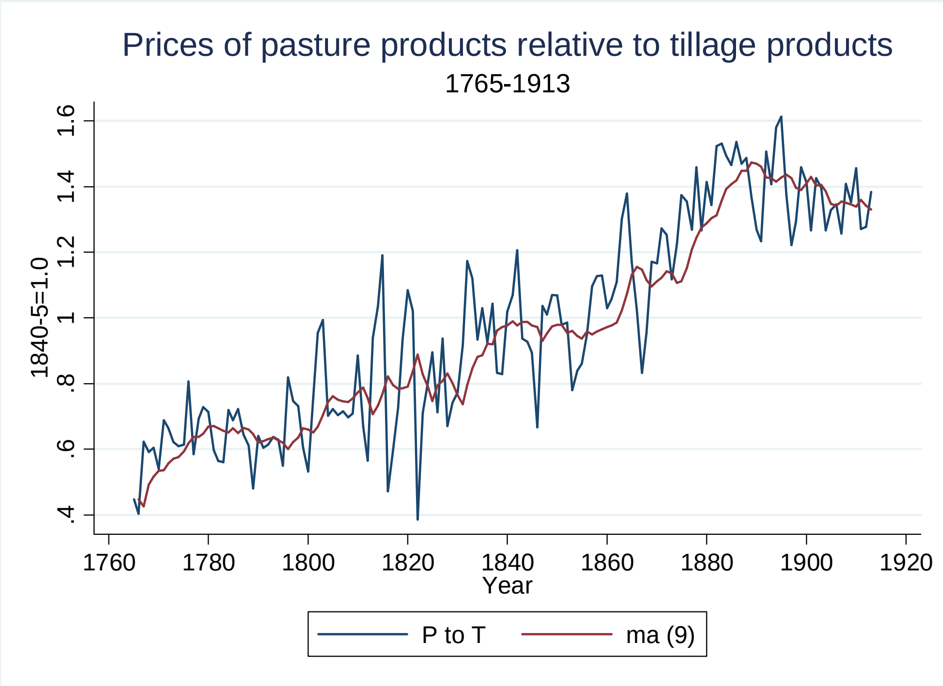
Source: Table 56 'Index numbers in 1914 of general prices and of prices of principal agricultural products Base year 1840=100' in Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 205.

Crotty has argued that security of tenure was less urgent in a pastoral activity.[132] This is evident due to the fact that livestock is a moveable form of property, whereas tillage is immoveable until harvest. In terms of investment, this meant that if farmers invested in livestock they could take their investment with them if evicted. If they invested in tillage they could not. Donnelly has also suggested that the distrainment of livestock was rare, only resorted to in extremis.[133] What this indicates is that in the event of an arbitrary eviction, in a case where rent was paid, pastoral farmers could take their livestock with them, whereas tillage farmers would be in a more precarious position in the case of arbitrary eviction as their investment is fixed and unmoveable. What this section has shown is that there were structural changes, shifts from tillage to pasture, evident in Irish agriculture prior to the introduction of land purchase policies. Therefore, it could be argued that security of tenure, or ownership transfers, were not of pressing urgency on economic grounds, and as such long-term investment programmes that the state oversaw were superfluous to the needs of the agricultural sector. But such lending schemes were desired by agriculturists and their leaders on

[132] Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 89.
[133] James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975), pp 103 and 64-65.

social and political grounds, so it would be more appropriate to view land purchase schemes as a social policy.

Figure 7.24



Source: Figure 5.5 and appendix table A.18, Liam Kennedy and Peter M. Solar, *Irish agriculture: a price history* (Dublin, 2007), p. 98 and pp 192-195.

Crotty hypothesised that changes in relative prices, shown in figure 7.24, influenced the structural development of Irish agriculture. Crotty's hypothesis was that changes in the relative prices of pasture to tillage following the end of the Napoleonic wars encouraged a shift to pasture, and that the influence of this relative price shift 'which has been a noticeable feature of Irish agriculture since the end of the Napoleonic Wars, is likely to continue'.[134] This hypothesis has been questioned by Kennedy and Solar in terms of the timing of the relative price change,[135] but Kennedy and Solar do acknowledge the influence of the change in relative prices on the long-term structural development of Irish agriculture. Kennedy and Solar stated that:

> Taking the long view, it is changes in the profitability of different types of farming that determined the pattern of land use and the volume and structure of Irish agricultural output. Prices were fundamental determinants, along with climatic and soil conditions, of the profitability of different farming systems, and hence of people's livelihoods. Whether the balance of advantage lay with labour-intensive tillage farming or land-intensive livestock farming had enormous implications for farm size, labour demand, local population densities and social stratification in the countryside.[136]

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[134] Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 236.
[135] Liam Kennedy and Peter M. Solar, *Irish agriculture: a price history* (Dublin, 2007), p. 99.
[136] Ibid, p. 100.

7.5 An interim report of land purchase policy, pre-1903 Land Act

A report on the effect of government land-purchase policy on tenant purchasers in Ireland was commissioned in 1902 and was undertaken by William Bailey, who was an Assistant Commissioner in the Land Commission. The publication of the report pre-dated the first reading of the 1903 land bill.[137] The terms of reference for Bailey's report were outlined as follows:

> (1.) The present condition of the holdings purchased not less than 7 years ago, as regards general improvement, treatment and cultivation, and more particularly as regards permanent improvement works carried out since purchase.
> (2.) Whether the tendency to sell, sublet, or subdivide has increased or diminished as a consequence of purchase
> (3.) Whether the general solvency and credit of the purchasers have improved or not since purchase, and
> (4.) The effect generally of the land purchase system on the character and well-being of the tenant purchasers.[138]

It is worthwhile to consider this report and analyse the information presented in it. The report is important as it is a record of the result of land purchase policy prior to the widespread adoption of a land purchase policy by the state in Ireland under a series of different governments from 1903 onwards.[139]

Bailey's treatment of 1 and 3 listed above are interesting in regards to credit and microcredit, but his report is flawed due to a number of sample selection biases. The sample selection biases primarily result from the terms of reference. The first objective is to compare the condition of tenant purchasers before and after they became owner-occupiers. Such a definition automatically excludes others who did not avail of tenant purchase; this effectively excluded approximately 85 per cent of the agricultural community from the sample and the sample population used, 15 per cent of the farming community, may not have been very representative.[140] Bailey's conclusion under the first heading was that 'the holdings in all parts of Ireland as regards cultivation, treatment, and general improvement is unquestionable'.[141] This is

[137] Patrick John Cosgrove, 'The Wyndham land act 1903: the final solution to the Irish land question?' (PhD thesis, NUI Maynooth Department of History, September 2008).
[138] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 3, (92) H.C. 1903, lvii, 333.
[139] For discussion on land purchase policy in the Free State and the Republic see: Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004).
[140] These figures are based on the calculation above of the percentage of tenant purchasers before the 1903 land act; See table 7.4 and land occupation statistics from *Agricultural Statistics of Ireland, with detailed report on Agriculture for 1903*, p. 18 [Cd. 2196], H.C. 1904, cv, 333.
[141] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 5, (92) H.C. 1903, lvii, 333.

somewhat of a contradictory statement as Bailey makes references to a number of cases of failed tenant purchases and struggling tenant purchases. He concludes that the tenant purchase schemes have generally been successful, and that it is due to tenant purchase that a number of improvements have occurred. Ideally to make such a statement one would need to compare the conditions of farmers on the basis of land holding size, accessibility to capital, labour, skill/ability, and ownership. The sample Bailey used in his report is only a sample of owners of farms, not a sample of all farms. The report implies that ownership is causing prosperity, but there is contradictory evidence in the report regarding the causality of ownership and prosperity in farming. Not all owners were successful or thriving, and as Bailey said many were experiencing ‘stagnation’ and there was ‘no desire for change’.[142] So to determine if ownership made a significant impact on those involved in agriculture, or to rephrase, if there were incentive effects associated with land ownership, it would be logical to compare them with similar farms held by tenants to see if there was a difference during the period. This was not done, and therefore improvements were believed to have been as a result of ownership alone. There are instances where tenant purchasers claimed that they had worked harder and that they were more eager to invest as they were not afraid of rent rises,[143] but the evidence is only for tenant-purchasers and we do not know if the opposite holds for tenants. Market conditions such as price, demand and access to markets were not addressed.

Ó Gráda made a number of observations on the growth in productivity in Irish agriculture during the post-famine period and table 7.19 highlights growth in agricultural output and productivity in this period.

[142] Ibid, p. 6.
[143] Ibid, p. 6.

Table 7.19: Output and productivity in Irish agriculture between the 1850s and the 1910s

Period	(1)	(2)	(3)	(4)	(5)
1850-4	89.0	92.0	74.3	65	-
1855-66	94.0	91.8	82.3	45	-
1867-76	100	100	100	38	100
1877-85	99	101.4	117.1	28	99.9
1886-93	102	114	133	26	96.9
1894-03	110.5	129.1	154.8	23	99.7
1904-13	124.7	135.3	177.3	21	90.3

Notes: (1) Real output per head of agricultural labour force
(2) Real output per head of 'farm' population
(3) Nominal output deflated by SSPI
(4) Tillage share in total output
(5) Real GB output per head of agricultural labour force.
Source: Turner, 'Agricultural Output and Productivity', p. 427, cited in Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 258.

The output and productivity estimates illustrated in table 7.19 are those made by Turner, who illustrated that there was growth in productivity in post-famine agriculture. In the conclusion to his work, Turner suggested that transfers in land ownership would increase productivity further by creating incentive effects.[144] This is an interesting statement, especially as Turner had shown that trends in productivity increases pre-dated land purchase policy. Also, Turner's calculations only go as far as 1914, whereas Ray Crotty's work takes a longer view of Irish agriculture.

Ray Crotty's study of Irish agriculture is actually interesting on two accounts. Firstly, it is an innovative analysis of the history of modern Irish agriculture from the seventeenth century, and secondly, he was writing especially to show the need for reform in agricultural policy and also to propose alternative policies. The final chapters of his work include agricultural policy recommendations.[145] From Crotty's perspective agricultural policy, à la land purchase, was flawed, and Crotty argued that the volume of Irish agriculture had stagnated. But if one uses Turner's criteria in the post-independence period, productivity per person would also have increased as population continued to decrease and output remained constant. What Turner's

[144] For example Turner refers to the Irish peasants attaining economic independence: Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), pp 196-197.
[145] Chapters 9 to 11: 'The lessons from the past', 'A land tax', and 'complementing policies': Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), pp 212-272.

estimates suggest is that the main growth in productivity came as population decreased, but this does not indicate the presence of incentive effects. In fact the introduction of land policy discouraged people from leaving the land, and would have affected productivity per person as measured by Turner.

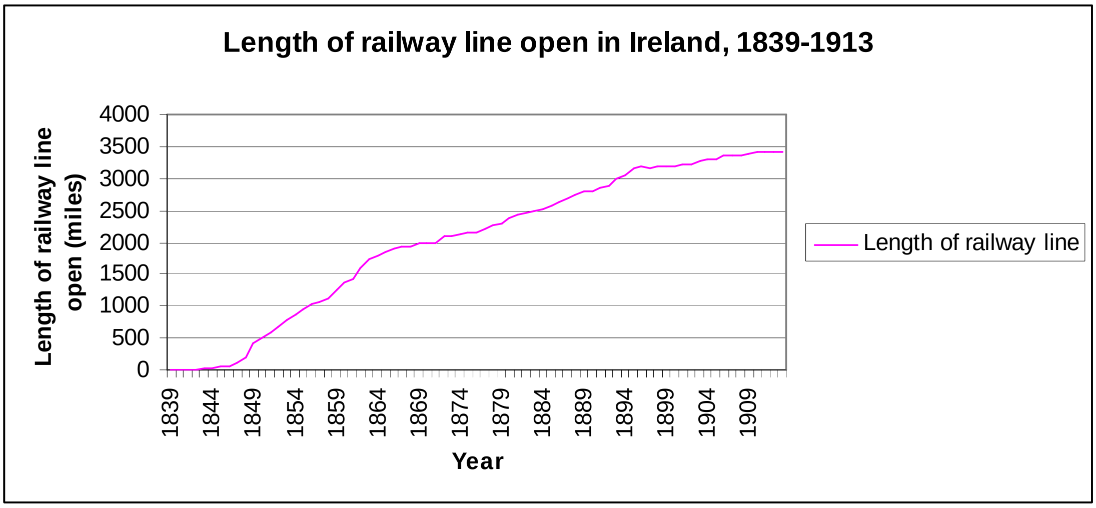
Ó Gráda's discussion for the causes of the increase in agricultural productivity in Ireland in the post-famine period cited the importance of the decrease in the number of landholdings exceeding one acre, the decrease in the proportion of holdings in the category 1-15 acres, and a decrease in the farming population.[146] He also cited a number of technological improvements during this time period:

> The chief mechanical innovations included the reaping, mowing, threshing, and potato-spraying machines, and the centrifugal separator. The spread of the creamery system and, in remote areas, smaller separators, boosted productivity in the dairying regions.[147]

Other factors which would also have contributed to increased returns from agricultural output were the development of steam transport, railway networks, as shown in figure 7.25, developments in the postal service, and the introduction of telegraphy. These infrastructural developments would have enhanced the spread of information regarding market prices and enabled a faster transport of agricultural produce. The importance of railway and steam transport to developments in Irish agriculture is understated[148] as the greater the speed that perishable goods such as agricultural products can reach their market destination, the higher the price that is realisable by the producer. Kennedy and Solar stated that milk was highly perishable until the advent of rail and refrigeration.[149] Both rail and steam transport reduced the cost of exporting livestock, in terms of days transport but also in terms of feed required for the duration of the voyage. It must also not be forgotten that the period 1877-82 in which the 'land war' took place was a recessionary period where bad harvests played a significant role. The activities of the land war agitators made it an extremely volatile period, but once this recessionary period ended, market conditions improved and trade resumed. This would also have improved conditions for many of the people in Bailey's survey.

[146] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 259.
[147] Ibid, p. 259.
[148] Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), p. 60.
[149] Liam Kennedy and Peter M. Solar, *Irish agriculture: a price history* (Dublin, 2007), p. 33.

Figure 7.25

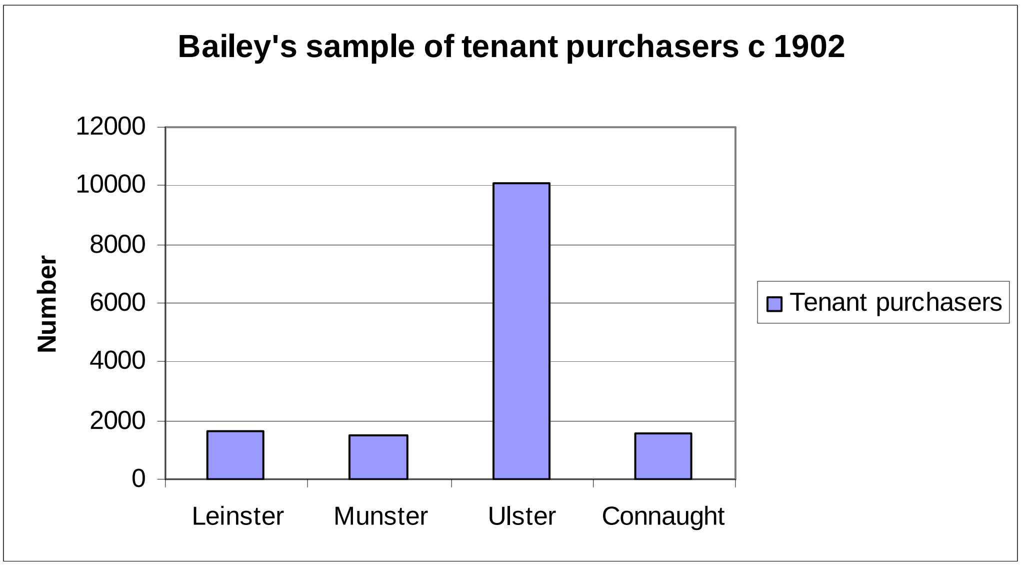


Source: Irish railway statistics in *Thom's Directory*, various years

Another problem with the sample used in Bailey's report is that many on the participants are self-selected.[150] This is evident from the fact that many were purchasers and sellers of lands before the concept of land purchase was popularised. Many of these bought and sold their land under the earlier acts which had required that a fraction of the purchase price be contributed by the borrower and these were able to do so. Many of the participants in the study of tenant purchase schemes may have reflected underlying structural differences in Irish agriculture at this time. The data in figures 7.26 and 7.27 give an indication of the provincial distribution of tenant purchasers and the provincial distribution of the sample used in Bailey's report.

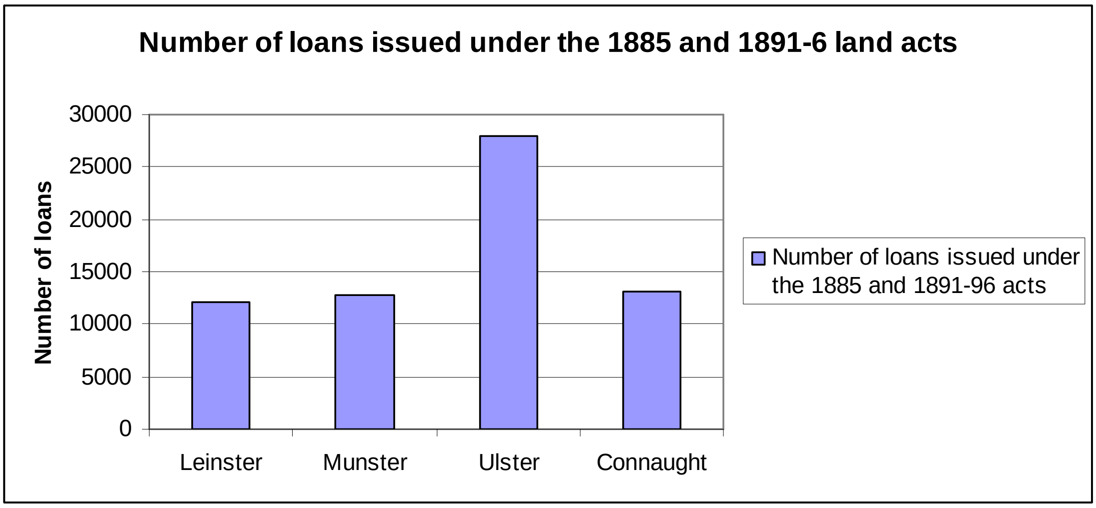
[150] Self-selection refers to an omitted and unobservable variable that determine's an individuals decision to enter a programme, see Jeffery Wooldridge, *Econometric analysis of cross section and panel data* (Massachusetts, 2002), p. 254.

Figure 7.26



Source*: Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 6, H.C. 1903, (92), lvii, 333.

Figure 7.27



Source: *Thom's Directory, 1923*, p. 687.

Sixty-eight per cent of the tenant purchasers in Bailey's sample were from the province of Ulster. Ulster had always been seen to have the most dynamic agricultural sector, and the 1870 land act had attempted to replicate the 'Ulster custom' throughout Ireland. Bailey's report did not explain the predominance of Ulster tenant-purchasers in his sample of the effectiveness of the tenant purchase schemes. As can be seen from figure 7.27, Ulster had a larger proportion of tenant purchasers. Therefore it would have been useful if Bailey had gone into greater detail to explain this. A reasonable explanation for the predominance of Ulster tenant purchasers in the sample is the fact that Ulster had a more commercially responsive agricultural sector and that the farm holdings in Ulster tended to be of small size specialising in tillage.[151] This commercial responsiveness would have meant that they would have appreciated the benefits of concessional loans to purchase their farms, and the issue of smaller holders meant that a greater number of such commercially responsive holdings could have been sold. It may also be the case that Ulster farmers were the ones most affected by the 'Grain invasion'. Any sample with such a high Ulster representation making claims about the benefits of land ownership without making reference to the reasons for the predominance of Ulster participants in the sample would be liable to make erroneous conclusions. This produces a biased sample of tenant purchasers from which to draw any conclusions regarding the benefits of land purchase. So not only was Bailey's original sample unrepresentative of the total agricultural population, but the actual sample he used was biased in favour of Ulster tenant-purchasers. It is also interesting to note that both Hoppen and Turner have suggested that landlords in Ulster were in a position of financial strength and did not need to sell their land.[152] If this is the case, how do Hoppen and Turner explain the high proportion of land sales in Ulster? If landlords had no need to sell, why then did land purchases take place at such a high level in a province where it was believed ideal tenurial security existed?

Another issue which cannot be directly traced to the land purchase policy, but which Bailey associated with improvement due to land purchase, was the consumption of American bacon.[153] The case of American bacon shows the intra-agricultural trading patterns of the nineteenth century. Imported American bacon was cheaper and of lower quality than the Irish bacon. It was used as a substitute for Irish bacon which was exported to Great Britain. This also happened to be a novel import, one which would not have been consumed as readily before. Such propensity to import does not necessarily have to have been caused by land ownership. Again, it would be worthwhile if Bailey corroborated his findings with evidence of consumption patterns for non-purchasers.

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[151] W. F. Bailey, *The Irish land acts: a short sketch of their history and development* (Dublin, 1917), p. 5.
[152] Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), p. 203; and Hoppen, K. Theodore, *Ireland since 1800: conflict and conformity* (Second edition, London, 1999), p. 104.
[153] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 14, (92) H.C. 1903, lvii, 333.

What Bailey's report does give reliable information on is the effect of government land purchase policy on tenant purchasers. The information in Bailey's report gives an indication as to the screening and monitoring procedures involved in the government land-purchase policy. There is also information as to the effect of the land purchase schemes on the investment patterns of tenant-purchasers. Firstly, it must be stated that the screening of land purchase policies was not based on the economic rationale of the time. The government wished to quell agro-political agitation through concessional loans and this is evident from its screening policy, although this does not necessarily explain the high incidence of Ulster tenant-purchasers.[154] The state provided loans to purchase agricultural land, and given that these were loans, not grants, one would expect a rational lender to lend based on the prospect of the borrower's ability to repay out of either the borrower's existing assets or the expected returns from the lending project. It does not appear as though these were factors taken into consideration under the land purchase policies. Evidence of this can be seen in Bailey's accounts of struggling and prospering purchasers. Those who prospered were those who had sufficient capital beforehand and good quality land to work with, whereas those who had insufficient capital and poor quality land struggled. They struggled despite the fact that they were now owners of their land. Ownership cannot bestow fertility on infertile land, or rather ownership is not solely the criterion for efficiency or prosperity.

Bailey also referred to the fact that many made their repayments from non-farm income such as the earnings from migratory labour and remittances from emigrants.[155] This indicates that loans were given to purchase land that was inadequate for farming purposes. These holdings were deemed 'uneconomic' but credit was still given to purchase them. Proper screening would have realised that these borrowers would not have been able to repay loans from the earnings on the farm. This meant that even with a rent reduction and subsidised loans these smallholdings, primarily in the west, were not economically viable as farming enterprises. Monitoring was another feature that was lacking and one which Bailey recommended be introduced in the future. There was a fear that tenant purchases would result in subletting and subdivision of the land, akin to the problems from the 1840s, and this was made illegal under the

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[154] Maps in the appendices of Laurence Geary *The plan of campaign 1886-1891*(Cork, 1986) show that there was a lower incidence of agricultural agitation in the northern regions.

[155] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 23, (92) H.C. 1903, lvii, 333.

1881 Land Act. But the investigation for Bailey's 1903 report was the first time that there was direct contact with many borrowers since the instigation of a land purchase policy.[156]

The borrowers in Baileys sample seemed satisfied with the land purchase schemes, the reason for this was that the repayments for the government lending schemes were lower than the rents that borrowers had previously paid, and lower than the interest charged by other commercial lenders.[157] The reduction of rents led to a decrease in the cost of farming, and a subsequent increase in disposable income caused by the reduction in costs. A farmer now experiencing a decrease in costs would have a number of options available, depending on the increased level of the disposable income. If, for example, a decision was to be made between whether to borrow or not, the increased disposable income would lead to an income effect whereby a farmer would be able to substitute the increased income for borrowed capital and thereby reducing costs of borrowing. An example of the use of this increase in income can be seen from the following observation: 'On an estate in Tyrone, we found that many of the smaller purchasers immediately earmarked their savings – as between rent and annuity – and employed them in the acquisition of agricultural machinery, reapers, cultivators, and such like,'[158] thus leading to increases in productivity and greater efficiency.

7.6. The 'economic' holding

Land purchase policy was centred on ownership transfers from landlords to tenants, but another issue considered by land policy was the commercial viability of farms. These are two separate issues. Farm viability refers to the farm size and land quality and strives to increase farm size and access to quality land in order to increase income, whereas ownership transfer assumes that land ownership creates incentives to invest and increase productivity. The fact that both policies were pursued suggests that it was unclear where the fault lines lay: were farms too small, or were there inefficient property rights, or both?

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[156] Ibid, p. 21.

[157] Bailey refers to banks charging from 10 per cent up to 40 per cent including renewals, but these are for short-term loans. As previously stated it was not the policy of joint stock banks to issue long-term mortgage loans.

[158] *Report by Mr. W. F. Bailey, Legal Assistant Commissioner, of an inquiry into the present condition of tenant purchasers under the land purchase acts*, p. 12, (92) H.C. 1903, lvii, 333.

In terms of assessing the Irish banking structure in the nineteenth century, if a large proportion of the farms were commercially unviable, then it would also have been commercially unviable to offer them long loan terms. As was shown above, there are a number of risk categories to which agricultural lending is susceptible,[159] and commercial unviable farms would be more vulnerable to each of these risk categories than other farms. Commercial lending institutions would therefore not risk long-term lending to small farms in Ireland. This would suggest that there were structural problems in Irish agriculture, and not capital constraints.

Bailey, the advocate of land purchase cited in section 7.5, in evidence to the committee on congestion in 1906, stated that there was a dichotomy between 'economic' and 'uneconomic' holdings. Bailey stated that:

> One class holds land of a fertility, quantity, and situation that enables the occupier to live at a reasonable standard of comfort out of the produce and pay a rent. The other class also lives on and partly out of land, but land of a character, quantity, or situation, that will not support a family at a proper standard of living without extraneous help. (sic)[160]

An important issue in land reform policy from 1891 onwards was the idea of an 'economic holding' and this was the central idea behind the creation of the CDB, referred to in section 7.3. The subsequent land acts that dealt with the island as a whole also aimed to increase the number of economic holdings, by either consolidating 'uneconomic' holdings, or purchasing untenanted land and redistributing it amongst existing holdings.

Dooley has shown that a similar policy was pursued in the 26 counties in the twentieth century. Some observations on the issue of economic and non-economic holdings appeared in publications of the DATI in the early 1900s. In the 1902 *General Report of the Agricultural Statistics of Ireland*, William P. Coyne, the superintendent of statistics of the DATI and professor of political economy at University College Dublin,[161] gave an outline of landholdings from an economic perspective. Coyne believed that an economic holding was the function of soil, population density, education, subsidiary industries, proximity to markets,

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[159] Human or personal risks, assets risks, production or yield risks, price risk, institutional risk, and financial risks; see European Commission Agriculture Directorate-General, 'Risk management tools for EU agriculture wwith a special focus on insurance', working document, January 2001, pp 12- 13.
[160] *Third Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evid. and Documents*, question 16281, p. 158. [Cd. 3414], H.C. 1907, xxxv, 337.
[161] Mary E. Daly, *The first department: a history of the Department of Agriculture* (Dublin, 2002), p. 23.

infrastructure, agricultural organisation/ co-operatives, and development of agricultural credit.[162] Coyne believed that ownership was an important factor, but not the only factor, stating that:

> It is generally agreed that the progress of Irish agriculture will become more assured and continuous in proportion as the occupiers are converted into owners; but this can only be expected, of course, in the case of holdings that are not too small to support a family in average well-being. The magic of ownership can do much, but there are, in these days of world-wide competition, very definite limits to its potency, as the most sympathetic student of peasant proprietorship on the continent of Europe must admit.[163]

A subsequent article published in the journal of the DATI discussed what was required for a holding to be considered economic. The article stated that:

> The greatest bar to progress will then be the existence of an excessively high proportion of holdings which no abolition of dual ownership – nor even of rent itself – could render economic. Next to this, and closely connected with it, is the serious want of working capital.[164]

J. R. Campbell went on to state that he believed that 50 acres was the minimum size of a holding for it to be deemed economic if it specialised in tillage. The criteria for 50 acres was that there would be enough space so that 2 horses could be used, and the size of the farm could be lowered to 30 or 25 acres if the land showed greater fertility or if there was co-operation in the ownership of horses. And 'that any smaller area could be economic under the extensive system would be extremely difficult to prove'.[165] Dooley has shown that there were official views of what size should be considered the standard for an economic holding. What is interesting from Dooley's account is that the official view of the standard farm size was continually revised. For example, in the 1920s and 1930s the standard size was considered to be 20 acres. This rose to 25 acres in 1937. By 1947 25 acres was considered to be subsistence. In 1949 33 acres was considered to be standard. This rose to 35 acres in the 1950s. By the 1960s 45 acres of 'good land' was considered to be the standard, and by the 1960s and 1970s the view of 50 acres returned.[166] Dooley commented on this changing official standard of what was an economic farm, stating:

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[162] *Agricultural Statistics of Ireland, with detailed report on Agriculture for 1902,* p. xxvi [cd. 1614], H.C. 1903, lxxxii, 309.
[163] Ibid, p. xxx.
[164] J. R. Campbell, 'The revival of tillage in Ireland' in *Department of Agriculture and Technical Instruction for Ireland Journal*, iv, no. 2 (December 1903), pp 197-205.
[165] J. C. R., 'The revival of tillage in Ireland' in *Department of Agriculture and Technical Instruction for Ireland Journal*, iv, no. 2 (December 1903), pp 197-205.
[166] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), pp 117, 130, 158, 171, 178, 180, and 194.

> By extension, this meant that there could be no solution to the problem of uneconomic holdings: as time passed one standard size would have to be replaced by another and the process of acquisition and division would have to commence all over again.[167]

The fact is that commentators in the early twentieth century were aware of this problem of economic holdings, the 50 acre example cited above, but the official views on what constituted an 'economic holding'/subsistence holding in the twentieth century were continually changed in response to different policy objectives. Dooley's view was that 'uneconomic' holdings could not be made 'economic' because the target was continually revised. But it should also be acknowledged that it was known that small farms were uneconomic from an early time and government policy remained in wilful ignorance of this fact. As the farms were uneconomic, the choice was either to subsidise them or let them fail (commercial failure). Successive governments chose the policy of farm subsidisation, motivated by political rather than economic concerns.

It would be interesting to review the arguments of J. R. Campbell and William P. Coyne by looking at the census returns for 1901 and comparing them to the number of holdings. In the 1901 census land was categorised under the following classifications: under tillage, grass, woods and plantation, turf bog, marsh, barren-mountain, and roads, fences etc. Of the land in Ireland, 75 per cent was suitable farmland, divided between tillage and pasture. With the majority of the land being under grass, land devoted to tillage was 43 per cent of the land devoted to pasture.[168] These statistics are shown in figures 7.28 and 7.29 at a provincial level.

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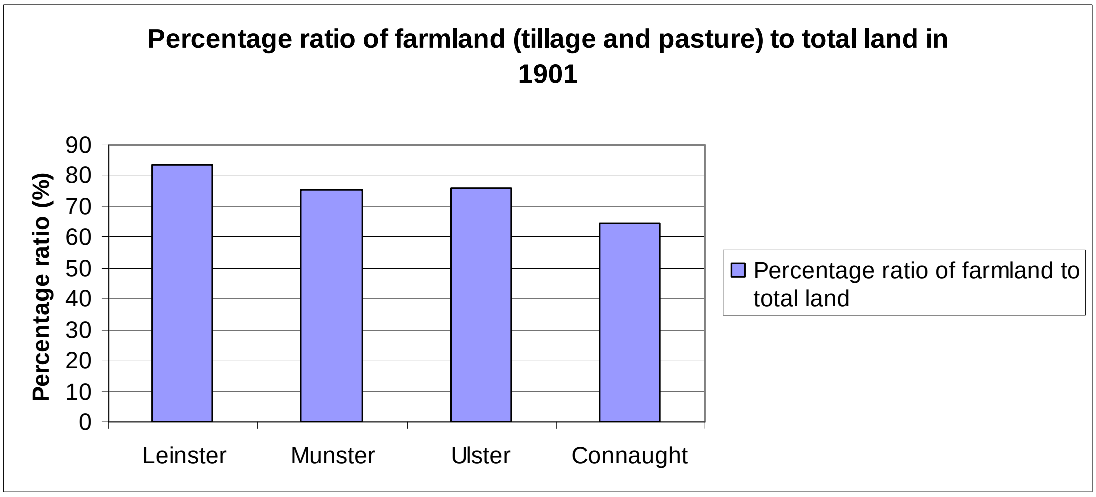
[167] Ibid, p. 171.

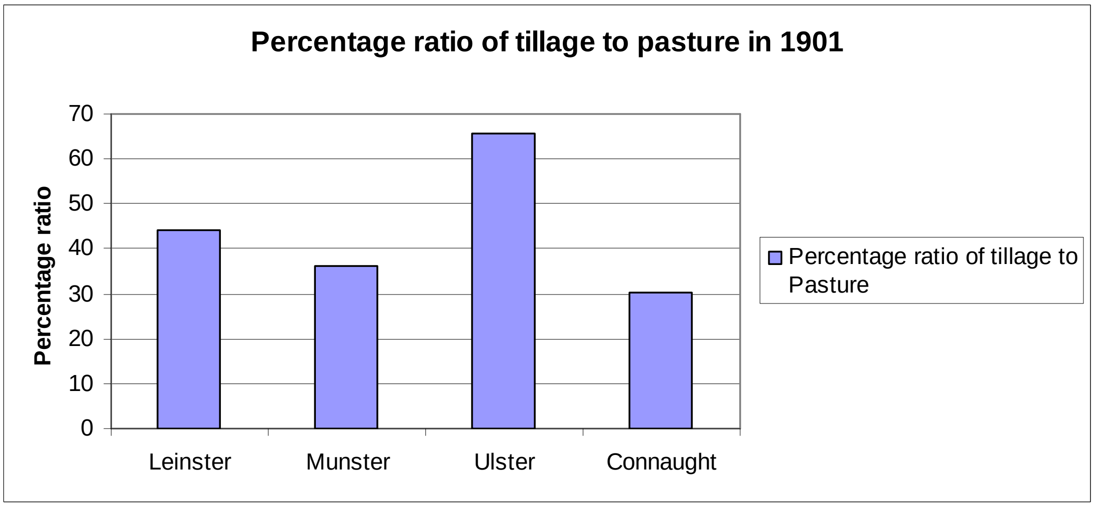
[168] This ratio differs from that shown in figure 7.16. This is due to the fact that the data for figure 7.16 were broken down into tillage, hay and pasture. I constructed the ratio from tillage: (hay +pasture), if I had combined hay and tillage I would have got the same result as above.

Figure 7.28



Source: Census of Ireland, 1901.

Figure 7.29

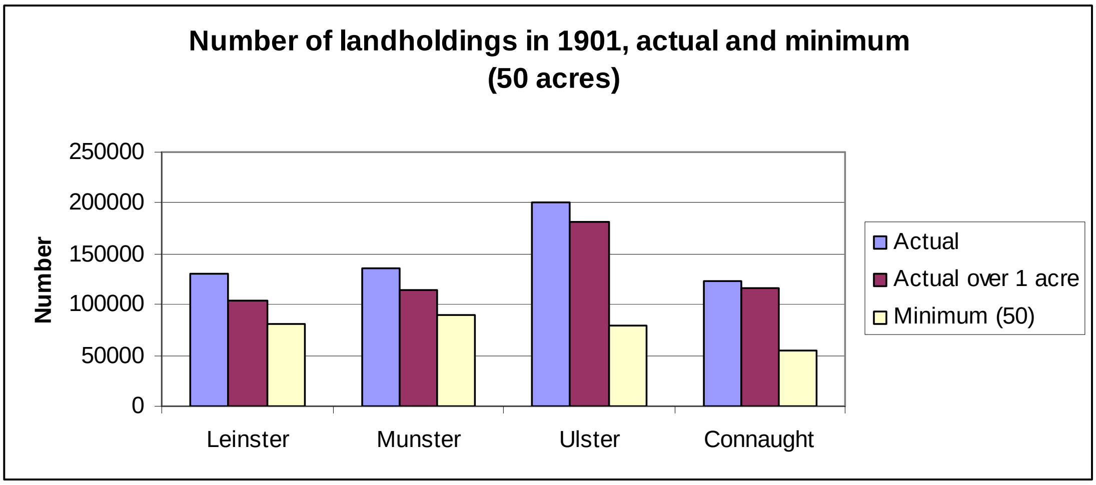


Source: Census of Ireland, 1901.

In both figure 7.28 and 7.29 Connaught has a lower percentage ratio of arable land to total land, and a lower percentage ratio of tillage to pasture compared to the other three provinces.

In terms of the holdings, it is possible to compare the average holding size with a 'minimum' of 50 acres, to see whether or not land holdings in 1901 conformed to this rough estimate of an economic holding. The census figures do not give an indication as to the variance in the quality of the farm land, something which is key to the question of economic holdings. It could be argued that the viability of 50 acres would depend on the type of holding.

Figure 7.30



Note: the number of 'minimum' holdings is calculated from the amount of available arable land, rather than using all available land. The 'actual' are the number of landholdings as returned in the agricultural statistics.
Sources: Census of Ireland, 1901, and *Agricultural Statistics of Ireland, with detailed report on Agriculture for 1902*, [Cd. 1614], H.C. 1903, lxxxii, 309.

If 50 acres was the size of an economic holding, figure 7.30 would suggest that there were a lot of holdings that were uneconomic. In fact using this methodology 48.46 per cent of landholdings were uneconomic.[169] The belief at the time, and as practised by the CDB and Estates Commissioners, was that the number of holdings had to be amalgamated. The 'minimum' of 50 acres shown in figure 7.30 is calculated by dividing the area of farmland by 50. In reality not all holdings were comprised of only farmland, and were comprised of all available land. Also, the minimum in figure 7.30 does not take the quality of farmland into account, and there was a high degree of variance in land quality.

Given that the aim of the CDB and the estates commissioners was to create economic holdings from non-economic holdings, and that their policy was to do so by purchasing untenanted land, the success of such a policy would be marginal at best. Land is a scarce resource, and although increases in farmland can be achieved by land reclamation and drainage schemes, these are costly to undertake. For example, using the 1901 census, if all marsh land was drained, this would have increased the available farmland by roughly 3 per cent. But many contemporaries were unconvinced of the returns to drainage and as a result it was not widely undertaken. The condition of uneconomic holdings could have been improved with increased

[169] This is a percentage of the differential between the actual and the minimum of the actual landholdings ((A-M)/A)*100.

investment in livestock and fertilisers, but even at this a saturation point would have been reached when diminishing returns to capital would set in. One possible solution to the 'land question' would have been to reduce the number of people directly earning a living from the land and to increase the average size of holdings to levels that would make them economically viable. The lack of industrial development in Ireland meant that emigration would have been the only way to achieve this goal. Co-operative organisation can make small holdings more economically viable, through the combined effort in marketing and distribution, but to ensure economic viability efforts must be made to consolidate land.

Another difficulty with land purchase that emerged in Ireland after the land purchase acts had been passed was the low turnover of land in Ireland, with both Crotty and Dooley making reference to this fact.[170] In fact, Dooley stated that there was a very low turnover of land ownership in Ireland until the 1980s.[171] Crotty was highly critical of this and saw it as a misallocation of land in Ireland, with land being held by owners rather than being sold to another farmer who might be able to derive greater use from it.[172] Dooley has suggested that this was a reflection of Irish 'land hunger', but Crotty was critical of such 'subjective' explanations and wanted to find the underlying causes that created cultural constraints on Irish agricultural development, stating that:

> It is common in Ireland nowadays to explain, or to explain away, the outstanding characteristics of its agriculture in terms which are mainly subjective and to the economist quite unsatisfactory. Resistance to change, individualism, unwillingness to co-operate with official and semi-official bodies, a preference for holding assets in liquid bank deposits rather than investing them in farming, "land hunger" – these are subjective phenomena which are unusually prevalent in the Irish countryside. But it is pertinent to inquire into the nature of the underlying material facts which give rise to these subjective attitudes or to their exceptional prevalence in Ireland.[173]

If we analyse the Irish land situation there seems to have been an endowment effect associated with land ownership in Ireland.[174] This endowment effect caused land owners to value land more highly than did the market and as a result these land owners were unwilling to sell their land. Social pressures also precluded sale, as to

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170 Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), p. 5; Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 93.
171 Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), pp 197 & 200.
172 Raymond D. Crotty, *Irish agricultural production: its volume and structure* (Cork, 1966), p. 220.
173 Ibid, p. 212.
174 An endowment effect is a case where an individual places a higher value on a good based on the fact that he/she owns it.

sell land was seen as social failure. Another factor which hampered the consolidation and rationalisation of land in rural Ireland was the social value of land. Land ownership, regardless of size, had a status effect in rural Irish society. This status effect in turn fed the endowment effect and, therefore, it would have been difficult to consolidate small holdings. As a result the long-term financing of land purchase schemes in order to encourage ownership transfers was not a profitable investment, and it did not encourage the efficient use of land in Ireland. The social goal of peasant proprietorships had been accomplished, but at the cost of economic efficiency. As was stated above, this social goal also had a legacy effect; many of the farms purchased were uneconomic, inefficient and required further government subsidies.

In outlining the above argument, it must be acknowledged that it was not a widely held view. The final report of the royal commission on congestion argued that the average holding size in acres was not a reliable indicator for an economic holding, and they preferred to use tax assessments, Griffith valuations, as indicators of the economic capacity of a holding.[175]

As discussed previously, one of the main roles of the CDB was as a purchaser of land in the congested districts. The CDB outlined its views on land redistribution in its seventh report in 1898, stating that:

> We regard the improvement and enlargement of holdings, through purchase and re-sale of estates to the tenants, as likely to prove, if wisely and prudently carried out, the most permanently beneficial of the measures it is in our power to take for bettering the condition of the small occupiers in certain of the congested districts. The same remark holds good of migration schemes also, provided the difficulties involved in moving occupiers to a distance from their homes can be overcome. It is evident that agriculture must always be the chief industry and support of the population of the inland districts, and it is no less certain that a very large number of occupiers have not sufficient land, regard being had to both quantity and quality, to give full employment to their labour or to afford them a bare subsistence.[176]

The CDB would purchase estates and reorganise holdings before selling them to tenants under the terms of the land acts. In 1899 the CDB stated that:

> The difficulties that have been encountered in re-striping some estates, that is, in squaring and re-arranging the holdings so as to make each as compact and convenient as possible and not less in annual value than before, can only be appreciated when the manner in which the land is sub-divided has been fully explained. On many estates in the west where we have purchased additional land, a grazing farm for example, and are thus enabled to considerably increase the size of all the old holdings it is a comparatively easy

[175] *Final report of the royal commission appointed to inquire into and report upon the operation of the acts dealing with congestion in Ireland* , p. 39. [Cd. 4098] H.C. 1908, xlii, 729.
[176] *Seventh report of the Congested Districts Board for Ireland*, pp 19-20. [C. 9003], H.C. 1898, lxxii, 481.

> matter to satisfy the tenants, but where, and this must occur in many cases, very little land can be added to the existing holdings, the problem becomes a difficult one.[177]

Some of the arguments during the debates in 1903 and 1909 prior to the introduction of the land purchase acts came from those exhorting the compulsory purchase of grazing lands and advocating their redistribution to small farmers. The belief was that if grazing lands were redistributed it would improve the economic circumstances of tenant-purchasers. This line of thought continued throughout the twentieth century in the 26 counties and land policy was targeted at breaking up large tracts of grazing land.[178] The proponents of this argument sought to redistribute grazing land to augment available land for farmers, although they did not make it clear whether they wanted to use the land for extensive tillage or for smaller scale grazing. Given Ireland's comparative advantage in grazing in the late nineteenth century, any largescale break up of grazing land would have been an uneconomic investment.

An early example of such land redistribution policy based on the redistribution of grazing can be seen from some of the activity of the CDB. In 1893 the CDB acquired the Ffrench estate in Co. Galway, and in the third report of the CDB gave an outline of the redistribution work. Prior to the CDB acquiring the estate, the total acreage of the estate was 1,419. This was divided between grazing, 350 acres, bog and woods, 208 acres, and agricultural tenancies, 861 acres. The attraction of grazing to landlords is discernible from the description of rental income. Bog and woodlands did not contribute a 'rental' income but this is possibly a misrepresentation of the marketable value of turf and wood as fuel; agricultural tenants paid £400 9s 0d in rent, and grazing paid £182 10s 0d in rent. Tenancies paid more rental, more than double, but required more land. If this is broken down to rental per acre and rental per tenancy, the results are as follows, given that there was one grazier, grazing paid £0.52 per acre versus £0.46 for agricultural tenants, and rental per grazing tenants was £182 versus £5.33 for an agricultural tenant. There were 75 agricultural tenants on the Ffrench estate, and after CDB intervention and redistribution there were 77. Before redistribution land per agricultural tenant was 11.48 acres and after redistribution this was raised to 15.72 acres, an increase of 36 per cent. In the third report of the CDB it was stated that:

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[177] *Eighth report of the Congested Districts Board for Ireland*, p. 11. [C. 9375], H.C. 1899, lxxvii, 755.
[178] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004).

> The land available for distribution, owing to the surrender of the grazing holding, was not sufficient for the enlargement of all the small holdings to any material extent, and it was therefore decided to apportion it among the tenants whose judicial rents did not exceed £7 a year each. The tenants whose rents exceeded that amount did not get any of the grazing holding, but every tenant on the estate got a stripe of turbary and cut-away bog added to his holding free of rent, and in nearly every case the quantity of turbury given will yield a supply of fuel for upwards of sixty years.[179]

This case was also problematic in that when the CDB acquired the grazing land it was not able to dispose of it immediately due to the fact that 'most of the small occupiers were absent in England as "migratory labourers".'[180] As a result the CDB had to re-let the land for grazing.

If this case is treated as a microcosm of the grazing question in Ireland, one might deduce that such a land redistribution policy would not be a solution to the economic problems of the Irish agricultural sector. Land is a fixed resource, and transfers from graziers to tenant purchasers would not have been sustainable in the long run, mainly because it decreases the amount of available farming land, i.e. if people built more houses and fences, this would lead to a decrease in the amount of land for grazing purposes,[181] making the policy self-defeating. Trends in England and Europe had been towards consolidation of agricultural holdings in order to secure economies of scale. This would not have been possible via a disintegration of land holdings, unless farmers were able to consolidate their land through co-operative action. Interestingly, after the reorganisation of the holdings on the Ffrench estate many failed to increase their valuation to the £10 standard that was used as a benchmark.[182] This illustrates the limitations of such policies.

7.7 Conclusion

The Irish 'land question' was a complex problem, and one which land purchase by itself could not solve. Land purchase schemes became an integral part of government policy from 1885 onwards. The analysis of the land purchase schemes is often ideologically motivated and focuses on the political element while neglecting economic analysis. In some cases the writing is teleologically motivated and the 'land question' is analysed up until the split between north and south, but the analysis is not continued any further.

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179 *Third report of the Congested Districts Board for Ireland,* p. 9. [C. 7522], H.C. 1894, lxviii, 681.
180 Ibid, p. 8.
181 Both Crotty and Solow make similar arguments.
182 *Seventh report of the Congested Districts Board for Ireland,* p. 19. [C. 9003], H.C. 1898, lxxii, 481.

This chapter has argued that the land purchase schemes were successful in what they intended to do, which was to create a peasant proprietorship in Ireland. This was achieved by making the land purchase more accessible to all who wanted to purchase their land. It could not have been achieved within the available financial infrastructure of the time. The microfinance institutions that have heretofore been discussed in this thesis would have been unable to match the financial conditions that the government land-purchase schemes offered to tenants.

Given that the majority of microfinance institutions that we have discussed only made short-term loans, were the land purchase schemes the completion of the market and were they correcting a market failure? No, there was a long-term mortgage market in Ireland prior to the land acts, but it was inaccessible to the majority of tenants. The private market would not have been able, or willing, to finance the land purchase on the terms or scale that the state offered and implemented under the 1903 land act. There was little screening done, something that one would expect a rational profit-maximising lender to do. The land purchase schemes were politically motivated by the social goal of creating a peasant proprietorship, but this political motivation blinded people to the fact that many of the farms were uneconomic and inefficient.

The land purchase acts were in many respects similar to the other microfinance institutions discussed heretofore in this thesis in that they were motivated by social rather than economic objectives. In the case of land purchase programmes emphasis was given to solving the ‘land question’ by transferring ownership from landlords to their tenants, but this was done without taking into consideration why the private market could not do the same. The reason why the private market would not lend to tenants to purchase land on long-term mortgage was because of the fact that there was a high risk attached to it; this was based on the fact that the majority of farms were small. In 1917, excluding landholdings under 1 acre, 64.50 per cent of land holdings were under 30 acres.[183] If we use the criteria that 50 acres was the minimum commercially viable farm size, referred to above, this suggests that the majority of Irish farms in 1917 were uneconomic. So if we look at the absence of widespread mortgage lending from this perspective, it could be argued that there was no market failure as private lenders knew that there was a high risk of default. It was also shown that there was a significantly high level of arrears, something to suggest that long-

[183] *Agricultural Statistics of Ireland with detailed report for 1917*. [Cmd 1316], H.C. 1921, xli, 135.

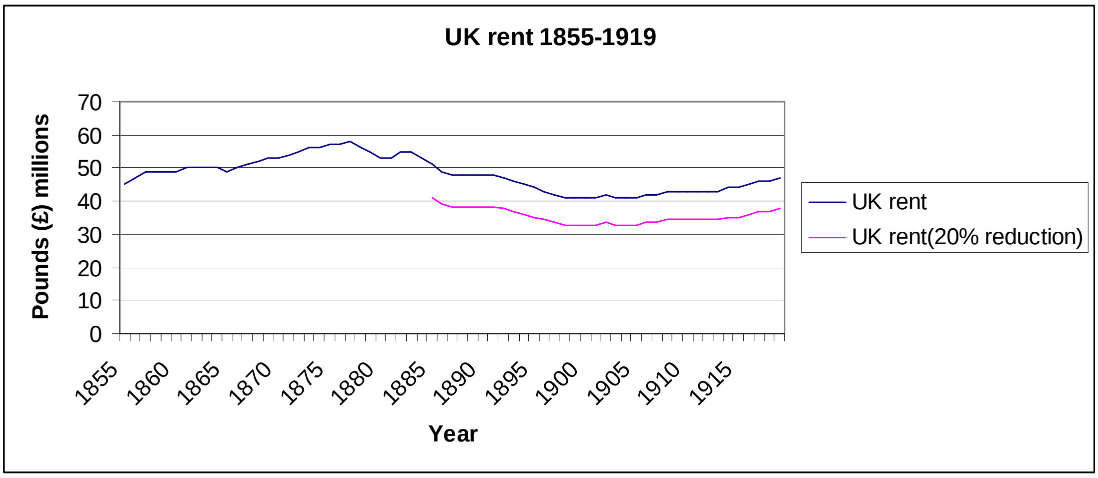
term lending to Irish agriculturists was not a profitable venture. We should also take into consideration the fact that there was a high emotive attachment to the land and, as was stated above, if a borrower defaulted it would have been very difficult to foreclose and re-sell the land.

The land acts and the land purchase schemes effectively reduced the cost, i.e. rent, of farming and therefore increased the income from farming. The following figures will look at a hypothetical simulation of what would happen if rents were reduced by a figure of 20 per cent, as was the case under the judicial rents system introduced under the 1881 Land Act to Ireland, and the subsequent land purchase arrangements.[184]

The data are taken from Mitchell's *British historical statistics*,[185] and are an estimate of UK farm incomes and rents. The logic for using UK farm incomes and rents is that they would have been subject to the same economic conditions regarding international competition. The data from Mitchell's are a time series and can be used to illustrate what would happen to agricultural income if rents were decreased. Rent decreases in Ireland took two forms. One was direct rent reductions through judicial intervention in agrarian land contracts, and the second was through land purchase schemes where land was sold to farmers under concessional interest rates, and annual repayments were designed to be lower than prevailing rental rates. It would be interesting to see what effect this could have by assuming a 20 per cent reduction in all cases, and applying this to the UK agricultural data.[186] Assuming rent reductions begin in 1885 and continue throughout the period, figure 7.31 shows the difference between rent before and after such rent reduction.

[184] James S. Donnelly, *The land and the people of nineteenth century Cork: The rural economy and the land question* (London, 1975), p. 348.
[185] B. R. Mitchell, *British historical statistics* (Cambridge, 1988).
[186] The statistics in Mitchell do not indicate whether the data on rents have already been corrected for rent reductions. The assumption here is that they have not.

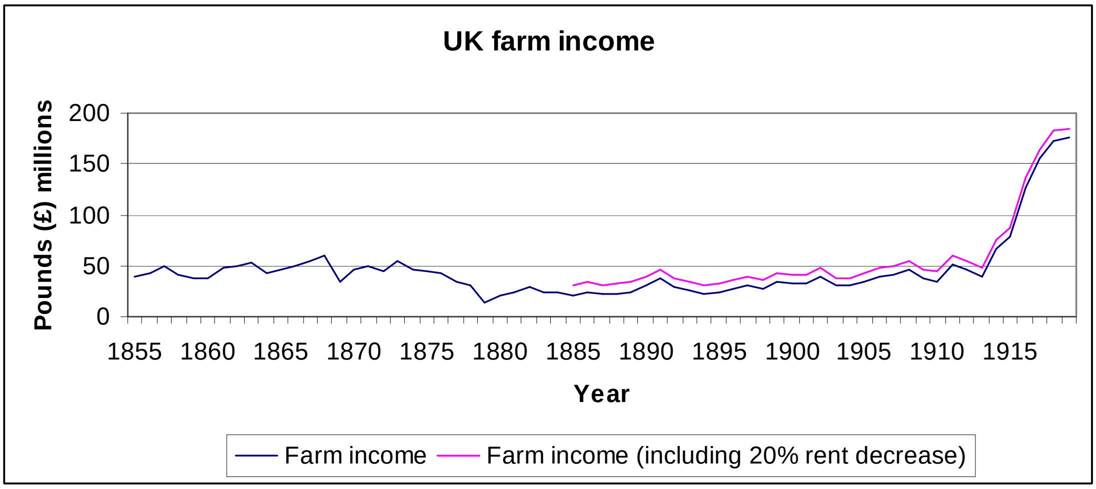
Figure 7.31



Source: B. R. Mitchell, *British historical statistics* (Cambridge, 1988).

Figure 7.31 assumes a structural break in rents at 1885. If the data from Mitchell's include the rent reductions, then figure 7.31 is a 40 per cent reduction in rents which will further illustrate the point regarding the effect of rent reductions on disposable income.

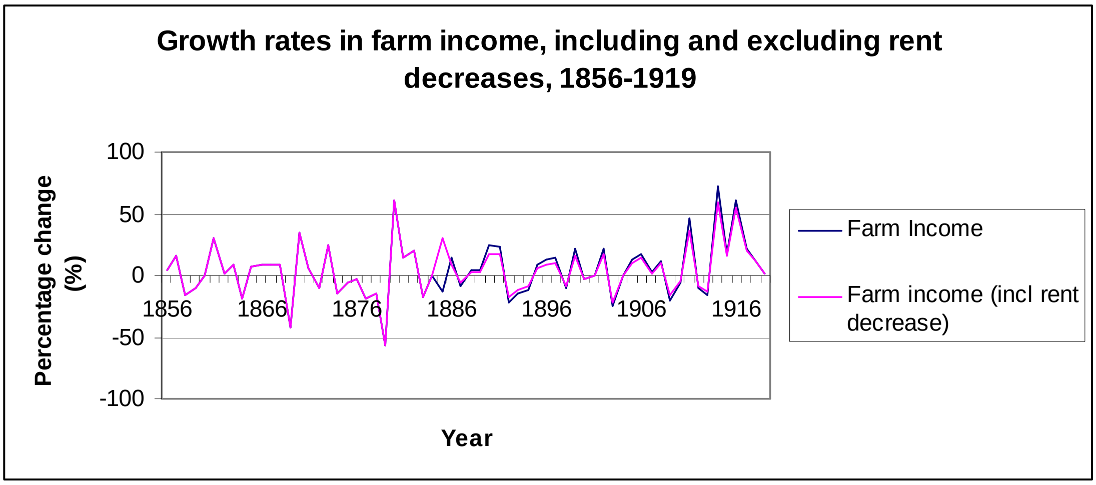
Figure 7.32



Source: B. R. Mitchell, *British historical statistics* (Cambridge, 1988).

The policy of judicial rent reductions and land purchase led to reductions in agricultural rents in the region of 20 per cent. Assuming rents decreased by 20 per cent per annum, this decrease is transferred to the income of farmers as they would no longer have to pay that amount in rent. Rent was not the singular cause of profitability, as profitability relied on a number of exogenous factors. The question then is: what effect does a 20 per cent decrease in rents have on the hypothetical income of a farmer? An estimate of this can be derived from the percentage change in the income excluding a rent decrease and the income including a rent decrease. A 20 per cent decrease in rents can have an immediate impact of increasing farm income by up to 50 per cent, but then subsequent impact of rent decreases does not have the same marginal effect on income. To give a better impression of the effect of rent decreases on farm income, figure 7.33 is an illustration of growth rates in farm income. Given that rent decreases were constant, would this lead to constant growth in farm incomes?

Figure 7.33



Source: B. R. Mitchell, *British historical statistics* (Cambridge, 1988).

Farm incomes fluctuated with the price levels of agricultural products, and not with the levels of rent. If rents did not exist, incomes in commercial farming would still be dependent on prevailing price levels. The importance of prices in terms of agriculture was acknowledged by Lord Faber in the debate on the Thrift and Credit Banks Bill in 1910 (discussed in chapter 6).[187] Faber cited the importance of prices to agriculture, and also the fact that many continental European countries had implemented tariff policies to protect their agricultural sectors. Faber stated that:

> Speaking from a commercial point of view I have no hesitation in saying that from 1880 till now the lending of money merely on agricultural land has been a dangerous proceeding to the lender unless the margin has been very large. All these matters depend on the price of produce. The price of produce has been low until the last year or two…It is all a question of the price of produce. I should have thought that it would not have passed the wit of man to decide on some policy which would give cheap food to the towns and also a little help to agriculturists by such a system as the bounty system on home produce. But this is not the moment to discuss that matter.[188]

[187] This was essentially a bill to reform the Friendly society legislation to enable Raiffesien societies to have access to the Industrial and Provident societies act, with an exemption from limited liability.
[188] *Hansard 5* (Lords), v (26 April 1910), pp 705-706.

The largest rise in farm income came at the onset of the First World War which coincided with considerable price increases and the existence of guaranteed markets because of the decrease in UK imports. Dooley when commenting on the negative aspects of the war cited the fact that emigration outlets were closed, land purchase had been curtailed, and the CDB had to put a halt to its estate-purchasing activities.[189] But this was counterbalanced by the high prices experienced during the War, so much so that Dooley stated that 'Irish agriculture had rarely, if ever, had it so good'.[190]

To continue to increase the income of a farmer in the manner of rent decreases can only be achieved by continually reducing the rent paid by a farmer until it reaches the level of zero, and then possibly paying negative rents (i.e. subsidies) to farmers. Once a zero level of rents, or negative rents, is achieved will this enable farmers to compete with international competitors? The answer is no, as reducing costs in this manner does not address the efficiency advantages that foreign agriculture production possessed. There are limits to what can be achieved through land reform of this type, and sooner or later the question of efficiency needs to be addressed. The issue of land reform was important in improving the condition of agricultural production in Ireland, but it was only one facet of land improvement; other areas also needed to be addressed which were neglected in the face of calls for land reform.

To illustrate this point in the context of the areas under the jurisdiction of the CDB, table 7.20 shows rent as a percentage of the estimated income of twelve types of farming budgets.

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[189] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), p. 31.
[190] Ibid, p. 32.

Table 7.20: Rent as a percentage of estimated income in CDB households c. 1893[191]

Type of household	Rent as a percentage of income (%)
1. Good circumstances being derived from agriculture and fishing	8.30
2. Very poor circumstances agriculture and fishing	15.30
3.Family in ordinary circumstances from agriculture, fishing and home industries	7.35
4. Family in ordinary circumstances – agriculture, migratory labour, and home industries	3.66
5. Ordinary circumstances – agriculture and earnings as migratory labourers	12.61
6. poor circumstances – agriculture and earnings as migratory labourers	8.82
7. Ordinary circumstances – agriculture and home industries	9.66
8. Ordinary circumstances – agriculture and home industries	7.69
9. Ordinary circumstances – agriculture and home industries	7.69
10. Ordinary circumstances – agriculture and home industries	10.66
11. Receipts and expenditure of a family in ordinary circumstances, the receipts being derived altogether from agriculture	21.88
12. Poorest possible circumstances – agriculture and labour in the locality	12.27

Source: Appendix in *First annual report of the Congested Districts Board for Ireland*, pp 32-37. [C. 6908], H.C. 1893-94, lxxi, 525.

In the case of the congested districts (districts within the jurisdiction of the CDB) it is interesting to note that it was stated by Henry Doran in 1906 that there were 'few, if any, estates in the congested districts without arrears'.[192] Doran stated that it was the CDB policy to purchase these arrears when purchasing an estate, but that these arrears were not transferred to the tenant-purchasers.[193] Given the low levels of rent in these districts, as illustrated in table 7.20, this suggests that the income from agriculture alone was not sufficient in the congested districts. Therefore, if loans were made to these tenants, the motivation was political rather than economic.

This chapter has argued that perhaps land ownership was not the panacea for economic efficiency. In 1903 Joseph Compton Rickett, Liberal M.P. for

[191] The CDB inspectors estimated household budgets in the baseline reports, and the household budgets in appendix in the first report are also estimates.

[192] *First Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evid. and Documents*, question 3228, p. 138. [Cd. 3267]. H.C. 1906,xxxii, 621

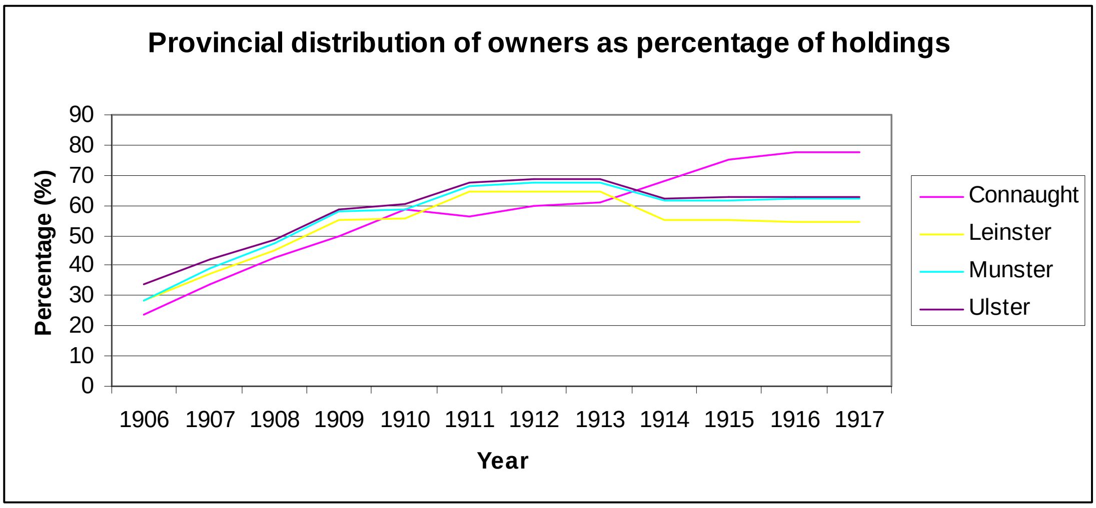
[193] Ibid, questions 3229-3231, 3236, p. 139.

Scarborough, warned of the limitation of land purchase as a policy of land reform. He cautioned that:

> We have also to remember that there are other improvements needed. A vast number of these farmers are very poor. A mere reduction of 15 per cent in their rent is not sufficient to make them capable farmers, or to bring their land to a cultivatable condition. To suppose that we shall change the condition of the population, and effect reformation in economic conditions simply by a reduction in rent is surely beyond the conception of any reasonable man.[194]

Figure 7.34 shows the provincial distribution of landowners as a percentage of landholdings. These statistics were available in the *Agricultural statistics of Ireland* from 1906 onwards, and as such they suffer from the same data problems discussed in the fourth section of this chapter. But it is worth referring to the fact that by 1917 Connaught had a larger proportion of owners as a percentage of landholdings than any of the other provinces.

Figure 7. 34

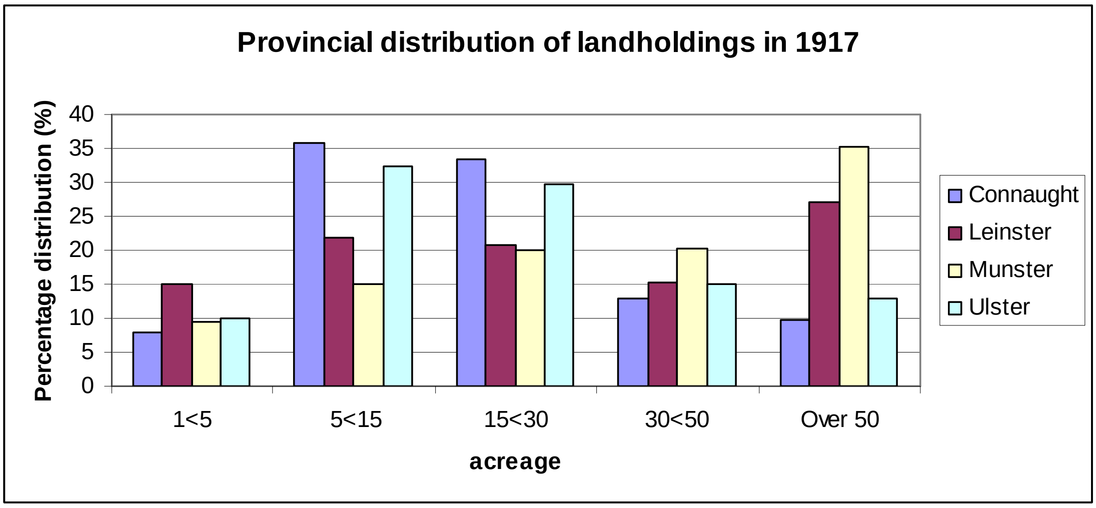


Source: *Agricultural statistics of Ireland* (various years)

This may be a reflection of the work of the CDB who dedicated itself to land purchase and resale after the 1909 land act. But given the fact that endowment effects existed and continued to exist, this suggests a failed and counter-acting policy.

[194] *Hansard 4*, cxxii (7 May 1903), cited in Pat Crosgrove, p. 50.

Figure 7.35



Source: *Agricultural statistics of Ireland*

Given that Connaught had the largest percentage of owners to landholders in 1917, comparing this to the landholding distribution in 1917 shows that Connaught also had a larger proportion of small farms compared to the other provinces. While figure 7.34 shows that the land purchase schemes were accessible to all, it also shows the limits to the land purchase policy. As it was, the province with the highest distribution of small landholdings had the highest proportion of owners as a ratio of landholdings. This would not have solved the structural problems associated with land distribution in Connaught; it may have made structural adjustment even more difficult. The creation of peasant proprietorship meant that owner-occupiers would be even more attached to their plot of land than they had been previously, and this would be an inhibitor to internal and external migration, and efficiency.

An interesting feature of the land purchase policy was the issuance of guaranteed land bonds to fund the schemes. Figure 7.36 shows the number of Irish securities held by the POSB as a whole as a ratio of the deposits of the POSB in Ireland. This is an interesting facet to the land purchase policy which is often overlooked. There was a common belief that the land purchase acts were financed by the British exchequer. Turner (and in turn Hoppen)[195] claimed that 'the clever trick was that British capital was used to pay for the buyout'.[196] But the truth was that in reality the initial funding came from diverse sources via the issue of land bonds.

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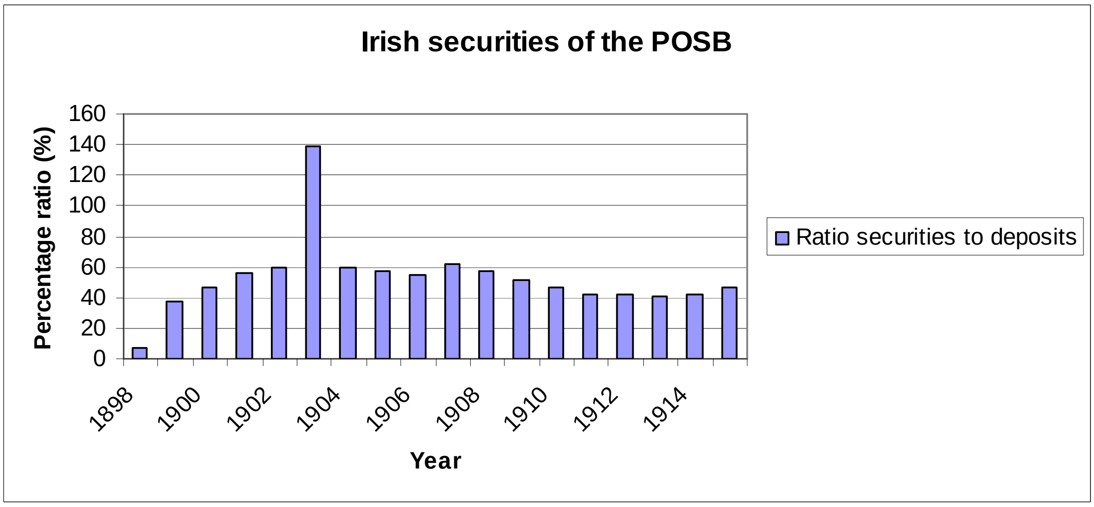
[195] This is an example of the cross-referencing of Turner and Hoppen, as Hoppen cites Turner: K. Theodore Hoppen, *Ireland since 1800: conflict and conformity* (Second edition, London, 1999), p. 104.
[196] Michael Turner, *After the famine: Irish agriculture, 1850-1914* (Cambridge, 1996), p. 211.

Figure 7.36



Source: *Annual reports of the Postmaster General*, various years

David Verdier has analysed the rise and fall of state banking in OECD countries, and he found that the supply side of state banking, or the willingness of states to enter the market, was the result of 'class politics'.[197] The demand for state banking he believed came from groups that were displaced by international competition and felt they needed access to credit.[198] Verdier acknowledged the existence of state interference in savings markets:

> Finally, within the category of state banks, it is important to distinguish between deposit and credit banks. On the deposit side of state banking one finds postal savings, which were almost universally created in the second half of the 19th century to provide central treasuries with access to individual deposits and which are cheaper than bonds. One also finds systems of national savings in Britain and Belgium performing the very same function, although in the Belgian case, state control may have been initially decreed to consolidate fledgling private savings banks. I will exclusively focus on the credit side of state banking, that is, banks that are specialized and were founded to meet a strongly felt need for credit by a category of borrowers whose relative borrowing power from the capital market was below their political power.[199]

Verdier felt that the UK savings bank system did not constitute state banking as he defined it, namely the 'allocation of credit by the central government through so-called state banks, which finance their needs by issuing state-guaranteed bonds'.[200]

Gerschenkron believed that the role of an historian in analysing government economic policy 'consists in pointing at *potentially* relevant factors and at *potentially*

[197] Daniel Verdier, 'The rise and fall of state banking in OECD countries' in *Comparative political studies*, xxxiii, no. 3 (April 2000), p. 300.
[198] Ibid, p. 294.
[199] Ibid, p. 285.
[200] Ibid, p. 285.

significant relevant factors among them which could not be easily perceived within a more limited sphere of experience'.[201] Applying this criterion we can see that state banking did in fact exist in nineteenth century and early twentieth century Ireland. Firstly, as was discussed in chapter 4, state intervention in savings markets does affect credit markets, since by definition banking deposits are needed to create credit (i.e. financial intermediation). Therefore, the intervention of the state in the savings market did affect the other microfinance providers analysed in this thesis, the loan funds and the Raiffeisen cooperatives. But more importantly from an Irish historical perspective, and an ironic twist to the story outlined in this chapter, is the fact that Irish savings were used to finance the purchase of Irish land.

It was alluded to in chapter 4 that the savings bank funds were used to purchase government securities and the assumption was that these were Consols. But as was highlighted by the savings bank committee in 1858, the government securities purchased were not always Consols. The CRND could use the savings bank funds however they wished. The situation was clarified by the 1893 savings bank act, with government stock being defined as 'two and three-quarters per cent Consolidated Stock, two and three-quarters per cent annuities, two and a half per cent annuities, local loans three per cent stock, and Guaranteed Land Stock'.[202] It is the guaranteed land stock that is significant from an Irish perspective, as the land purchase schemes from the 1890s onwards were funded by the issue of government-guaranteed land stock.

Given that Verdier described state banking as the issue of state bonds, it is quite clear that state banking did take place in Ireland. If we look at the ratio of these guaranteed land bonds to the deposits in the Irish wing of the POSB, shown in figure 7.35, we can see clearly that the POSB played a significant role in the land purchase schemes of the late nineteenth century. What we can see in the land purchase schemes is largescale investment in Irish agriculture, but the investment did not take place along productive lines. The issuance of land bonds brought capital back to Ireland, but the capital was used to fund unprofitable and uneconomic ventures in Ireland, and it subsidised the Irish agricultural sector.

It is also interesting to note that these land bonds became 'worthless' after the 1933 Land Act as the government of the day defaulted on the repayments of the loans.

[201] Alexander Gerschenkron, *Economic backwardness in historical perspective* (Harvard, 1962), p. 6.
[202] Schedule one, Savings Bank Act, 1893 (56 & 57 Vict.), c. 69. [21st December 1893].

Under the 1933 Land Act annuities were not repaid to the British government. But coincidentally the annuities were still paid to the Land Commission. For example, in the last report of the Land Commission in 1987 it was reported that there was £5,819,334 due for repayment that year.[203] The annuities have been described as a 'tax' by Ó Gráda, and to some extent this is true as they were converted from a loan repayment into a tax. But they were not a tax before the default took place, so it is erroneous to say that they were 'a tax levied on Irish peasant proprietors to pay for the cost to the (British) exchequer of compensating Irish landlords'.[204] The debt default may also be an explanatory factor as to why landlords were reluctant to accept land bonds as payment in the years after the 1933 Land Act, as there would have been a fear of further debt default by the Irish Free State, and subsequent Republican, governments.

This chapter showed how the land purchase policy was made more accessible to those involved in agriculture in Ireland. The long loan terms associated with the 1903 and 1909 acts created an indebted agricultural class that continually complained of inadequate access to capital. Crotty believed that Irish agriculture stagnated as a result of the land purchase policies. Other commentators were also critical. For example, Garvin noted:

> The British Land Acts had been motivated not by a wish to produce a vibrant Danish-style commercial export-led agriculture, but rather by political and distributivist considerations, aiming at giving as many families as possible a reasonable living, *by the modest standards of late Victorian times,* on the land. The original 'killing home rule with kindness' policy consisted in the British government's creation of the owner-occupied Irish farmer. British governments scarcely concerned themselves with the dynamics of Irish economic development; from their point of view, the Irish economy was a trivial and rather hopeless part of the British economy, and Ireland was a suitable case for treatment by massive subsidy from the ample imperial exchequer. In effect, Whitehall wanted to keep the Paddies happy by throwing land and money at them, and de Valera found himself doing the same thing on a far smaller budget.[205]

The land purchase policies may not have been needed throughout the Irish agricultural sector. The area of the island which required the most urgent treatment was in the west, yet the 1903 Land Act which was supposed to solve the land question gave preferential treatment to areas least in need. This in effect subsidised the entire agricultural sector. The use of land purchase policy, in the shape of subsidised loans, blindly created economic dependency for an unsustainable economic activity. The

[203] Report of the Irish land commissioners 1987, a 83/4, PL 5641, p. 6.
[204] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 412.
[205] Tom Garvin, *Preventing the future: why was Ireland so poor for so long?* (Dublin, 2004), p. 39.

continuation of the policy was path-dependent in that previous land acts established precedents and as some borrowers/voters had benefited other borrowers/voters wanted access to similar privileges. The fact that the land purchase policy took place within a democracy suggests support for Verdier's view that a government pursues the policy because of the fact that there is electoral support for it. This also illustrates the hazards of a democracy in a politically undeveloped country. The low level of political development in the Irish Free State and Republic is something that has been bemoaned by Garvin.[206] The policy of land purchase and government interference in land markets only ceased when Ireland joint the European Economic Community in 1973 and it was forced to abide by EEC directives.[207] The actions of the government land purchase policy may also be a political reason why the industrialised North of Ireland would not support an agrarian government, as such an agrarian government would tax industry in order to subsidise agriculture.

In conclusion, as was outlined in chapter 3, Gerschenkron held an hypothesis, based on his analysis of the economic development of Germany and Russia, that in relatively backward economies banks, investment banks or government can substitute the role of private entrepreneurs in economic development.[208] Ó Gráda has disputed the applicability of Gerschenkron's hypothesis that government may act as a substitute in the process of economic development, arguing that it does not explain conditions in Ireland in the twentieth century.[209] In chapter 3 we argued that this was not applicable in terms of Irish banks, but the evidence from this chapter illustrates the role of government in the Irish economy. Gerschenkron's hypothesis can be seen in the land purchase policy schemes and their path dependence, although in this case providing a negative substitute. The government land-purchase policies created an indebted rural class, discouraged drives towards efficient use of land and also created inhibitors to the development of cultural norms that would be beneficial for future economic development. The government land purchase policies focused many agriculturalists on land purchase as the only solution of the 'land question' and blinded them to alternatives.

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[206] For example see: Tom Garvin, *The evolution of Irish Nationalist politics* (Dublin, 1981).
[207] Terence Dooley, *'The land for the people': the land question in independent Ireland* (Dublin, 2004), p. 189.
[208] Gerschenkron's views are outlined in a number of essays in Alexander Gerschenkron, *Economic backwardness in historical perspective* (Harvard, 1962).
[209] Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), p. 347.

8 Emigration and microfinance; some evidence from Ireland in the latter nineteenth century

8.1 Introduction

Migration, remittances and microfinance are topical issues in contemporary development economics,[1] and the focus of economists on these contemporary issues has influenced economic historians to do likewise.[2] This chapter will apply contemporary development economic theory to an Irish context in the late nineteenth century.

Emigration was one of the most salient features of nineteenth century Irish economic and social history. It was a widespread phenomenon, with all areas of the island experiencing some level of emigration. In fact, of all European countries, Ireland had one of the highest emigration rates per 1,000 population in the latter stages of the nineteenth century.[3] A by-product of this stream of emigration was a supply of emigrant remittances, in the form of 'passage money' and 'American money', both to finance subsequent emigration and to contribute to household incomes in Ireland.

The influence of emigration has been multifaceted. During this period there were also numerous microfinance institutions that offered financial services to low-income groups. Irish historiography to date has noted the relationship between emigration and remittances, but has overlooked the relationship between emigration, remittances and microfinance. This, in effect, neglects the influence of emigration on the microfinance sphere.

This chapter endeavours to explain how emigration, emigrant remittances and microfinance are interrelated. Firstly, this chapter will outline key features of Irish

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[1] Samuel Munzele Maimbo and Dilip Ratha (eds.), *Remittances: Development impact and future prospects* (Washington D.C., 2005); Ozden, Caglar, Schiff (eds.), *International migration, remittances & the brain drain* (Washington DC, 2006); Guillermo E. Perry, Omar S. Arias, Humberto J. Lopez, William F. Maloney, and Luis Servan, *Poverty Reduction and growth: Virtuous and vicious circles* (Washington D.C., 2006).

[2] For example some recent scholarship has been trying to estimate remittance flows See Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review*, lix, 3 (2006), pp 539-577; and David Khoudour-Castéras and Rui Esteves 'Remittances, Capital Flows and Financial Development during the Mass Migration Period, 1870-1913', paper presented at the Eighth European Historical Economics Society Conference, Geneva 2009.

[3] Table 1.1, Timothy J. Hatton and Jeffrey G. Williamson, 'International migration 1850-1939: an economic survey' in Timothy J. Hatton and Jeffrey G. Williamson, *Migration and the international labour market 1850-1939* (London, 1994), p. 7.

emigration patterns and discuss the available evidence on remittances. Secondly, the chapter will trace key development in the establishment of public institutions which were specifically designed to facilitate the international transmission of remittances. The accessibility of post offices as a remittance transmitter will be emphasised, and aggregate country-level data on the volume of money order transfers through post offices will be analysed. Then, since local level data on remittance flows is currently unavailable, the chapter will investigate the spatial distribution of postal money order offices in Ireland during the period 1861 to 1911 and illustrate how it can be seen as a proxy for the distribution of emigrant remittances. The chapter will conclude by exploring how various formal and informal agents in the microfinance sector were affected by emigration and emigrant remittances.

Given the paucity of information regarding informal remittances and disaggregate formal remittances, this chapter aims to illustrate how emigration played a significant role in the realm of microfinance. As it is a constituent part of a broader thesis on microfinance in Ireland in the latter nineteenth century, specific reference will be made to contemporary developments in formal suppliers of microcredit already in existence and new informal suppliers of microfinance, the family members who had emigrated. The goal of the chapter is to demonstrate the possibility that emigration influenced the market for microcredit by decreasing demand for existing microcredit services, thereby adversely affecting extant microcredit institutions, and that this coincided with remittances acting as substitutes for the existing supply of microcredit.

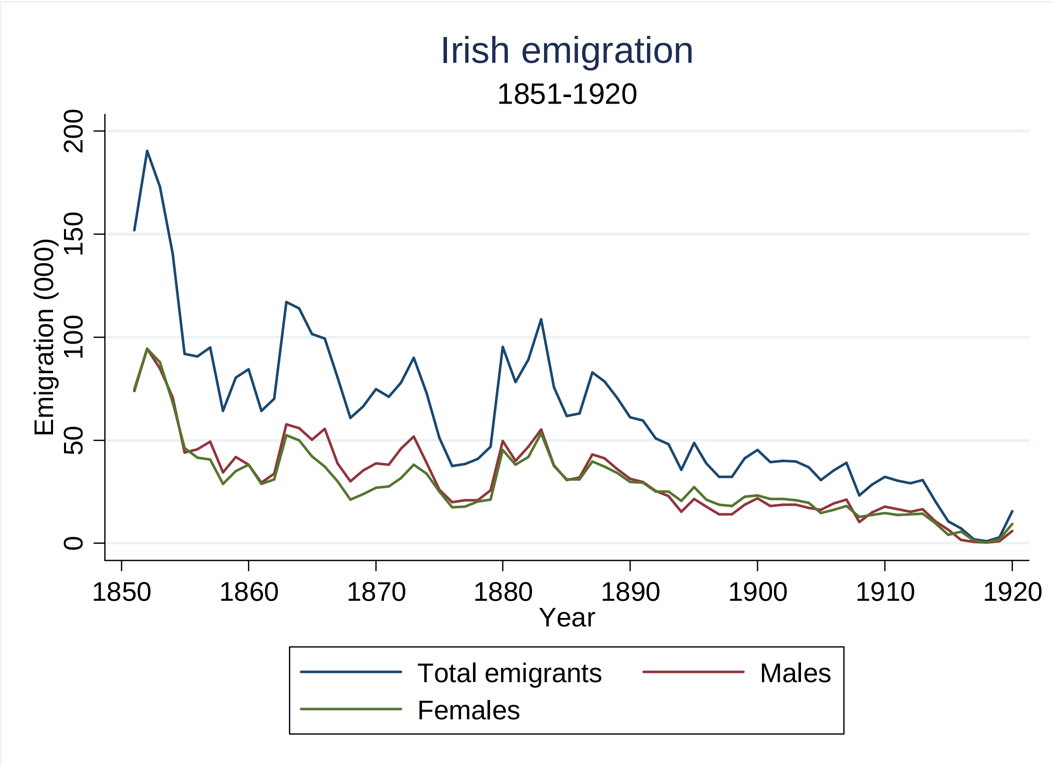
8.2 Irish emigration and UK remittances

In order to put this discussion in context, figures 8.1 and 8.2 will show the annual amount and rate of emigration from Ireland in the nineteenth century. It is important to stress that migration in Ireland came in the form of both permanent emigration and seasonal migration. The incidence of return migration was low for migrants to areas other than Great Britain. It is also an interesting fact that the overwhelming majority of emigration in this period was self-financed. The reliability and accuracy of the available data on Irish emigration has been questioned.[4] But the difficulty in

[4] See: Cormac Ó Gráda, 'Seasonal migration and post-famine adjustment in the west of Ireland' in *Studia Hibernica*, xiii, (1973), pp 48-76, and Cormac Ó Gráda, 'A note on nineteenth-century Irish emigration statistics' in *Population studies*, xxix, no. 1 (March, 1975), pp 143–149.

accurately measuring demographic variables must also be taken into consideration. For example, in a recent article in *The Economist* it was observed how difficult it is to keep a tally of migrant flows in the EU given the existence of free movement of labour,[5] a feature that is similar to labour movements both within the UK and internationally in the nineteenth century.

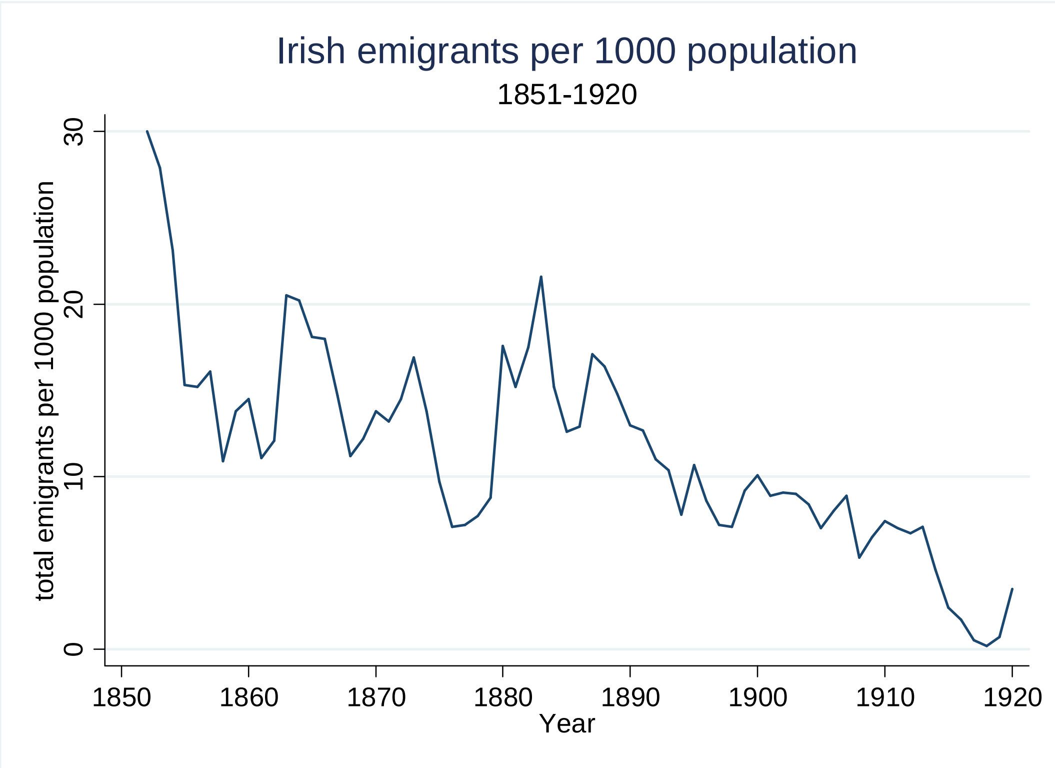
Figure 8.1



Source: W. E. Vaughan and A.J. Fitzpatrick, *Irish historical statistics: population, 1821-1971* (Dublin, 1978), pp 261-263.

5 'Open up: a special report on migration' in *The Economist* (5 January, 2008), p. 4.

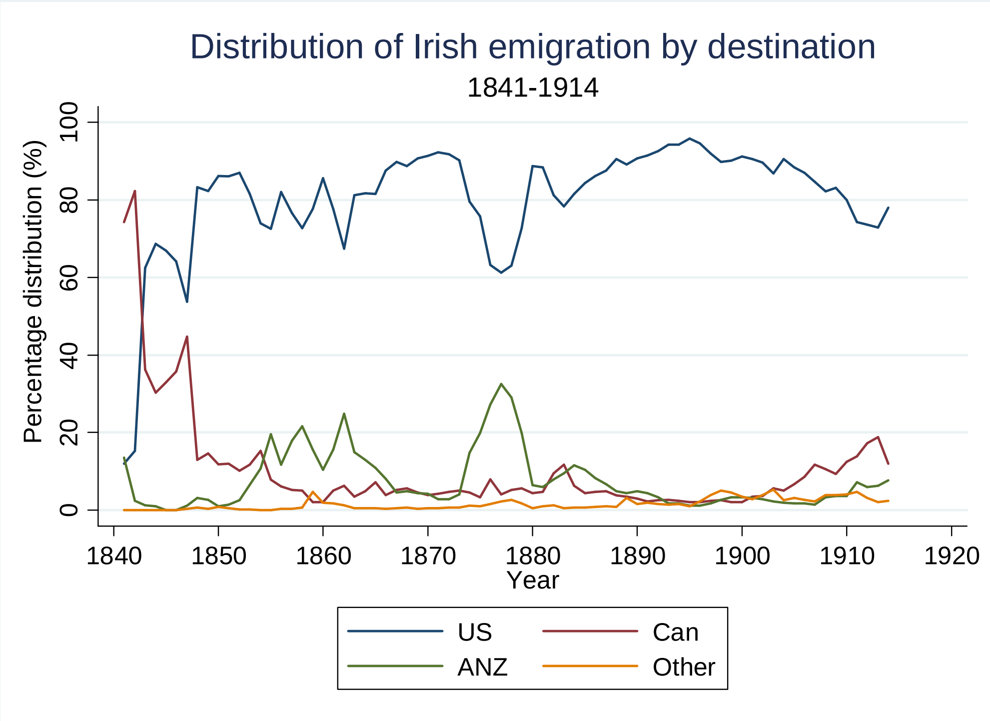
Figure 8.2



Source: W. E. Vaughan and A.J. Fitzpatrick, *Irish historical statistics: population, 1821-1971* (Dublin, 1978), pp 261-263.

Figure 8.3 illustrates the distribution of Irish emigrants by overseas destination, excluding Britain, during the period 1841-1914. What is evident from figure 8.3 is that a large proportion of Irish emigrants went to the US. There are a variety of reasons for this, one of which was the cost factor. Excluding Britain, the US was one of the cheapest destinations to get to in terms of cost of passage and steerage; it took a shorter amount of time and hence less food was required for the trip. The initial cost advantage made further emigration patterns path-dependent as they were influenced by pre-existing emigration patterns.

Figure 8.3



Report of Commission on Emigration and other population problems, 1948-1954 (Department of social welfare ,Dublin , 1954), R. 84 (Pr. 2541).

A noticeable fault line in figures 8.1, 8.2 and 8.3 is that they do not include information for Irish 'emigration' to Great Britain. This is due to the fact that Ireland was part of the UK and there was free movement of labour between Ireland and Great Britain, so it is difficult to determine the number of annual migrants to Great Britain. This is somewhat compensated for by the fact that there is information on the number of Irish in Britain in both the English and Welsh and Scottish censuses, shown in table 8.1.

Table 8.1 The Irish-born population of Great Britain, 1841-1921

Year	GB	%	England	%	Scotland	%	Wales	%
1841	415,725	2.3	281,236	1.8	126,321	4.8	8,168	0.78
1851	727,326	3.6	499,229	2.98	207,367	7.2	20,730	1.78
1861	805,717	3.6	573,545	3.06	204,083	6.7	28,089	2.18
1871	774,310	3.0	544,533	2.56	207,770	6.2	22,007	1.56
1881	781,119	2.7	539,502	2.21	218,745	5.9	22,872	1.46
1891	653,122	2.0	438,702	1.61	194,807	4.8	19,613	1.11
1901	631,629	1.8	407,604	0.92	205,064	4.6	18,961	0.94
1911	550,040	1.4	362,500	1.08	174,715	3.7	12,825	0.53
1921	524,043	1.3	343,174	0.92	159,296	3.3	21,573	0.81

Source: Table 1.2, Donald M. Macraild, *The Irish in Britain 1800-1914* (Dundalk, 2006),p. 9.

Figures 8.1 and 8.2 support the statement made in the introduction that emigration was exceptionally common in Ireland in the latter nineteenth century. An outcome of the emigration process was that it established a supply of remittances that assisted many households in Ireland. Remittances can be defined as the transfer of a portion of income earned by emigrants from the country where they have immigrated back to their country of origin. Emigrant remittances can be transferred in either monetary or non-monetary form and also via formal and informal channels.

Some modern studies have found no correlation between emigration and remittances, but, as Sander and Maimbo observed, emigration 'is the underlying reason for remittances'.[6] The existing evidence on emigrant remittances to the UK from the US, Canada and Australia comes mainly from the reports of the Commissioners of Emigration, and from Board of Trade records.[7] The Commissioners of Emigration recorded remittance flows from 1848 to 1872. Then the Board of Trade continued the enumeration of remittance inflows until 1887.[8] There are a number of issues relating to these statistics, mainly due to the fact that they were compiled from the voluntary return of banking houses and shipping agencies, and secondly they did not include any remittances sent through informal channels. Given these lacunae the Commissioners of Emigration warned that their figures should only be viewed as 'an approximation to the sums actually sent home'.[9]

The evidence from the Commissioners of Emigration and from the Board of Trade also assumed that all formal remittance flows were directed towards Ireland, but given that the flow of emigrants from all parts of the UK increased from the late 1860s onwards this assumption may not be entirely valid.[10] The picture we get from the combination of both sources is shown in figure 8.4.

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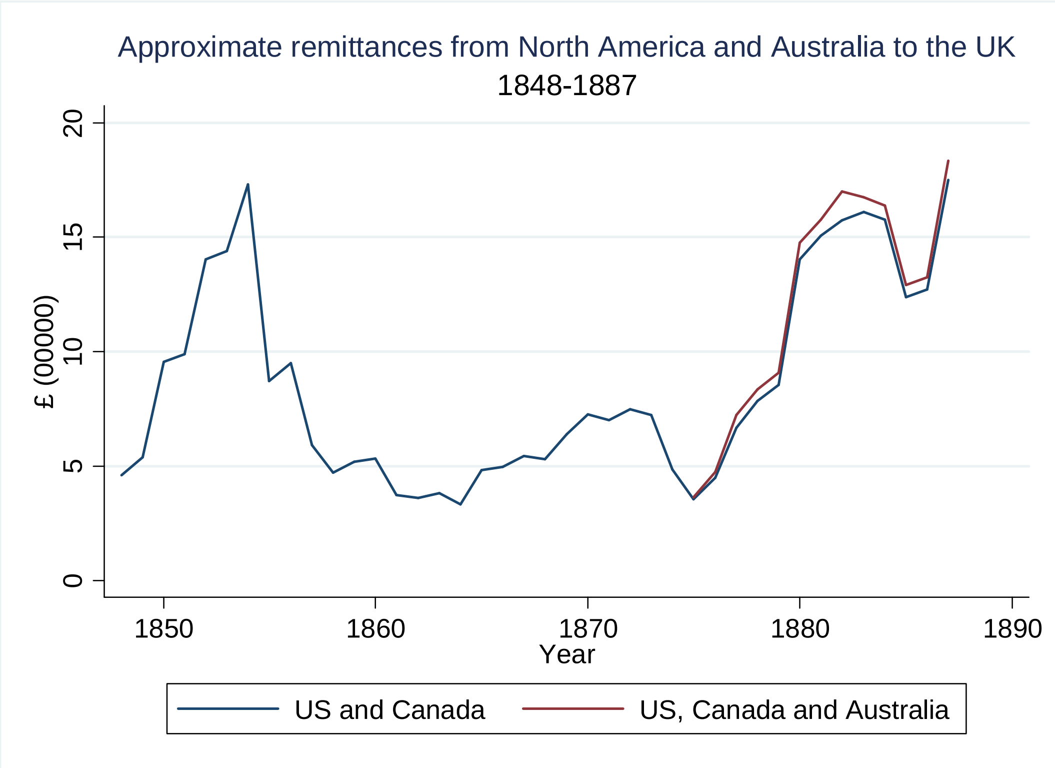
[6] Cerstin Sander and Samuel Munzele Maimbo, 'Migrant remittances in Africa: a regional perspective' in Samuel Munzele Maimbo, and Dilip Ratha (eds.), *Remittances: Development impact and future prospects* (Washington D.C., 2005), p. 59.
[7] *Thirty-third report of the Emigration commissioners, 1872*, p. 78 [c. 768] H.C. 1873, xviii, 295 and *Statistical tables relating to emigration and immigration from and into the United Kingdom in the year 1887, and Report to the Board of Trade thereo*n, p. 18, H.C. 1888 (2) cvii, 43.
[8] Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), pp 106-107.
[9] *Thirty-third general report of the emigration commissioners*, p. 78. [C.768], H.C. 1873.
[10] For example Marjory Harper gives some discussion on Scottish remittances see: Marjory Harper, *Adventurers and exiles: The great Scottish exodus* (London, 2003), pp 93, 111, 153, 279, and 306.

Figure 8.4

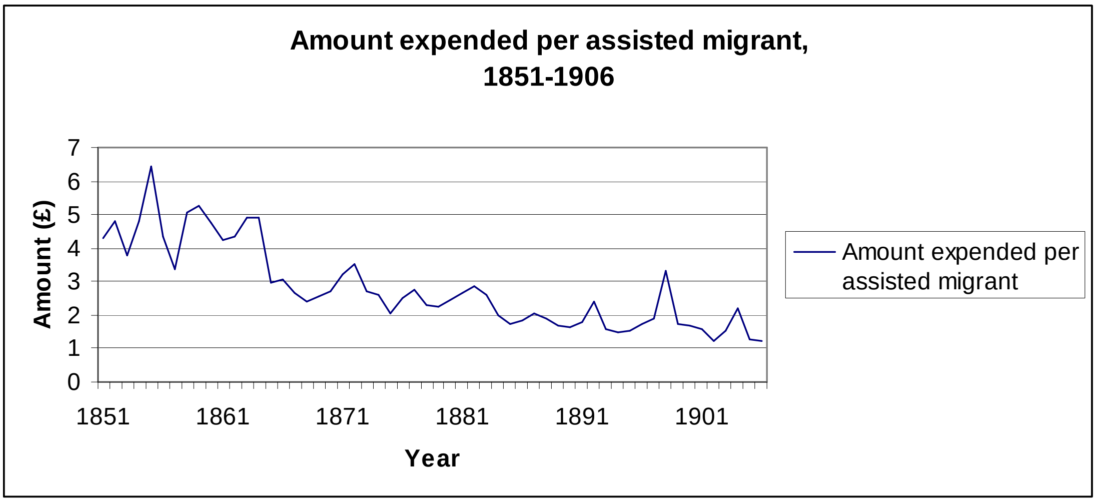


Note: Remittances refer to pre-paid passages and bank drafts. The majority of remittances came from the US.
Sources: *Thirty-third report of the Emigration commissioners, 1872*, p. 78 [c. 768] H.C. 1873, xviii, 295 and *Statistical tables relating to emigration and immigration from and into the United Kingdom in the year 1887, and Report to the Board of Trade thereo*n, p. 18 H.C. 1888 (2) cvii, 43.

It must be stressed that the data represented in figure 8.4 are comprised of both monetary and non-monetary remittances. The non-monetary remittances were pre-paid passages and their nominal value was included in the amount of remittances. For the years that statistics were given for the value of non-monetary remittances such as in 1867 where they constituted 37 per cent of the remittances or in 1870 when they comprised 45 per cent of the remittances, it appears that non-monetary remittances made up a significant portion of the remittances recorded by the emigration commissioners. But the fact that non-monetary remittances made up such a large proportion of these remittances gives us a better understanding of the real value of remittances sent in this fashion. The real value of pre-paid passages increased with the decreased opportunity cost of overseas travel, and a greater proportion of emigrants travelled by steam ship in the 1870s. In 1863 the proportion of people travelling by steam vessel was 45.9 per cent, and in 1873 it had increased to 98 per cent.[11] The costs of passage had decreased significantly over the course of the century. Brinley Thomas observed that 'a passage to America had cost £20 in 1825, whereas by 1863 steamships were charging only £4 15*s*. a head and sailing ships £2 17*s*. 6*d*'.[12]

There is further evidence to suggest that the cost of travel continued to decrease over the course of the nineteenth century. There were a number of state-funded emigration programmes, and although the proportion of assisted migrants relative to the total number of migrants was low, 1.10 per cent,[13] the schemes provide us with a source of information relating to the minimum cost of emigration from the period 1851 to 1906.

Figure 8.5



Source: *First Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evid. and Documents*, p. 338 [Cd. 3267], H.C. 1906, xxxii, 621.

The remainder of the remittances that were shown in figure 8.4, those other than pre-paid passages, came in the form of bank drafts sent from the banking institutions, exchange agencies, press agencies and immigrant support groups in the US, Canada and Australia to counterparts in the UK.[14] The Emigrant Industrial Savings Bank was

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[11] Brinley Thomas, *Migration and economic growth: A study of Great Britain and the Atlantic economy* (2nd edition, Cambridge, 1973), p. 39.
[12] Ibid, p. 96.
[13] This is the total number of assisted migrants as a percentage of the total number of recorded emigrants in the period 1851-1906; *First Report of the Royal Commission appointed to inquire into and report upon the operation of the Acts dealing with Congestion in Ireland; Evid. and Documents*, p.338 [Cd. 3267]. H.C. 1906, xxxii, 621; Source: W. E. Vaughan and A.J. Fitzpatrick, *Irish historical statistics: population, 1821-1971* (Dublin, 1978), pp 261-263.
[14] Gary B. Magee and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review*, lix, 3 (2006), p. 542.

an example of an immigrant support group that helped Irish emigrants transfer remittances. [15]

A fundamental problem with analysing remittance flows in the nineteenth century is the paucity of data. Firstly, remittances are in most cases private transactions and often do not leave formal records. The evidence shown in figure 8.4 is incomplete in two senses; it consisted of the voluntary returns made by banking houses and it excluded informal transfers of monetary and non-monetary remittances.

A recent study of emigrant remittances to the UK has attempted to estimate the volume of remittances received in the UK from UK emigrants, and to estimate the volume of remittances received in the UK from various countries.[16] Magee and Thompson based their estimates on an equation that included the value of remittances sent via financial intermediaries and the Post Office. They then made estimates of the value of informal transfers, and estimates of the proportion of commercial transfers.[17] It is a laudable attempt, but their study is limited in a number of respects. The most noticeable is the fact that their estimates are based on estimated returns from financial intermediaries, the Board of Trade sources cited above. They also overlook some significant structural breaks in the Post Office transfers, discussed below, and there is also no way to validate their estimates of informal transfers.

From an Irish perspective it is disappointing as the authors did not distinguish between Britain and Ireland, interchanging the words 'Britain' and 'the UK' throughout the article. For example, in the abstract for their article it was stated that 'Britain of the nineteenth century was a net recipient of migrant remittances. Surprisingly little, however, is known about the flow of such funds to the UK.'[18] What is surprising, or rather what seems to be oxymoronic, is that remittances in the form of contributions to the Irish Home Rule movement were included in their example of British remittances.[19]

There was a significant difference in the relative importance of remittance flows to Ireland, a relatively backward economy, than to Britain, one of the leading industrial nations of the nineteenth century. This is a key distinction as Irish

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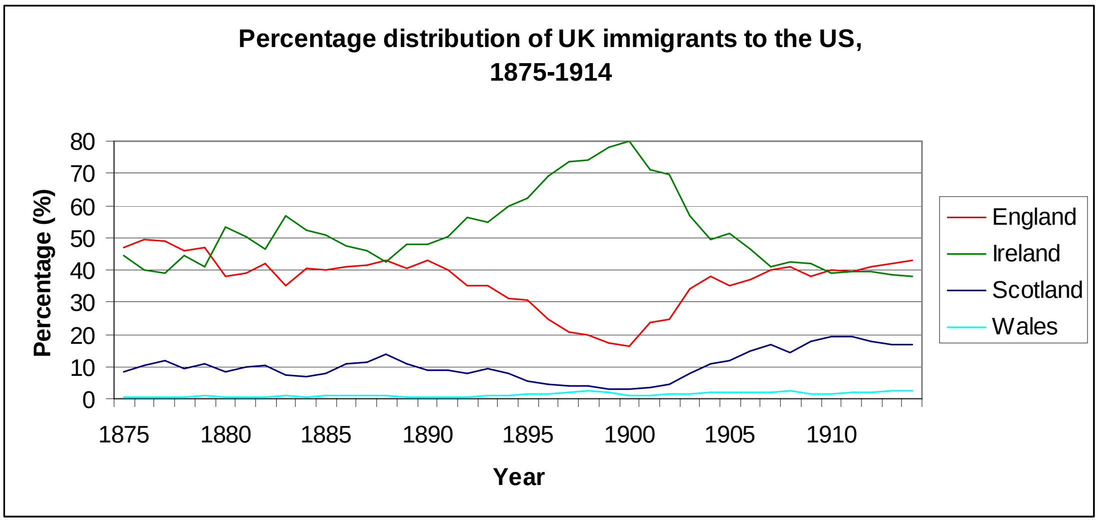
[15] Cormac Ó Gráda and E.N. White, 'The panics of 1854 and 1857: a view from the Emigrant Industrial Savings Bank', *Journal of Economic History,* lxiii (2003), pp 213-40.
[16] Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review,* lix, 3 (2006), pp 539-577.
[17] Ibid, p. 549.
[18] Ibid, p. 539.
[19] Ibid, p. 540.

emigration rates and trends differed significantly to those from Britain. In fact Magee and Thompson do not distinguish between migration destination for British and Irish emigrants. This is highly significant. For example, if one looks at the distribution of UK immigrants in the US by country of origin, shown in figure 8.6, one can see that Irish immigrants made up a significant proportion of UK immigrants to the US. In contrast British (English, Scottish and Welsh) emigrants made up a greater proportion of migrants to the Colonies.

Figure 8.6



Source: Appendix 4, tables 80, 81, 82, 83 and 84 in Brinley Thomas, *Migration and economic growth: A study of Great Britain and the Atlantic economy* (2nd edition, Cambridge, 1973), pp, 382-286.

Another major distinction that was not made was the ratio of skilled to unskilled migrants. For example, Magee and Thompson stated that remittances from South Africa 'grew extremely rapidly in the nineteenth century'. They believed that this growth was due to presence of Cornish miners.[20] If we look at the Irish experience of emigration to South Africa we can see that it made up a negligible proportion of the aggregate number of recorded Irish emigrants and that these emigrants were outliers in terms of their skill distribution,[21] whereas the Irish experience of emigration to the US shows a high proportion of unskilled emigrants. The skill level of emigrants is important as it determines what wages immigrants can expect to earn. This in turn has implications for Magee and Thompson's estimates for the proportion of wages

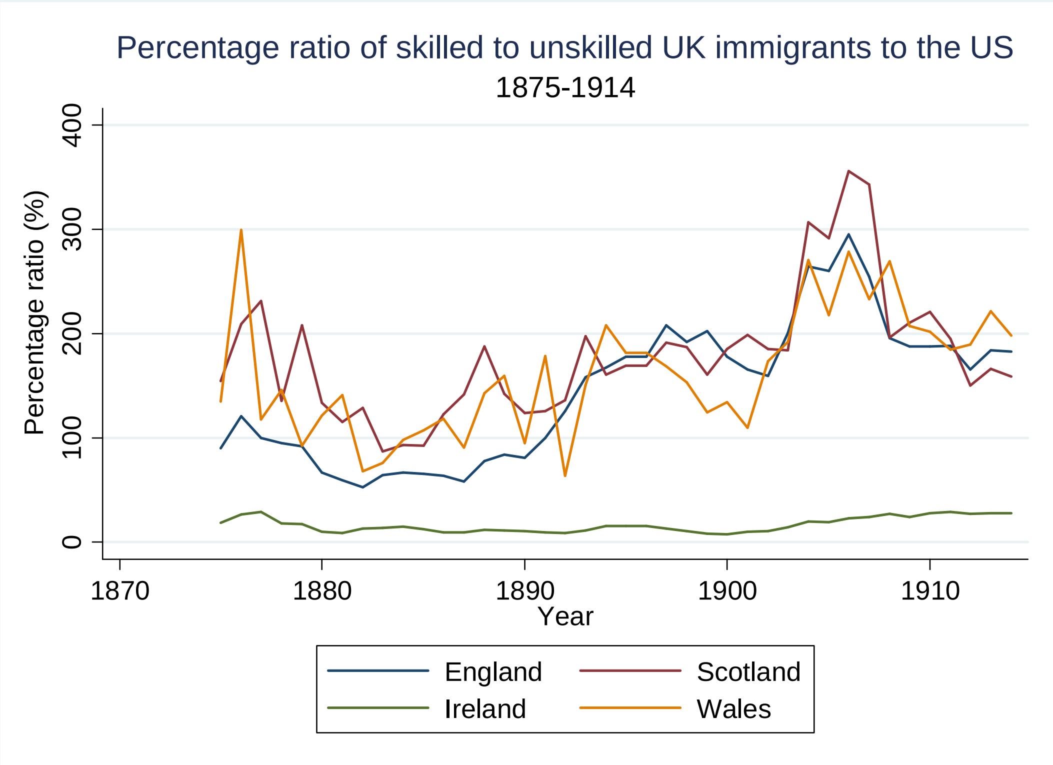
[20] Ibid, pp 556-557.
[21] Donald Harman Akenson, *The Irish Diaspora: a primer* (Belfast, 1996), p. 124.

remitted by emigrants,[22] and their use of such figures as proxies for the level of 'connectedness' with home societies.[23] Magee and Thompson stated that:

> The South Africans and New Zealanders were typically the most generous colonial remitters. In fact, up until the second half of the 1890s they matched, if not exceeded, Americans in the sums of monies they were willing to remit.[24]

But this did not take into account the skill distribution of emigrants to both regions. For example, if we look at figure 8.7 we can see that there was a lower ratio of skilled to unskilled for Irish immigrants to the US than for the other UK polities.

Figure 8.7



Source: Appendix 4, tables 80, 81, 82, 83 and 84 in Brinley Thomas, *Migration and economic growth: A study of Great Britain and the Atlantic economy* (2nd edition, Cambridge, 1973), pp, 382-286.

8.3 The Post Office and remittances

Post Office networks were important institutions in terms of their facilitation of both formal and informal remittances. The UK Post Office provided key financial services in the nineteenth century and it was also the conduit for sending and receiving letters.

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[22] Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review*, lix, 3 (2006), table 4, p. 562.
[23] Ibid, p. 562.
[24] Ibid, p. 561.

The importance of the development of nineteenth century postal networks should be stressed as it was an accessible service to both remitters and receivers, in the UK and all major emigrant destinations. Developments in the postal infrastructure in the UK in the nineteenth century played a key role in facilitating the transmission of information and remittances from emigrants to their homelands, although the importance of postal developments seems to be overlooked by economic historians.[25]

In terms of a discussion of remittances in the context of an Irish experience one avenue that should not be ignored is the postal money order department. Money orders were a secure means to transfer money via the Post Office, so that rather than sending cash the Post Office would send a note that could be converted into cash at a money order office. The money order information is also interesting as it is an example of micro-transfers.

Postal money orders started as an informal money order service run by employees in the Post Office from the late 1700s, and it was not until 1838 that the service was transformed into a formal institution.[26] It is difficult to get an estimate of money order activity before 1838. The Postmaster General could not give any returns based on money order activity in 1835 as he said that ‘the money order office is a private establishment, and the business carried on by private capital’.[27] The Post Office money order service had a ceiling on the amount that could be sent per money order. From 1838 to 1862 the ceiling was £5, it was raised to £10 in 1862 and this ceiling remained in place until 1904 when it was raised to £40.[28] The money order system was specifically for the transmission of small amounts of money. This point was reiterated by the Postmaster General who stated that ‘the money order system affords the means of safely transmitting sums of moderate amount, and larger sums should be sent in the form of crossed cheques, bills of exchange, half notes, or through a bank’.[29]

Stanley Jevons, writing in 1883, gave a description of how the money order service worked:

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[25] An article by Richard R. John laments the economic historians’ lack of interest in postal systems; Richard R. John, ‘Postal systems’ in Joel Mokyr (editor in chief), *The Oxford encyclopedia of economic history*, vol iv (Oxford, 2003), pp 315-318.
[26] *The post office an historical summary* (London, 1911), p. 102.
[27] *Return of poundage charged by Postmasters in G.B. and Ireland on Money-Orders, 1832-34*, H.C. 1835, (294), xlviii, 379.
[28] *The post office: an historical summary* (London, 1911), pp 104-105.
[29] *Eighth report of the Postmaster General on the Post Office*, pp 10-11. [2984] H.C. 1862, xxvii, 393.

> In safety and eventual certainty of acquittance, money orders leave little to be desired. The payer has only to walk to the nearest Money Order Office; wait five or ten minutes while other customers are being served; fill up a small application form; decide, after mature deliberation with the postmaster, and reference to a private official list, upon the Money Order Office most convenient to the payee; then wait until the order is duly filled up, counterfoiled, stamped, etc.; and finally hand over his money, and his work is done, with the exception of enclosing the order in the properly addressed letter. The payee, too, may be sure of getting his money, if all goes well. He need only walk to the Money Order Office named, sign the order, give the name of the remitter, and then the postmaster, if satisfied that all is right, and if furnished with the indispensable advice note from the remitting office, will presently hand over the cash. But sometimes the advice note has not arrived, and the applicant must call again; not uncommonly the payer, with the kindest intentions, has made the order payable at a distant office, imagining, for instance, that Hampstead Road Post Office must be very convenient to a resident of Hampstead Road.[30]

From 1838 until 1860 the statistics of money order activity were published in the annual reports of the Postmaster General. Using these statistics it is possible to get a view of money order flows, and to use these as an indicator for micro-level remittance flows within the UK. It must be highlighted that the postal money order service was not solely used for the purposes of emigrant remittances, but its uses were varied and it was used to pay for goods and services in different parts of the UK. Magee and Thompson were aware of the distinction between commercial payments and remittances,[31] but the same distinction was overlooked by Schrier.[32] From the net flows of remittances, and evidence from the profitability of the money order service in Ireland, we can get an indication of the amount of micro-level remittances sent through the Post Office in Great Britain and Ireland.

To illustrate the significance of the Post Office money order service in the mid-nineteenth century, figures 8.8 and 8.9 show the gross amount of money orders sent and received in England and Wales, Scotland and Ireland respectively. The information on money orders in Ireland and Scotland has been illustrated in a separate graph as money orders sent and received in England and Wales made up the largest proportion of money orders.

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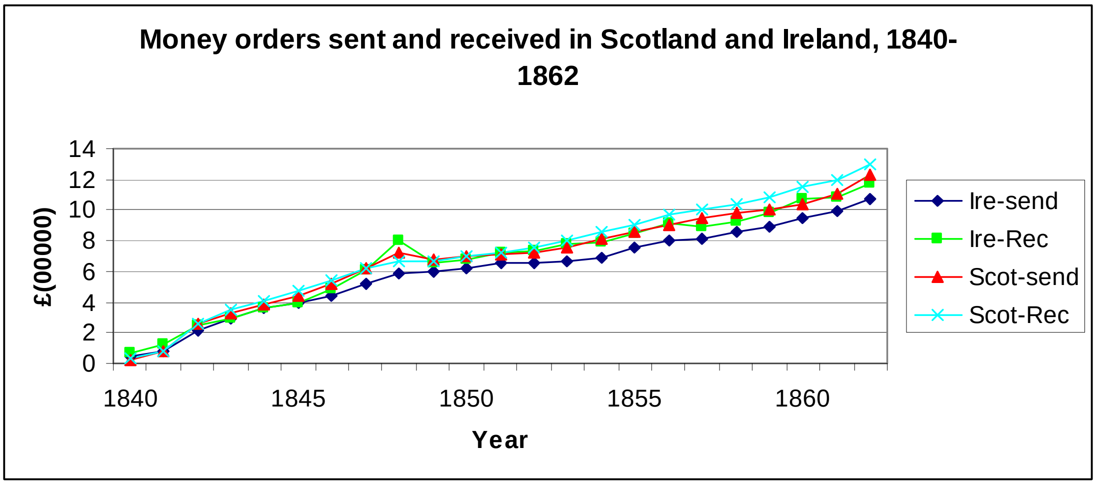
[30] William Stanley Jevons, 'Postal notes, money orders, and bank cheques', in *Methods of social reform and other papers* (London, 1883), p. 308.
[31] Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review,* lix, 3 (2006), table 4, p. 551.
[32] Ibid, p. 551.

Figure 8.8

Source: Postmaster General reports, various years.

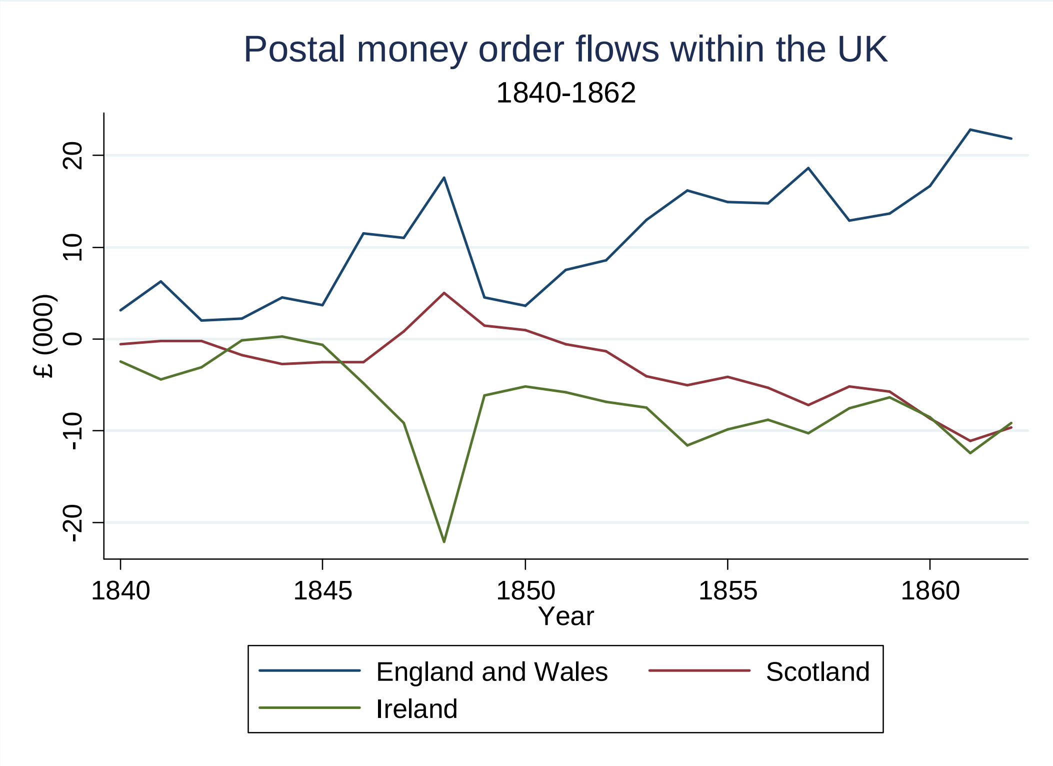
Figure 8.9



Source: Postmaster General reports, various years.

From figures 8.8 and 8.9 we can see that there was a divergence between the amount of money orders sent and the amount received. If we subtract the amount of money orders received from those sent, shown in figure 8.10, we can get an understanding of the money order flows within the UK.

Figure 8.10



Note: The flows have been calculated by subtracting the amount (£) received from the amount (£) sent (sent (£) – received (£))
Source: Postmaster General reports, various years.

The information in figure 8.10 shows that the flow of money order transfers made via the Post Office were negative in Ireland during the period 1846 to 1862. [33] Figure 8.10 gives us an idea of the internal flow of transfer within the UK. The fact that Ireland was a net recipient of money order transfers from other parts of the UK is a reflection of both seasonal and permanent migration from Ireland to Great Britain. In 1865 the Postmaster General stated that:

> …the excess in the remittances to Ireland is mainly attributable to the employment of the Money Order Office by Irish reapers and hay-makers for the purpose of remitting to their own country the sums which they earn in England and Scotland. Some, indeed, have been known to use the Money Order Office for the purpose of transmitting their money from town to town along their whole route, by which means they have not merely avoided the risk of losing their money on the road, but have been enabled by repeatedly drawing it out and paying it in again, to satisfy themselves from time to time of its safety.[34]

[33] The flow is calculated by subtracting money orders received from the money orders sent. Therefore positive values indicate a greater number of money orders sent, and negative values indicate a greater number of money orders received.
[34] *Eleventh report of the Postmaster General on the Post Office*, p. 12 [3558] H.C. 1865, xxvii, 583.

The low values that are initially recorded for Ireland can be explained by the fact the service was only formally introduced in 1838 and it would have taken time before the service was accepted and fully adopted by the population. If we look at the number and amount of money orders per 1,000 population in 1841, 1851 and 1861, we can see that there was a gradual increase in usage of the service.

Table 8.2: Money orders sent and received (number and amount) per 1,000 population, 1841-1861

Year	England and Wales		Scotland		Ireland	
	Sent					
	Number per 1000	Amount (£) per 1000	Number per 1000	Amount (£) per 1000	Number per 1000	Amount (£) per 1000
1841	30.34	50.45	19.67	30.91	6.54	9.44
1851	216.34	419.35	134.88	245.41	59.94	99.69
1861	322.10	623.98	191.72	360.03	91.42	171.26
% 1851-1861	48.89	48.80	42.14	46.70	52.51	71.79
	Received					
1841	27.00	46.50	19.43	31.82	10.93	14.79
1851	208.82	414.56	138.66	263.66	81.10	110.12
1861	316.25	613.12	195.30	391.44	107.88	187.04
% 1851-1861	51.44	47.90	40.84	48.46	33.02	69.85

Sources: Postmaster General Annual reports, and censuses of England and Wales, Scotland and Ireland.

From the annual reports of the Postmaster General we can see that the amounts sent and received through the money order service were quite small, around £2 on average. In chapter 1, we saw that the average agricultural wage in the 1840s and 1850s was between £6 and £8. So in relation to the prevailing wage levels and in terms of microfinance the money order service was significant.

Information on the regional distribution was only sporadically published in the early reports of the Postmaster General, but using the available information it is possible to get an indication of the distribution and pattern of money orders in Ireland. Table 8.3 shows the net amount of money orders in major Irish towns and cities in 1856 and 1857. The information was extracted from a table showing money order distribution throughout the UK. In 1857 the Postmaster General commented that ‘in many places more Money Orders were paid than issued…this no doubt arises from the practice of persons in the country sending money orders to towns in payment for goods. (sic.)'[35] But from the available evidence it appears that this statement only holds true for Dublin and Waterford. The years shown in table 8.3 may also not be representative of the money order system in general, as it was stated that in 1857:

> There has again been a decrease in the amount of money orders paid in Ireland, but more than an equivalent increase in the amount issued; showing, as in previous years, a diminished habit of seeking for labour in England and Scotland (and, consequently, of sending money by Irishmen in Great Britain to their families in Ireland), and an increased command of money at home.[36]

Table 8.3: Net postal money orders in major Irish towns and cities, 1856 and 1857

	1856 (£)	1857 (£)
Belfast	-2,869	-4,747
Cork	-7,815	-3,420
Drogheda	-2,544	-2,540
Dublin	55,485	57,059
Limerick	-4,739	-3,530
Londonderry	-2,527	-3,104
Waterford	1,028	1,981

Note: These figures have been derived by subtracting the amount of money orders issued from the amount of money orders paid (Sent (£)- received (£))
Negative amounts indicate that the amount of money orders received was greater than the amount sent.

Source: *Fourth report of the Postmaster General on the Post Office* [2342] H.C. 1857-58, xxv, 549

In the succeeding years there was a decrease in information regarding the distribution of money orders in Ireland in the Postmaster General reports. But the three major Irish cities were included in the list of money order activity in UK cities. As can be seen in tables 8.4a and 8.4b, the trend of the amount of money orders sent exceeding the amount of money orders received was most prevalent in Dublin. It must be noted that this was a feature similar to London. This may be a reflection of transfers from Dublin to other areas in Ireland, but as we do not have detailed information of all towns in Ireland it is difficult to determine the direction of internal flows. By contrast, the amount of money orders received in both Belfast and Cork, two other major cities, exceeded the amount that was sent. This is something that suggests that the money order system was used as a conduit for the transfer of remittances.

[35] Money orders issued refer to sent, and money orders paid refers to received: *Fourth report of the Postmaster General on the Post Office* , p. 20. [2342] H.C. 1857-58, xxv, 549.
[36] Ibid, pp 19-20.

Table 8.4.a: Postal money orders in Belfast, Cork and Dublin, 1856 to 1870

	Belfast		Cork		Dublin	
	Issues (£)	**Payments (£)**	**Issues (£)**	**Payments (£)**	**Issues (£)**	**Payments (£)**
1856	41,506	44,375	30,062	37,877	266,043	210,558
1857	40,946	45,693	31,213	34,633	274,905	217,846
1858	41,881	49,174	31,289	35,580	285,297	227,927
1859	41,000	55,335	33,540	37,905	305,743	234,798
1860	44,,701	60,584	34,438	40,111	328,584	238,504
1861	44,785	62,765	35,403	42,909	351,268	240,990
1862	50,316	71,397	38,561	49,466	378,335	256,082
1869	63,734	95,284	41,592	57,406	453,190	313,177
1870	66,695	101,354	43,754	59,565	467,128	293,331

Table 8.4.b: Net postal money orders in Belfast, Cork and Dublin, 1856 to 1870

	Belfast (£)	**Cork (£)**	**Dublin (£)**
1856	-2,869	-7,815	55,485
1857	-4,747	-3,420	57,059
1858	-7,293	-4,291	57,370
1859	-14,335	-4,365	70,945
1860	-15,883	-5,673	90,080
1861	-17,980	-7,506	110,278
1862	-21,081	-10,905	122,253
1869	-31,550	-15,814	140,013
1870	-34,659	-15,811	173,797

Note: These figures have been derived by subtracting the amount of money orders paid from the amount of money orders issued (Sent- received). Negative amounts indicate that the amount of money orders received was greater than the amount sent.

Sources: Information for the years 1856 to 1862 appeared in appendices of the following Postmaster General reports: *Fourth report of the Postmaster General on the Post Office* [2342] H.C. 1857-58, xxv, 549; *Fifth report*… [2493. Sess. 1] H.C. 1859, viii, 431; *Sixth report*… [2657] H.C. 1860, xxiii, 311; *Seventh report*…[2899] H.C. 1861, xxxi, 197; *Eight report*… [2984] H.C. 1862, xxvii, 393; and *Ninth report*…[3155] H.C. 1863, xxvi, 281.
Information for the years 1869 and 1870 appeared in the *Seventeenth Report of the Postmaster General on the Post Office* [c. 438] H.C. 1871, xvii, 353

Further corroboration that the money order service was used for the transfer of remittances is seen by the profitability of the Irish money order service. The UK money order service was profitable, as shown in table 8.5, but these profits came mainly in England and to a lesser extent Scotland. The Irish wing of the money order department was loss-making as the number of money orders received exceeded the number of money orders sent, and as such was cross-subsidised by the activities of the money order department in England and Wales. However, it must be acknowledged that the Irish Post Office in general was seen as a loss making commercial enterprise.[37] Whether or not the total costs relate to the money order office or the loss-making activities of the Irish Post Office is uncertain.

Table 8.5: Net profit of the money order service in 1854

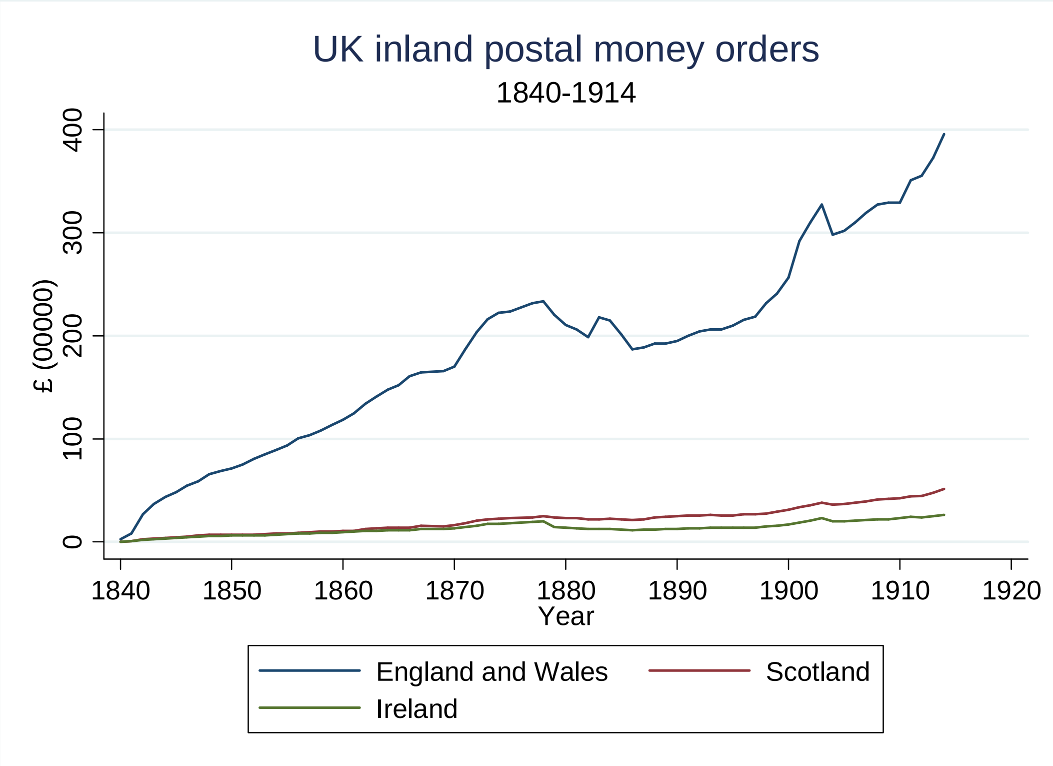
	Commission(£)	**Total costs (£)**	**Net profit (£)**
England and Wales	18,550	14,471	4,079
Ireland	1,642	2,113	-470
Scotland	1,810	1,597	213
UK	22,004	18,181	3,823

Source: *Return of sums received by Post Office for printed forms of application, for money orders, number of money orders issued, cost of expenses incidental to money order offices in G. B. and Ireland* (519) H.C. 1854, lx, 15.

From the 1860s the information on the money order service in the UK lacks the level of depth that existed in its previous 20 years as the Post Office reports only gave information on the total monetary value of money orders sent domestically in the UK and not the amount of money orders received domestically. This is shown in figure 8.11, and table 8.6 shows the amount of inland money orders per person from 1841 to 1911.

[37] Mairead Reynolds, *A history of the Irish post office* (Dublin, 1983), p. 84.

Figure 8.11



Note: The Post Office money orders stopped using the normal calendar year (January-December) in 1875 and switched to a bureaucratic calendar year (April-March).
Sources: Postmaster General reports, various years 1854-1916.

Table 8.6: Inland money orders sent (£) per person in England and Wales, Scotland and Ireland, 1841-1911

Year	England and Wales	Scotland	Ireland
	£	£	£
1841	0.05	0.03	0.01
1851	0.42	0.25	0.10
1861	0.62	0.36	0.17
1871	0.82	0.53	0.27
1881	0.77	0.59	0.25
1891	0.71	0.64	0.28
1901	0.95	0.80	0.47
1911	0.98	0.94	0.54

Note: The Post Office money orders stopped using the normal calendar year (January-December) in 1875 and switched to a bureaucratic calendar year (April-March), from 1881 to 1891. I have used the money order information for the years 1881-82, 1891-92, 1901-02, 1911-12.

Sources: Postmaster General reports, various years 1854-1916, and census of England and Wales, Scotland and Ireland.

Another important development in the postal system in the UK was the establishment of the Post Office Savings Bank (POSB) in 1861.[38] The POSB was a savings bank that was targeted towards lower socio-economic groups, something which places it within the realm of a microfinance institution.[39] Evidence of such a policy is seen by the fact that initially depositors were only allowed to save up to £30 per annum and a maximum ceiling of £150 was also set.[40]

As was stated in chapter 4, the POSB was established on the premise that the Post Office staff already had experience and competence in dealing with cash transactions through its money order service. An example of the competence which was cited in POSB parliamentary debates was that between 1841 and 1860 only £5392 was lost through fraud out of £171,916,888 money orders that were sent, or losses of 0.003 per cent.[41] As a result the newly established POSB branches were linked with the existing money order offices. This is a key development in the context of savings banks in the UK. Although the TSBs[42] were in existence they did not offer a money transfer service.[43] In the context of remittances the POSB now offered recipients of remittances sent via the Post Office the option of saving their money at the point of receipt, which opened the possibility for a spillover between the services.

Another feature of money transfers which the POSB offered was the ability to withdraw savings from any POSB branch in the UK. This no longer tied savers to any one POSB branch, or to any one location. Over time there was an increase in the number of what the POSB called 'cross entries'. These were 'entries relating to deposits or withdrawals at banks other than those at which the person making the deposits or withdrawals opened their accounts' (sic.).[44]

An important development in the institutional structure of remittance flows was the establishment of an international postal money order service. The international

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[38] The POSB began operating in England and Wales in 1861, and in Scotland and Ireland in 1862.
[39] It would be most apt to define it as a microsavings institution.
[40] As was stated in chapter four the limit was increased to £50 per annum by the 1893 Savings Bank Act. Given prevailing wage levels the initial ceiling of £30 was relatively high. This accounts for the high proportion of depositors from the professional classes. But the POSB did encourage the saving of small amounts of money; the lowest amount accepted was 1 shilling (£0.05).
[41] *Return of losses and defalcations in money order offices of G.P.O. in U.K, 1841-60*, (148), H.C. 1861, xxxv, 213.
[42] TSB is an anachronistic term. It was first used in association with the old savings banks in 1863, but to distinguish between the POSB and the other savings banks they will be referred to as TSBs.
[43] For some discussion on the earlier savings bank movement see: Cormac Ó Gráda, 'The early history of Irish savings banks' in *UCD centre for economic research working paper series*, WP08/04 (February 2008).
[44] *Twelfth report of the Postmaster General on the Post Office*, p. 20. [3641] H.C. 1866, xxvi, 245.

money order system was built up gradually, with the first records of it being the money order services offered to British troops during the Crimean War. This led to the establishment of colonial money order services.[45] In 1859 a colonial money order service was established between the UK and Canada[46] and in the other British colonies shortly afterwards.[47] In 1861 when the money order service was extended to Canada the Postmaster General made the following statement:

> This enlargement of the money order system has worked very satisfactorily, and will, I hope, soon lead to its extension to other colonies. Such an extension would, I am convinced, be productive of much good; would save much money that now probably runs to waste; would afford great relief to many weak or aged persons, separated by the broad ocean from the younger and more vigorous members of their family; and would materially promote self-supporting emigration.[48]

Following the creation of the colonial money orders, agreements were made between the Post Office in the UK and foreign post offices to establish foreign money order services.

Arnold Schrier stated that negotiations for the establishment of an American money order convention had been in consideration before the start of the American Civil War.[49] But whether this was a realistic proposition is doubtful as the US postal system had not fully established an internal money order system at this stage. According to Howard Robinson, the US postal money order system originated during the Civil War as a way for troops to send money home.[50] This is a development somewhat similar to the British colonial money order system, as the public service originated from military needs. An article from the *New York Times* in 1862 outlined the key developments of the British money order system and advocated that the US should adopt a similar system.[51] This coupled with arguments from Robinson seem to indicate that the developments in the US postal system were directly influenced by the events in the UK. Negotiations to establish a money order convention with the US began in the late 1860s[52], and an agreement was reached to establish a money order system between the US and the UK in 1871.

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[45] *Third report of the Postmaster General on the Post Office*, p. 12. [2195] H.C. 1857 session 1, iv, 293
[46] *Sixth report of the Postmaster General on the Post Office*, p. 18. [2657] H.C. 1860, xxiii, 311.
[47] *Eighth report of the Postmaster General on the Post Office*, p. 11 [2984] H.C. 1862, xxvii, 393.
[48] *Sixth report of the Postmaster General on the Post Office*, p. 18 [2657] H.C. 1860, xxiii, 311.
[49] Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), p. 109.
[50] Howard Robinson, *The British Post Office: a history* (Princeton, 1948), p. 380.
[51] *New York Times*, 17 March 1862.
[52] *Fourteenth report of the Postmaster General on the Post Office*, p. 14. [4064] H.C. 1867-68, xxii, 721.

A summary of the US-UK money order convention was given by *The Economist*:

> United States papers announce that preliminary arrangements have been completed for the interchange of postal money orders between Great Britain and the United States on and after 2nd of October. Of the 2,455 money order offices of the United States 570 have been authorised to issue postal orders on the postmaster at New York City for payment in the United Kingdom, and to pay orders issued by him for sums certified by the Post Office Department of that country for payment in the United States. These offices have been selected in all the states and territories with a view of accommodating the localities where the greatest numbers of such foreigners reside as will be likely to make use of them. All exchanges are to be made through the two government exchange offices in New York and London. In the United States applications can be made only for the equivalent in sterling of a certain sum of money in the United States currency, which latter amount being deposited at the local office is transmitted to New York, and there converted into a postal sterling draught at the current rate for gold on the day of its receipt. This draught is made payable by the British authorities in any designated locality of the kingdom. No single order will be issued for more than $50, but persons desiring to remit larger sums can obtain additional money orders. The rates of commission on these money orders range from 0.25 on orders not exceeding $10 to $1.25 for over $40 and not exceeding $50. (sic.)[53]

From the UK perspective the monetary limit on US money orders was £10, with varying rates of commission. The limit on colonial and foreign money orders was increased to £40 in 1904, but a number of countries including the US did not reciprocate the increase in the money order limit. Table 8.7 shows the commission charged on all UK foreign and colonial money orders.

Table 8.7: Commission charged on foreign and colonial money orders, 1869, 1883, 1897 and1904[54]

	1869	1883	1897	1904
	£	£	£	£
Orders not exceeding £1	-	-	-	0.02
Orders not exceeding £2	0.04	0.03	0.03	0.03
Orders not exceeding £4	-	-	-	0.038
Orders not exceeding £5	0.08	0.05	-	-
Orders not exceeding £6	-	-	0.05	0.042
Orders not exceeding £7	0.11	0.08	-	-
Orders not exceeding £10	0.15	0.10	0.08	-
Orders not exceeding £40	-	-	-	0.0125 for every additional £2, or fraction thereof

Note: Commission rates were set in the years 1869, 1883, 1897 and 1904.

Sources: *The post office: an historical summary* (London, 1911), p. 107.

[53] *The Economist*, 2 September 1871.
[54] The commission charges have been decimalised, whereby £1=240d.

Table 8.7 shows the commission on money orders from the UK perspective, i.e. sending money from the UK to foreign or colonial destinations. But evidence from the committee on money orders in 1877 suggests that these charges were reciprocated by other postal systems participating in money order conventions.[55]

Hancock alleged that there was Irish involvement in the establishment of the international money order exchange between the US and the UK.[56] In an article written on the subject of emigrant remittances Hancock praised the role of William Monsell. Monsell was an Irish landlord and president of the Statistical and Social Inquiry Society of Ireland, and he was also a Liberal MP who held the position of Postmaster General from January 1871 to November 1873.[57]

There was hope in Ireland that the new system would replace the other means of transferring remittances, namely bank transfers, pre-paid passages and money enclosed in letters.[58] Whether the money order system superseded the pre-existing remittance facilities is unknown as the records ceased after 1887.[59] But the continued growth in money order transfers seems to indicate that this may have been the case.

The money order system that operated in the UK was a loss-making venture mainly due to the fact that there were a large number of small money orders being sent and the commission charged on these did not cover the cost of providing the service. This led to the introduction of a new postal order service in 1880 which facilitated the transfer of very small sums of money.[60] The postal orders were extended throughout the British colonies and it was reported that in 1905 the postal orders had replaced money orders as a means of 'sending small remittances'.[61]

Other significant developments in the mechanisms for the transfer of small sums of money in the early twentieth century were the establishment of international telegraph orders and inter-colonial POSB transfers. Telegraphic money orders came into use in the late nineteenth century, and similar to the money orders the system was

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[55] *Committee of inquiry into the money order system*, pp v-vi. (289) H.C. 1877, xvii, 261.

[56] W. N. Hancock, 'On the remittances from North America by Irish emigrants, considered as an indication of character of the Irish race, and with reference to some branches of the Irish labourers question' in *Journal of Statistical and Social Inquiry Society of Ireland* , part xliv, (December 1873), p. 282.

[57] W. P Courtney, Rev H. C. G. Matthew, 'William Monsell, first Baron Emly (1812-1894)' in *Oxford dictionary of national biography*, xxxviii (Oxford, 2004), p. 671.

[58] Ibid, p. 282.

[59] There is some qualitative evidence to suggest that bank orders and cheques were still used to transfer remittances.

[60] Post Office (Money Orders) Act, 1880, (43 & 44 Vict.), c.33; and *Twenty-seventh report of the Postmaster General on the Post Office*, p.6. [c. 3006], H.C. 1881, xxix, 583.

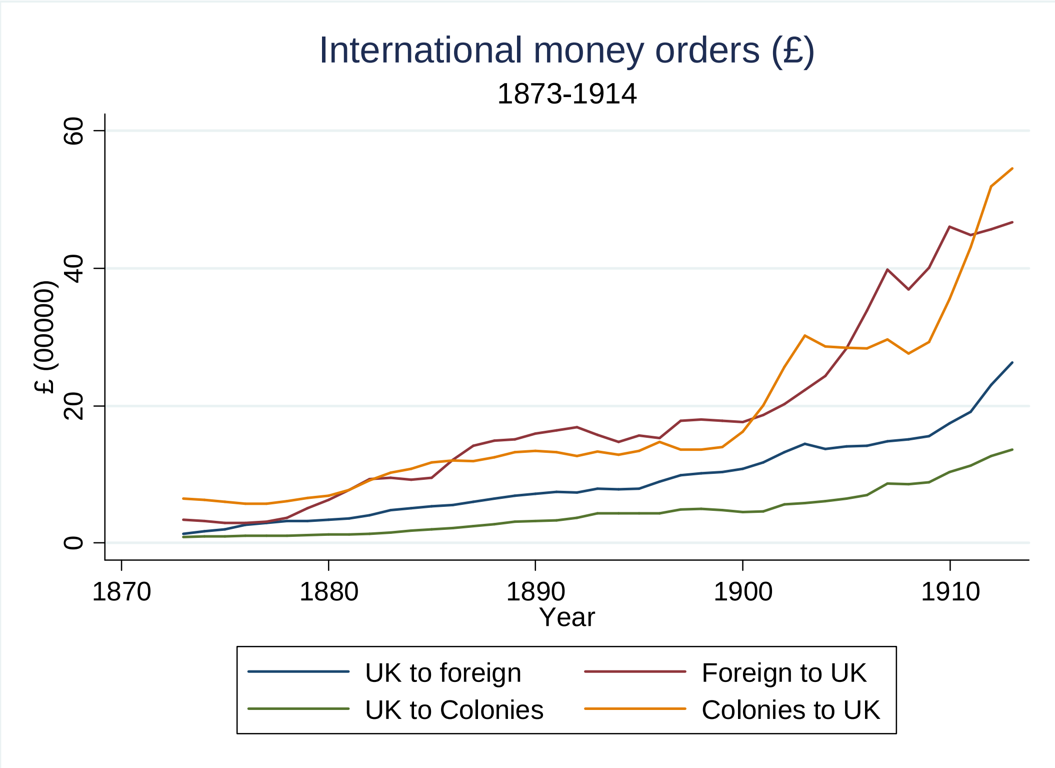
[61] *Fifty-first report of the Postmaster General on the Post Office*, p. 10. [c. 2634] H.C. 1905, xxiv, 687.

a domestic service at first in the UK. Then subsequent international agreements were made to establish telegraphic money order exchanges between the UK and various countries. In 1907 the Postmaster General reported that the UK Post Office entered negotiations to establish a telegraphic money order exchange with the agencies of the Western Union Telegraph Company in the US and Canada.[62] The negotiations were completed in 1909, and the Western Union telegraphic money orders commenced in 1910.[63] The 1904 POSB act enabled POSB account holders to transfer money from POSB accounts in the UK to POSB accounts abroad,[64] and the Postmaster General reported that a large number of such transfers were made from the POSB in the UK to the Canadian POSB.[65] In their estimates of remittances to 'Britain' Magee and Thompson did not include information on Telegraph money orders, as the service began too late in their period of inquiry.[66] They also did they not make any reference to inter-Colonial POSB transfers, as they had overlooked it.

From the foregoing narrative it can be seen that the post office played an important role as a mechanism for remittance transfers. Figure 8.12 is a summary of foreign and colonial money order activity in the period 1873-1914.

[62] *Fifty-third report of the Postmaster General on the Post Office*, p. 11.[c. 3624], H.C. 1907, xxi, 349.
[63] *Fifty-sixth report of the Postmaster General on the Post Office*, p. 8. [c. 5270]. H.C. 1910, xlv, 165.
[64] *Fifty-second report of the Postmaster General on the Post Office*, p. 12 [c. 3114], H.C. 1906, xxvii, 595
[65] *Sixtieth-report of the Postmaster General on the Post Office*, 1913-14, p. 12 [Cd. 7573], H.C. 1914, xliv, 737.
[66] Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review*, lix, 3 (2006), p.554.

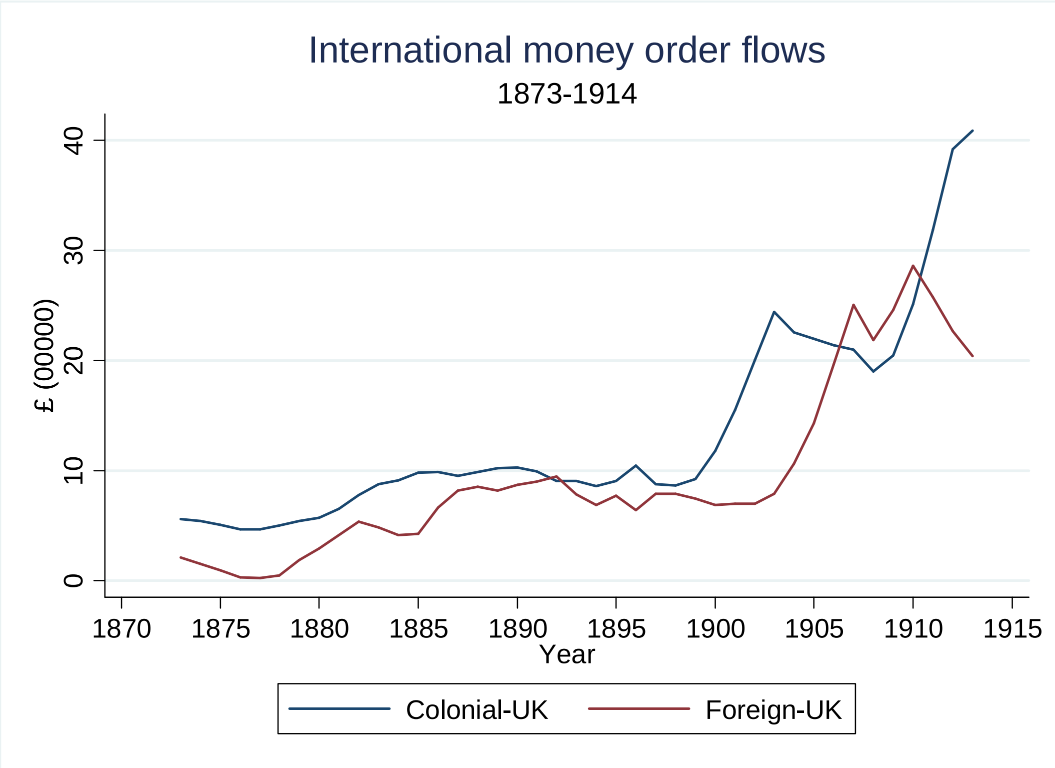
Figure 8.12



Note: The Post Office money orders stopped using the normal calendar year (January to December) in 1875 and switched to a bureaucratic calendar year (April to March).
Source: Annual reports of the Postmaster General on the UK Post Office.

Although the data on remittances are limited, what figure 8.12 does tell us is that based on postal money order records, the UK was a net recipient of foreign and colonial remittances.

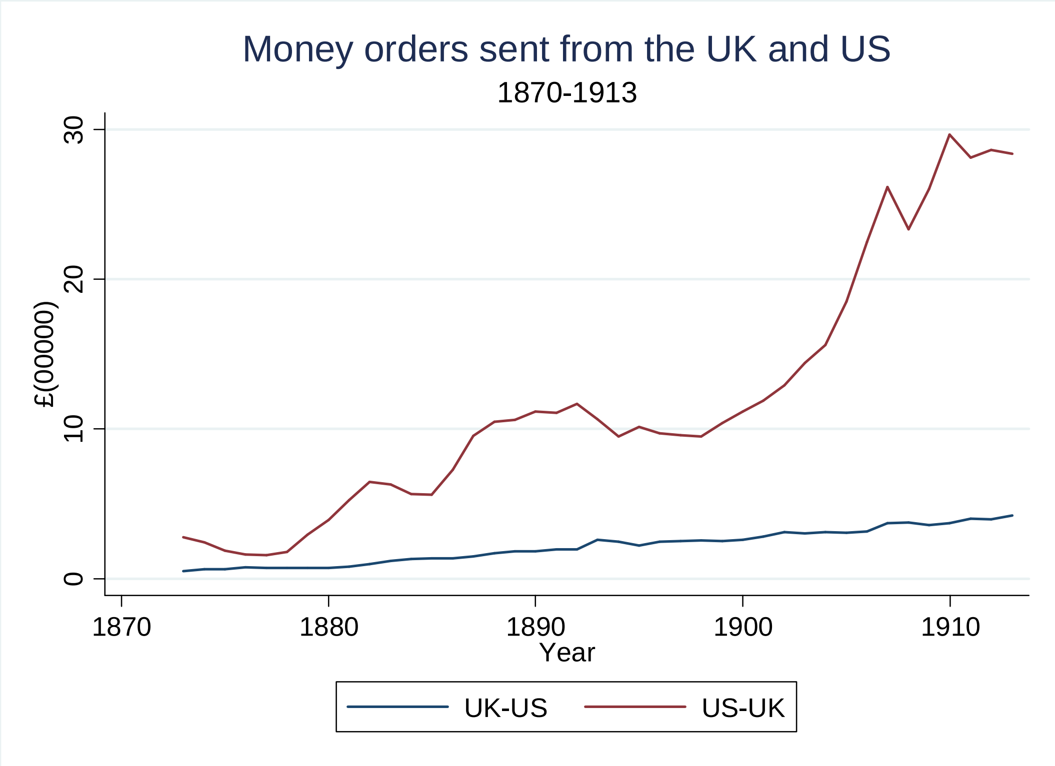
Figure 8.13



Note: The graph represents the monetary value of money orders received in the UK minus the monetary value of money orders sent from the UK.
The Post Office money orders stopped using the normal calendar year (January to December) in 1875 and switched to a bureaucratic calendar year (April to March).
Source: Annual reports of the Postmaster General on the UK Post Office.

Of the foreign countries, the largest exchange of money orders was with the US. The colonies provided an approximately equal share of money orders, but in the latter years covered by figure 8.13 the majority of the money orders came from Canada. As the majority of Irish emigrants went to the US, it is important to illustrate how much of the foreign money orders came from the US. Figure 8.14 shows the amount of money orders sent in the US to the UK and the amount in the UK sent to the US. As can be seen, the UK was a net recipient of money orders from the US. This is important because of the evidence that a significant proportion of UK immigrants in the US came from Ireland, as was shown in section 8.2 above.

Figure 8.14



Note: The Post Office money orders stopped using the normal calendar year (January to December) in 1875 and switched to a bureaucratic calendar year (April to March).
Source: Annual reports of the Postmaster General on the UK Post Office.

Magee and Thompson stressed the importance of Post Office money orders stating that: 'The volume of funds entering the UK in the form of money and postal orders – some £19,112,145 from the colonies alone between 1856 and 1914 – was certainly not negligible'.[67] But given the importance which Magee and Thompson attached to the postal money order service it is striking that they do not make reference to the fact that there was a significant increase in money order limits in the early 1900s, from £10 to £40, referred to above. Magee and Thompson based their estimates on remittance flows on the Board of Trade data, cited in section 8.2, and on money order data outlined in this section. The increase in the limits was clearly significant, as can be seen in figures 8.12 and 8.13, something which suggests that there may have been a shift from bank transfers to postal money order transfers. This, it appears, has been overlooked by Magee and Thompson. As they used both bank transfers and postal money order transfers in their estimation of remittance flows, it is quite possible that

[67] Gary B. Magee, and Andrew S. Thompson, 'Lines of credit, debts of obligation': migrant remittances to Britain, c. 1875-1913' in *Economic History Review*, lix, 3 (2006), table 4, p. 545.

their estimates may be biased as they could be double-counting the shifts from bank transfers to postal transfers.

8.4 Money order offices and the Post office Savings Bank in Ireland, 1861-1911.

The foregoing discourse highlighted the importance of the Post Office as a conduit for the transmission of remittances. Although the available source material does not at present permit us to determine the exact distribution of remittance flows in the nineteenth century, it is possible to use some proxy variables in order to determine the relationship between money orders and emigration. One such proxy variable is the spatial distribution of the money order offices over time.[68] Data on the geographic distribution of post offices, money order offices, telegraph offices and postal annuity offices has been collected at census intervals from 1861 until 1911. The data for the period 1861 to 1911 were derived from directories of post towns in Ireland published in *Thom's Directory*, and were cross-referenced with POSB branches listed in parliamentary returns.[69] From a Post Office report in 1845 we know that there were 330 money order offices in Ireland.[70] From *Thom's Directory* we can see that by 1911 the number of money order offices had increased to 1,009.

In order to assess this we need to know how significant was the increase and what caused the growth in the number of money order offices. It will be argued here that the growth in the number of money order offices in the late nineteenth century was demand driven, and that the demand mainly came from a growth in the number of money orders received in Ireland through the Post Office. Support for this argument can be seen in the following statement from the Postmaster General in 1866:

> Of these [money order offices] many were opened with a view to afford additional accommodation to the public by lessening the distance between their homes or places of business and a Money Order Office, and with a view also to relieve the chief Money Order Offices by distributing the pressure of Money Order business…It is right that I should here declare, both for my predecessors and myself, that this satisfactory result [profitability of the Post Office] has not been brought about by any special effort to produce a revenue from the Post Office. It was their practice, and it has been mine, to extend Post Office accommodation wherever such extension seemed to be required, and to incur any reasonable expense for the attainment of an adequate public good. If in the

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[68] Maps of the spatial distribution of MO/POSB are found in an appendix to this chapter.

[69] *Tables showing for each Post Office and Trustee Savings Bank in Ireland open on 31st December and 20th November, 1912, respectively, the number of depositors' accounts, and the amount to the credit of those accounts in 1881, 1896, 1907, and 1912, together with a table of similar figures for Joint Stock Banks, and the percentages by which the total rental dealt with under the Land Law (I.) Acts between August, 1881, and April, 1913, has been reduced for a first or second statutory term; (in continuation of No. 119 of 1909)*, (272) H.C. 1913, lvii, 915.

[70] *Return of the places in U.K. having benefit of money-order post offices* (433) H.C. 1845, xlvii, 213 – Derry was doubled counted in the return.

> course of this prolonged and systematic endeavour to promote the public advantage we had not frequently declined to incur an expense which seemed likely to purchase no commensurate benefit for the public, it is more than probable not only that there would have been no surplus revenue to exhibit, but that there would have been no funds for the carrying out of many measures by which in the past ten years the whole community has benefited.[71]

Further support for the view that the growth in money order and POSB institutions was demand driven can be seen by the fact that the Postmaster General expressed the view that it was not the intention of the Post Office to open money order offices or POSB branches in every Post Office. The reason given was that they were expensive to operate.[72] If we look at the growth in the number of post offices over time we can see that there was some increase in the opening of new post offices, but that there was a higher growth rate in the opening of money order (MO) offices. The number of Post Offices, MO offices, MO/POSB branches, TSB's and Joint Stock Bank branches are shown at various years from 1861 to 1911 in table 8.8.

Table 8.8: Number of post offices, MO, POSB, Insurance and telegraph offices and TSBs in Ireland, 1861-1911.

Year	Post Offices [a]	MO - send and receive [b]	MO, POSB, & Insurance and annuity [b]	MO send only [c]	Telegraph [d]	TSBs	JS Bank branches [e]
1861	1,539	428	-	-	-	55	187
1871	1,655	-	517	-	141	41	319
1881	1,919	-	592	-	510	31	413
1891	1,896	-	716	203	584	19	528
1901	1,896	-	716	206	594	13	668
1911	1,900	-	1,009	-	989	12	828

Notes:

a- Although the Postmaster General reports show a greater number of post offices in the later period covered in table 8.8, this is due to the fact that the Postmaster General reports include the number of post boxes which were an innovation in the period.

b- Initially money order offices only sent money orders. From 1862 with the introduction of the POSB they also doubled up as the POSB and MO offices. The Post Office also operated an

[71] *Twelfth report of the Postmaster General on the Post Office*, p. 18 and p. 36. [3641] H.C. 1866, xxvi, 245.

[72] *Twenty-fifth report of the Postmaster General on the Post Office*, p. 53 [c. 2405] H.C. 1878-79, xxi, 197.

insurance and annuity service but there was very little uptake on it in either Great Britain or Ireland.

c- In 1891 and 1901 there was a list of money order offices that only sent money orders and did not receive any money orders.

d- Telegraphs were nationalised and placed under the administration of the Post Office.

e- Joint stock bank branches refer to the number of branches operated by the individual joint stock banks in Ireland. Some operated in the same towns, so as such they are spatially correlated.

Sources: *Thom's Directory,* 1861-1911.

Table 8.8 shows that after the introduction of the POSB, MO offices were no longer distinct institutions and that they were linked to the POSB and post office insurance and annuity schemes. This was a deliberate policy, as was shown in the preceding discourse, and the policy was reaffirmed in successive Postmaster General reports.[73]

The provincial distribution of MO offices, POSB branches and population is shown in table 8.9.[74] Table 8.9 suggests that the distribution of the institutions is strongly correlated with population distribution. But it is interesting to note that the distribution of the money order offices that only sent money orders and did not receive them in 1891 and 1901 was heavily concentrated in Ulster.

Table 8.9: Percentage distribution of Money Order offices, Post Office Savings Banks and Population by province, 1845-1911

	Connaught		**Leinster**		**Munster**		**Ulster**	
	MO/POSB	**POP**	**MO/POSB**	**POP**	**MO/POSB**	**POP**	**MO/POSB**	**POP**
1845[a]	13.33	17.37	35.15	24.16	23.03	29.33	28.48	29.15
1861	16.12	15.75	32.01	25.14	21.73	26.10	30.14	33.01
1871	16.44	15.63	28.81	24.75	23.21	25.75	31.53	33.87
1881	15.37	15.88	28.21	24.72	23.99	25.72	32.43	33.68
1891	15.36	15.41	27.93	25.25	24.58	24.92	32.12	34.43
1891[b]	6.40		24.14		8.87		60.59	
1901	15.22	14.51	27.93	25.86	25.14	24.14	31.70	35.50
1901[b]	7.28		26.21		8.74		57.77	
1911	15.46	13.92	29.34	26.47	27.06	23.59	28.15	36.03

a – The population distribution used for 1845 is taken from the 1841 census

[73] For example in the nineteenth report of the Postmaster General there is reference to the opening of new Money Order offices that also serve as Savings Banks – *Nineteenth report of the Postmaster General on the Post Office,* p. 11 [c. 816] H.C. 1873, xxi, 353.

[74] Maps of the MO/POSB are included in an appendix to this chapter.

b - Refer to money order offices that only send money orders.

Sources: *Return of the places in U.K. having benefit of money-order post offices*, H.C. 1845, (433), xlvii, 213, and *Thom's Directory*, 1861-1911.

In terms of our goal to determine whether the distribution of money order offices is demand driven, the co-existence of POSB branches may bias any findings as they may simply be a detection of POSB demand. Another factor which seems to indicate a growth in POSB demand was the decrease in the number of alternative TSBs, discussed in chapter 4. The POSB and TSBs competed under the same deposit ceilings in the nineteenth and early twentieth centuries. The decline in TSBs and growth in POSB branches would seem to suggest that there was a growth in demand for POSB services. As the MO office was linked with the POSB, and the evidence suggests there was demand for both services, the only way to isolate the demand for MO services is if we can determine whether or not there was a correlated demand for both money order and savings services from the Post Office, or rather whether remittances were saved. As was stated in chapter 4, the POSB experienced consistently positive growth rates from the time of its establishment until 1914. The savings balances in the POSB grew consistently from 1862 to 1914, even during the recessionary period of 1877-1882 known as the 'land war' in Irish historiography.

Arnold Schrier, one of the few historians who looked directly at the volume of remittances in Ireland, concluded that although there might be a positive relationship between remittances and savings deposits, the growth in savings was more likely due to prosperity in Irish agriculture. Schrier believed that:

> For the vast majority of tenant farmers and labourers who received this money there were too many immediately pressing needs, such as rents and debts, to have allowed them the luxury of salting it away for a rainy day.[75]

On the other hand Kerby Miller, another prominent historian of Irish emigration to the United States, has argued that remittances were saved.[76]

From looking at Schrier's work there is a noticeable fault line in his analysis. Primarily he compared remittance inflows with savings balances (accumulated savings) over time.[77] Schrier referenced the banking statistics of Ireland and he compiled a series for 'deposits' that was an accumulation of the savings balances in

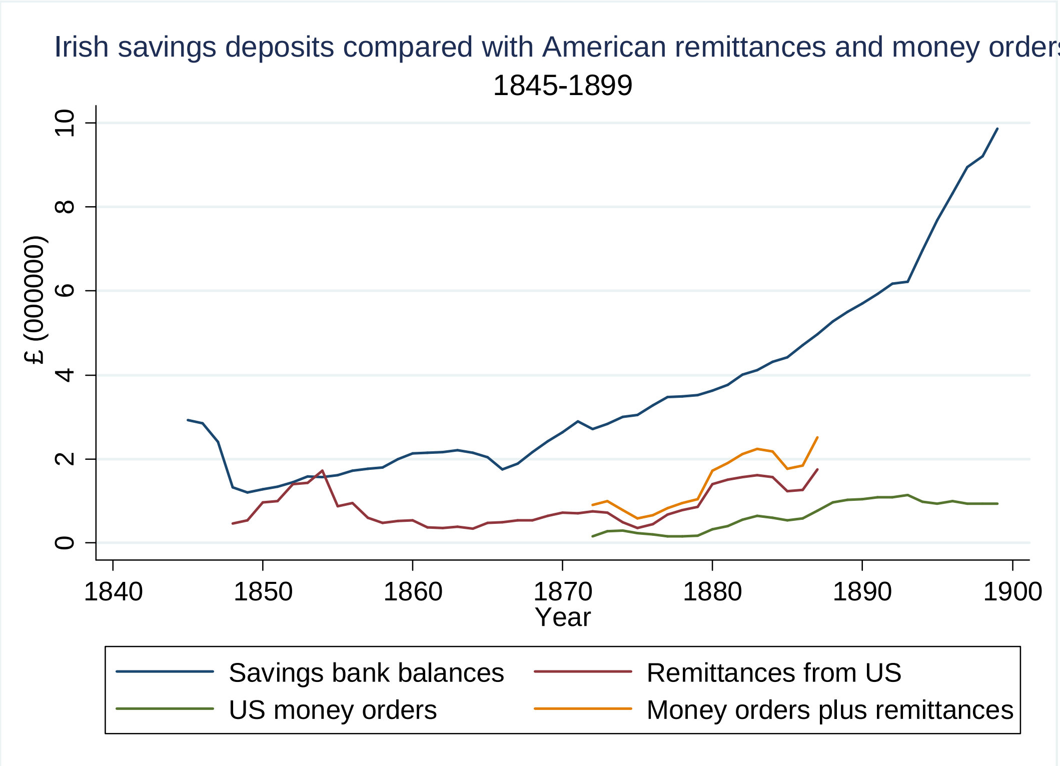
[75] Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), p. 119

[76] Kerby Miller, *Emigrants and exiles: Ireland and the Irish exodus to North America* (Oxford, 1985).

[77] This is observable from the source material that Schrier referenced, source material which showed the annual savings balances in both TSBs and the POSB in Ireland from 1845 to 1900.

both TSBs and the POSB. This led to a finding of an insignificant relationship between savings and remittances, but the variables that were compared were measured in stocks and flows, the stock of savings and the flow of remittances.

Figure 8.15



Source: Figure 3 in Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), p. 118.

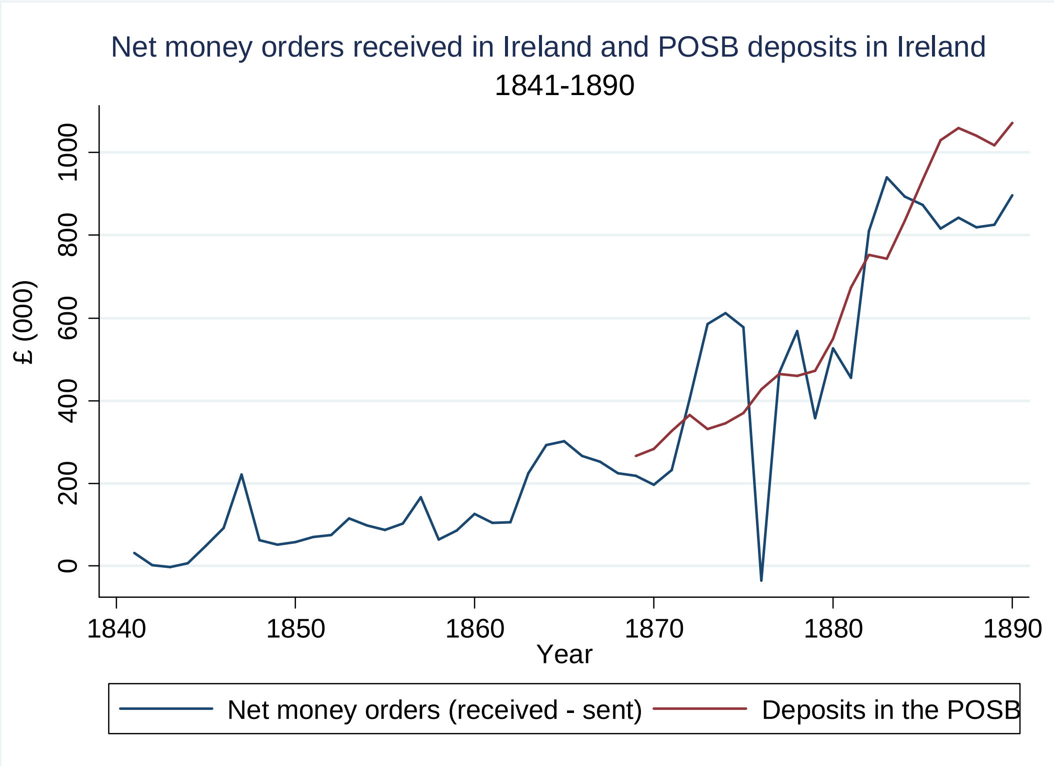
Figure 8.15 is a reproduction of Schrier's comparison between Irish savings deposits[78] and American remittances and money orders.[79] Schrier attempted to compare the US remittances, derived from incomplete returns made by the Emigration Commissioners and the Board of Trade, and data on US money orders.[80]

But on the other hand if one compares the net remittance flows, inflows minus outflows, and the annual deposits in the POSB one can get a different picture. It is not possible yet to create an inflow-outflow equivalent of the 'remittances' term used in Schrier's graphical comparison, as the data are not available. But given that the variables in the term 'remittances' were comprised entirely of bank drafts and pre-

[78] Arnold Schrier used a variable that pooled POSB and TSB savings.
[79] For the sources used see: Arnold Schrier, *Ireland and the American emigration 1850-1900* (Minnesota 1958, reprint 1997), pp 119-120.
[80] I have been using UK Postmaster General reports whereas Schrier used US Postmaster General reports.

paid passages, it would probably be more accurate to compare them with joint stock bank deposits over time to get a completely accurate picture of remittance flows and deposit flows.[81]

Figure 8.16



Note: The point at 1876 is an outlier for the period and it is possible that it is a data input error. In Grimshaw's statistics the figures for money orders received was 2499000 and the figure for money orders sent was 2464000. The number of money orders sent exceeded the number of money orders received. It is possible that there was an input error on the part of Grimshaw.
Also Grimshaw's statistics only began recording deposits in the POSB from 1869.

Source: Appendix in Thomas Wrigley Grimshaw, *Facts and figures about Ireland* (Dublin, 1893).

The main difficulty with analysing remittance flows and savings flows in Ireland is the shortage of reliable data. The POSB was a UK-wide banking institution, and the annual reports of the Postmaster General gave information on the deposits and withdrawals for the UK as a whole. The same level of detail was given for money orders. But as the data are for UK variables it is impossible to isolate Irish remittances and savings. From Grimshaw's statistical extract, shown in figure 8.16, we can get a glimpse of what the situation was like in Ireland.[82] Grimshaw gave data on the

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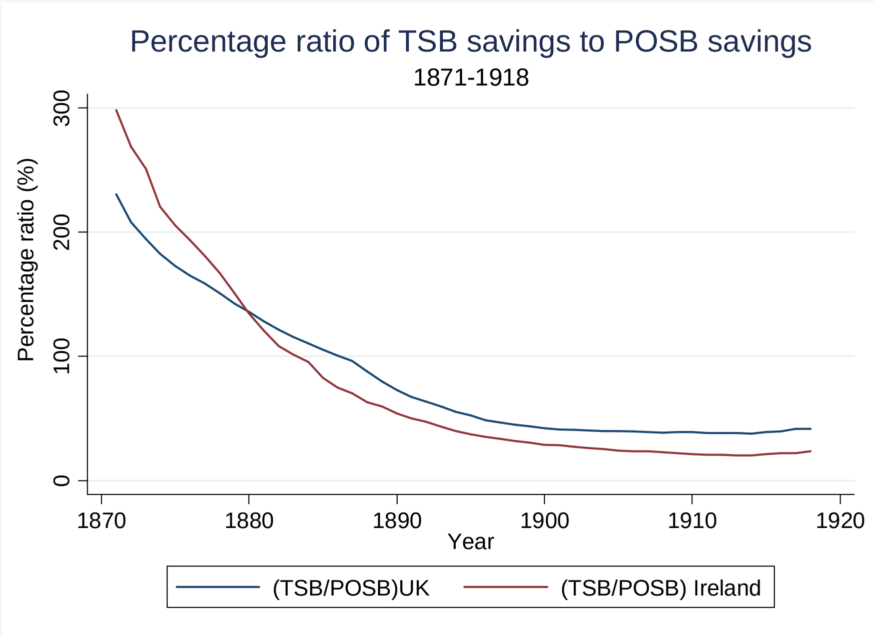
[81] Joint stock banks did encourage savings mobilisation and accepted deposits from as low as £5. See: *Bulletin of the Society of St. Vincent De Paul*, xii (Dublin, 1867), p. 369.
[82] Sources taken from an appendix in Thomas Wrigley Grimshaw, *Facts and figures about Ireland* (Dublin, 1893).

amount of deposits in the Irish wing of the POSB, and also of all money orders sent and received in Ireland. Perhaps this is a more realistic picture than the one described by Schrier who over-emphasised the savings stock and under-estimated money order flows from the colonies and the rest of the UK.

Given the information at hand, what seems most likely is that there were a number of formal means available to transmit remittances. One form was via the formal money transfer services of the banking houses in the USA and London and pre-paid boat tickets. These are accounted for by the Commissioners of Emigration and Board of Trade statistics. The establishment of colonial and international postal money orders was a novel means for transferring remittances. As the money order offices in the UK were predominantly attached to the POSB, it is not beyond the realms of plausibility that there were spillovers between money remitted via money order and the POSB deposits.

Schrier's argument is also challenged when one considers the rapid growth of the POSB, which was tied with the money order service, and the stagnation of the TSBs in the post-famine period. Looking at the ratio of savings in TSBs and the POSB, shown in figure 8.17, it becomes apparent that the POSB outgrew the TSB in the 1880s. This growth coincides with the increased amount of international money orders received through the Post Office. The coincidental growth in both POSB savings and international money orders suggests that we should question Schrier's arguments.

Figure 8.17



Sources: *Thom's Directory* and Parliamentary banking statistics, various years.

If we take the growth of the POSB into account, it is obvious we should compare money orders with the deposits in the POSB as was outlined above. Also the remittance flows that Schrier used to support his argument were those cited from the Emigration Commissioners and the Board of Trade, and these included remittances in the form of pre-paid passages on ships to the USA. The inclusion of these non-monetary variables also skews any findings, as it is obvious that pre-paid boat passages were not going to find their way into Irish savings bank accounts.

Some qualitative evidence also supports the view that remittances were saved in the POSB. Kerby Miller cited evidence from the Royal Commission on Congestion in Ireland, a parliamentary inquiry into congestion in the west of Ireland, which showed that a number of people saved the remittances they received.[83] Given the dearth of TSBs in Ireland,[84] it is not surprising that people, if they were going to save, would save in POSB accounts. Depositing surplus funds in POSB accounts was convenient, but also offered benefits in the form of secrecy. The importance of

[83] Kerby Miller, *Emigrants and exiles: Ireland and the Irish exodus to North America* (Oxford, 1985), p. 483. The referencing scheme used by Miller was very poor and I cannot find where exactly he got his sources.

[84] The number of TSBs continually declined after 1847. The reasons for the decline were numerous, but they were mainly to do with a loss of confidence in the TSBs due to fraud, and also because of the emergence of the POSB. In 1901 there were 13 TSB's and of these none were located in Connaught.

financial secrecy should not be undervalued, especially in a time when rents were in arrears.

Table 8.10: Growth in Money Order offices and Post Office Savings Banks, 1845-1911[85]

	Ireland	Connaught	Leinster	Munster	Ulster
	%	%	%	%	%
1845-61 [a]	31.77	49.67	17.32	26.83	44.37
1861-71 [b]	22.83	33.61	14.07	28.04	26.07
1871-81	14.75	9.99	11.08	19.77	18.93
1881-91	20.07	16.09	19.49	24.98	19.76
1881-91 [c]	55.41	34.07	51.96	37.34	83.91
1891-1901 [c]	1.27	1.01	3.12	2.48	-1.86
1901-1911	43.55	44.94	49.56	59.32	24.23
1901-1911 [c]	14.18	23.01	18.33	47.33	-18.35
1845-1891 [c]	186.12	188.14	120.49	163.07	287.86
1891-1911 [c]	16.13	23.91	22.52	50.83	-19.86
1845-1911 [c]	212.60	250.95	159.57	292.54	208.72

a- These figures refer to the mean percentage change in money order offices only
b- The Post Office Savings Bank was established in Ireland in 1862.
c- The percentage change is calculated by adding the values for money order offices that only send money orders and the MO/POSB variables

Sources: *Return of the places in U.K. having benefit of money-order post offices* (433) H.C. 1845, xlvii, 213, and *Thom's Directory* 1861-1911.

Table 8.10 shows the mean percentage change in the number of MO offices and POSB branches by province in the period 1845 to 1911. Given that we know international money orders did not commence until the 1870s we can split the development of the money order offices into three phases.

The first phase from 1838 until 1861 is the core development of the money order department in Ireland. An interesting feature from table 8.10 is the high percentage change in the number of MO offices in Connaught during the period 1845-61. This is perhaps explained by the existence of seasonal migration from the province. Ulster also experienced high growth rates compared to Leinster and Munster. This is mainly a reflection of the industrial status of Ulster. Evidence of this can be seen in the fact that Donegal, a county with a propensity to engage in seasonal migration, had the lowest growth rate.

85 These figures are the mean percentage change calculated from the mean of all the percentage changes within the stated group in the table. Statistics of the percentage changes in the number of MO offices and POSB branches are found in appendix to this chapter.

The period 1861-1871 saw the continuation of high growth rates in the establishment of MO offices in Connaught. But this growth rate is also a reflection of an increase in the number of POSB branches, which, as previously stated, were established in 1862 (1863 in Scotland and Ireland). What can be deemed the second phase of development in MO/POSB is the establishment of international money order exchanges, in particular the establishment of a money order service with the US. In the late 1870s there was an increase in the rate of emigration. The high growth rates in money order offices and POSB branches from 1881-91 seem to be a reflection of the pattern in emigration. As emigrants sent home remittances there would be a lag in the establishment of new MO offices, and this would explain why they show up in the 1881-1891 period. Evidence from the Postmaster General reports would seem to explain developments in the number of MO offices. In the early 1870s it was stated that there was a fall-off in foreign and colonial orders due to a 'scarcity of employment and diminution of wages'.[86] The increase in money orders sent from the colonies in the late 1870s and early 1880s was attributed 'in a great measure to remittances from emigrants to their relatives in Ireland in relief of the prevailing distress'.[87] The fact that there was a lower rate of growth in the number of MO/POSB offices in the latter periods may reflect the establishment and patterns of chain migration.

The growth rates in the final section 1901 to 1911 may be a reflection of the demand for POSB rather than for MO services as the rate of emigration had subsided. In 1894 the POSB had expanded its maximum deposit from £30 to £50 and was paying 2.5 per cent interest on deposits which was a higher rate of interest than that paid by the joint stock banks. In the period 1845 to 1891 there was a large growth in the number of money order offices and POSB branches, whereas in the same period population, measured at decadal periods, declined. The decline came through relatively high rates of emigration, something which suggests that the growth in money order offices and POSB branches was correlated with emigration. The high growth rates in Connaught and Munster compared with Leinster and Ulster in the period 1901-1911 shown in table 8.10 may also be an indication of the policies of the Congested Districts Board (CDB). It was stated by Micks, an inspector and secretary

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[86] *Twenty-third report of the Postmaster General on the Post Office*, p. 16. [c. 1863] H.C. 1877, xxvii, 201.
[87] *Twenty-sixth report of the Postmaster General on the Post Office*, p. 18. [c. 2670] H.C. 1880, xix, 1.

of the CDB, that the CDB acted as a guarantor to facilitate the opening of money order offices.[88] But the role of the CDB does not explain the growth rates in MO offices and POSB branches in Connaught and Munster before 1891.

Table 8.11a: Correlation between Money Order offices and Post Office Savings Banks and demographic variables, 1861-1911 (N=32)

	Emigration and MO	Emigration and MO/POSB	Emigration + Emigration lagged and MO/POSB	Urban Population	% Urban population
1861	0.605	-	-	0.636	0.395
1871	-	0.704	0.709	0.491	0.29
1881	-	0.836	0.801	0.579	0.355
1891	-	0.801	0.841	0.532	0.323
1901	-	0.791	0.806	0.470	0.283
1911	-	0.768	0.768	0.415	0.311

Table 8.11b: Correlation between Money Order offices and Post office Savings Banks and demographic variables, 1861-1911 (excluding Cork) (N=31)

	Emigration and MO	Emigration and MO/POSB	Emigration + Emigration lagged and MO/POSB	Urban Population	% Urban population
1861	0.365	-		0.570	0.376
1871	-	0.420	0.443	0.404	0.215
1881	-	0.730	0.662	0.545	0.357
1891	-	0.665	0.727	0.517	0.324
1901	-	0.645	0.669	0.473	0.282
1911	-	0.638	0.621	0.406	0.331

[88] William L. Micks, *An account of the constitution, administration and dissolution of the Congested Districts Board for Ireland from 1891 to 1923* (Dublin, 1925), p. 90.

Table 8.11c: Correlation between Money Order offices and POSB per 1,000 population and emigration per 1000 population, and urban population per 1,000 population (N=32)

	MO and emigration	Emigration and MO/POSB	Emigration + emigration lagged and MO/POSB	MO and urban population
1861	0.149	-	-	-0.232
1871	-	0.534	0.582	0.207
1881	-	0.576	0.668	0.223
1891	-	-0.123	-0.191	-0.178
1901	-	-0.326	-0.186	-0.409
1911	-	-0.188	-0.292	-0.415

Note: The emigration statistics used were taken from tables in Vaughan and Fitzpatrick. They are the total number of emigrants per county for a ten year period.
The urban population statistics are based on tables in Vaughan and Fitzpatrick and based on the number of towns in a county in Ireland that at one stage had a population over 2,000. There was no town listed for County Leitrim, so Leitrim was excluded from the money order side as well, i.e. n=31.
Cork was an outlier both in terms of emigration and the number of money order offices. Therefore table 8.11b has excluded Cork.

Sources: *Thom's Directory* 1861-1911, and W. E. Vaughan and A. J. Fitzpatrick, *Irish historical statistics: population, 1821-1971* (Dublin, 1978), pp 28-41, and pp 269-343.

Tables 8.11a and 8.11b show the correlation coefficients relating to money order offices and emigration and urban population. What table 8.11a and 8.11b suggest is that the distribution of money order offices, and money order and POSB offices was positively correlated with emigration and that perhaps emigration was a greater driver of the growth in MO/POSB offices than urbanisation was.

Table 8.11c illustrates the difficulty in attempting to measure the relationship between the money order service and the emigration. The money order office was not just a money order office, but it was a Post Office, a POSB branch, a telegraph office, a life insurance office, and a stockbroker's office.[89] We can see a positive correlation between emigration per 1,000 population and MO/POSB per 1,000 population in 1861, 1871 and 1881, but thereafter there is a negative relationship. This is perhaps an indication of the increased demand for the POSB in the latter years. In chapter 4 it was shown that there was an increase in POSB savings deposits during the period 1877-1882, and thereafter. As the postal services were demand driven, this would

[89] From 1881 onwards the Post Office sold government stock directly through the Post Office for sums between £10 and £100: *Twenty-seventh report of the Postmaster General on the Post Office*, p. 5 [c.3006], H.C. 1881, xxix, 583.

suggest that the demand for institutions from the 1880s onwards was for POSB services, and this overshadows the MO demand that is also present. Support for this is based on the negative relationship between MO/POSB per 1,000 population and urban population per 1,000 as it was shown in chapter 4 that the majority of the savings in the POSB came from rural Ireland.

8. 5 Conclusion: emigration and microfinance

Microfinance is a term that has recently entered Irish historiography and to date the main study of microfinance in Irish history has been on Irish loan funds.[90] The existing studies have overlooked the dynamic nature of the microfinance sphere, and have not taken account either of the impact of emigration or of the development of financial institutions within the postal service as was shown in this chapter. What this chapter has mainly contributed to the existing literature is an awareness of the financial services provided by the Post Office. But as yet the chapter has not fully assessed how emigration and microfinance interacted.

The first question that needs to be addressed is how microfinance and emigration are related. Their relationship springs essentially from the fact that people use microfinance services. Therefore if people emigrate this will have an impact on the operations of the microfinance suppliers. There are numerous ways in which emigration can affect microfinance directly and indirectly. A direct influence of emigration would be if there was a decrease in demand for a particular service. This is inherently logical; why would people use the service if they were in another country? Migration can stimulate demand for other services, notably money transfers. Emigrant remittances can be transferred in either monetary or non-monetary form and also via formal and informal channels. If these transfers were of a monetary nature people may have decided that they required microfinancial services for their newly acquired funds. Another effect of emigration on microfinance is that transferred funds could act as a substitute for previously available microfinance services. An indirect, but equally important, effect is poverty reduction. Poverty reduction caused by emigration can have a knock-on effect on microfinance providers. Poverty reduction will decrease the number of low income individuals. As a result it can increase the profitability and

[90] For example see: Aidan Hollis and Arthur Sweetman, 'Microcredit in prefamine Ireland' in *Explorations in Economic History*, xxxv (1998), pp 347-380.; Aidan Hollis and Arthur Sweetman, 'Microfinance and Famine: The Irish Loan Funds during the Great Famine' in *World Development*, xxxii, no. 9 (2004), pp 1509-1523.

decrease the risk of the individuals with increased income from the perspective of formal financial service providers. Emigration can also erode the informational advantages that microfinance institutions possess. As was discussed in chapter 3, Hollis and Sweetman argued that it was informational advantages which enabled the loan funds to operate successfully in the early nineteenth century.[91] But, as was argued in the same chapter, the decreasing population, coupled with growth in bank branches, enabled joint stock banks to create their own information. If one accepts that theoretically emigration can affect microfinance, the next question to ask is: did it affect the microfinance services in Ireland in the nineteenth century?

To answer this question one must look at who actually emigrated. From the available data it seems that the majority of the Irish emigrants were unskilled and this is supported by the age distribution of the migrants: [92] as they would have been too young to have acquired a marketable skill set. This can also be seen by Irish emigrant returns to the US were the bulk of Irish immigrants were classified as unskilled or low skilled.[93] Timothy J. Hatton and Jeffery G. Williamson found that:

> Those who emigrated were bound to be more mobile than the population at large, because the costs of migrating were lower for the young and single. They had little investment in skills that were specific to firms, to industries, or to Ireland as a whole. It seems likely that the present value of emigration was much greater for these young, unskilled workers than for those who were more established, more skilled, and older.[94]

The loan funds catered to lower socio-economic groups, and in the post-famine period it was these people who were more likely to emigrate. Emigration was also a contributory factor in the growth of national income per capita in nineteenth century Ireland.[95] Emigration also played a role in 'boosting Irish living standards'.[96] Furthermore, there is evidence to suggest that emigration was a cause of the growth in

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[91] Aidan Hollis and Arthur Sweetman, 'The life-cycle of a microfinance institution: the Irish loan funds' in *Journal of Economic Behaviour and Organization*, xlvi (2001), p. 309.
[92] Donald Harman Akenson, *The Irish Diaspora: a primer* (Belfast, 1996), p. 44.
[93] Data derived from tables on the percentage distribution of immigrants to the United States from Ireland, by occupation, 1875-1930 in Thomas, Brinley, *Migration and economic growth: A study of Great Britain and the Atlantic economy* (2nd edition, 1973, Cambridge), p. 384.
[94] Timothy J. Hatton and Jeffery G. Williamson, 'After the Famine: emigration from Ireland, 1850-1913' in *The Journal of Economic History*, liii, No. 3 (Sep., 1993), p. 589.
[95] Estimates of Irish national income growth rates suggest slow growth, but national income per capita grew faster based on the fact of a continually decreasing population.
[96] Kevin O'Rourke, 'Emigration and living standards in Ireland since the famine' in *Journal of Population Economics* , viii (1995), p. 408.

real wages in Ireland in the period 1850 to 1914.[97] As the demarcation between agricultural labourer and small farmer was blurred,[98] increases in the wages of agricultural labourers would have meant an increase in income.

The area of microfinance which experienced the greatest competition from emigrant remittances was microcredit. Remittances acted as a substitute for existing sources of microcredit. It must be asked how remittances could have acted as a substitute for microcredit. To do this it is necessary to determine what both microcredit and remittances would have been used for. This is difficult due to the lack of observable evidence, but from surviving qualitative evidence and evidence from some account books of the loan funds it appears that the uses of microcredit loans were varied and that some loans were for consumption purposes. The uses of remittances were also widely varied. Kerby Miller observed that:

> Many parents wanted money from the children sent abroad, both to finance further emigration and to bolster Ireland's small farm economy. Although the inheriting son's dowry acquired at marriage often financed his less fortunate siblings' departure, whether from poverty or parsimony most parents relied on American remittances to pay their children's passage. Usually an uncle or aunt in the New World financed the initial departure of an eldest son or daughter, who in turn was expected to send prepaid passage tickets and promise further assistance (e.g. a place to live, help in finding employment) to his or her younger brothers and sisters. In addition, Irish parents wanted children to remit money for other purposes: to pay rents and shop bills, purchase holdings, enlarge acreage and livestock herds, or improve housing and living standards generally.[99]

So it is probable that there was some crossover in usage. Indeed what is often deemed a disadvantage with remittances is that they are normally used on consumption spending rather than for investment purposes. In recent times *The Economist* has noted that 'perhaps 90% of remittances to poor countries go on food, clothes, housing, education and health'.[100] But if this was the case for nineteenth century Ireland it would not necessarily have been a bad thing. Samuel Munzele Maimbo and Dilip Ratha, from observing the effects of remittances on numerous countries, believed that:

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[97] George R. Boyer, Timothy J. Hatton, and Kevin O'Rourke, 'The impact of emigration on real wages in Ireland, 1850-1914' in Timothy J. Hatton and Jeffrey Williamson (eds), *Migration and the international labour market 1850-1914* (London, 1994), pp 221-239.
[98] David Fitzpatrick, 'The Disappearance of the Irish agricultural labourer' in *Irish Economic and Social History* , vii (1980), p. 67; It must be noted that the view that the agricultural labourer had 'disappeared' has been challenged by the recent scholarship of Catriona Curtis: Catriona Curtis, 'The agricultural labourer and the state in independent Ireland, 1922-76' (PhD thesis, NUI Maynooth Department of history, 2007).
[99] Kerby Miller, *Emigrants and exiles: Ireland and the Irish exodus to North America* (Oxford, 1985), p. 483.
[100] 'Open up: a special report on migration' in *The Economist*,5th January 2008, p. 11.

> Remittances may help improve economic growth, especially if used for financing children's education or health expenses. Even when they are used for consumption, remittances generate multiplier effects, especially in countries with high unemployment…Whether remittances are used for consumption or buying houses, or for other investments, they generate positive effects on the economy by stimulating demand for other goods and services.[101]

It is also worth emphasising that there is not a lot of evidence to suggest that remittances were used to purchase land. Schrier, in his study on remittances, showed how the purchase of land from the proceeds of remittances was uncommon.[102] Schrier used the example of a Donegal woman who bought a neighbouring farm with 'American money',[103] but this, as he himself acknowledged, was an outlier. It is quite possible that 'American money' was used to pay some portion of the annuity repayments for land purchase that were discussed in chapter 7. As land purchase loans were made to 'uneconomic' farms, it would not be surprising if 'American money' was needed to repay the loan as on-farm activity would not have generated enough income to repay the loan instalments. In the CDB baseline reports many of the areas surveyed included remittances from relatives in America, as distinct from migratory labour earnings, as a source of farm income.[104] It was these same farms that received state loans to purchase the holdings, so it is likely that remittances continued to be used to repay loans.

Given that there was a crossover in microcredit loans and remittances in terms of usage, it is worth illustrating that the amount borrowed was in the region of the amount remitted. Unfortunately, we do not possess detailed information on average remittances, but the money order service operated under the same monetary ceiling of £10 as the LFB loan fund system, discussed in chapters 1 and 2. Given this information, which is shown in figure 8.18, it is not unreasonable to suggest that the average remittance sent via the Post Office money order service was similar to the average loan fund loan.

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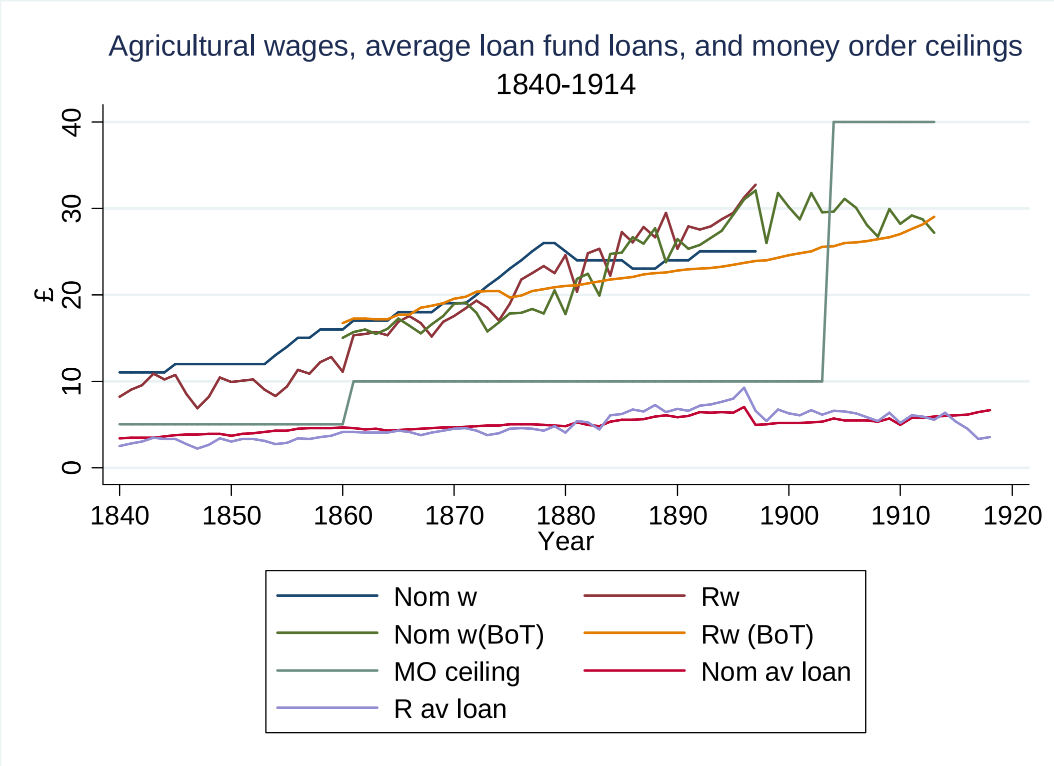
[101] Samuel Munzele Maimbo and Dilip Ratha, 'Remittances: An overview' in Samuel Munzele Maimbo, and Dilip Ratha (eds.), *Remittances: Development impact and future prospects* (Washington D.C., 2005), p. 5.
[102] Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), pp 119-120.
[103] Ibid, p. 120.
[104] Congested Districts Board for Ireland Base line reports.

Figure 8.18



Sources: Nom av loan and R av loan: Annual reports of the Loan Fund Board and *Thom's directory*. Nom w and Rw: A. L. Bowley, 'The statistics of wages in the United Kingdom during the last hundred years. (Part iv): Agricultural Wages' in *Journal of the Royal Statistical Society*, lxii, no. 3 (September, 1899), pp 555-570; Nom w and Rw (BoT): Board of trade labour statistics were used. *Second report by Mr. Wilson Fox on the wages, earnings, and conditions of employment of agricultural labourers in the United Kingdom, with Statistical Tables and Charts*, p. 137 [cd. 2376], H.C. 1905, xcvii, 335. ; and *Seventeenth abstract of labour statistics of the United Kingdom*, p. 67 [Cd. 7733], H.C. 1914-16, lxi, 295.; George R. Boyer, Timothy J. Hatton, and Kevin O'Rourke, 'The impact of emigration on real wages in Ireland 1850-1914,' *Centre for Economic Policy Research* , discussion paper 854 (December 1993).
Two deflators were used. Firstly in the period 1840 to 1860 from Frank Geary and Tom Stark, 'Trends in real wages during the industrial revolution: a view from across the Irish Sea'; from 1860 to 1914 the rural weights from Liam Kennedy, 'The cost of living in Ireland, 1698-1998'.

Given that the number of loans issued by LFB loan funds decreased in the post-famine period while at the same time there was an increase in the supply of remittances, it is quite plausible that the remittance flow dislocated the existing microcredit flow. The existence of remittances may also have influenced the elites who organised the loan funds.[105] As a result the existence of remittance flows may explain the decline of the loan funds both in terms of the amount of sums borrowed and the geographic decline of the LFB loan fund system. Given the unfavourable

[105] There was a growing apathy towards loan funds as is discussed in the chapters relating to loan funds in the post-famine period.

repayment terms in the loan funds, if they were replaced by more benign remittance flows, this would have enabled people to borrow less and to save more. The same argument regarding loan usage applies to the Raiffeisen credit co-operatives. Essentially remittances enabled people to save instead of borrowing.

Finally, an important issue in remittance literature is how remittances are channelled.[106] As was highlighted in this chapter, one of most accessible institutions that transferred remittances was also linked with a savings bank. The growth in financial services provided by the Post Office established a dominance of microsavings, and crowded out other microsavings providers. Although with the available evidence it is difficult to prove that remittances received via the Post Office were saved in the POSB, the continued growth of savings in the POSB would seem to suggest that some proportion of the remittances was saved. Cormac Ó Gráda has suggested that the growth in savings in the POSB may be a reflection of the extension of the POSB to areas where there had not previously been any savings facilities.[107] But such an argument does not take into consideration the link between the MO office and the POSB.

This leads to the issue of how remittances are channelled. The POSB was a one-dimensional financial institution in that it did not offer lending services to the public, but rather it lent solely to the government.[108] The amount of deposits held by the POSB exceeded the amount of savings held by the LFB loan fund societies, discussed in chapters 1 and 2, and Raiffeisen co-ops, discussed in chapter 6, which were established in the 1890s. Hollis and Sweetman suggest that the loan funds provided microsavings services in the pre-famine period, but the evidence from the post-famine period suggests that the loan funds were not mobilising savings.[109]

What the POSB had, and what others microfinance providers lacked, was the confidence of depositors.[110] This gave them greater security. No other microsavings provider could offer such security. The problem is summarised by Joanna

[106] Michele Wucker 'Remittances: the perpetual migration machine' in *World Policy Journal*, xxi, no. 2 (Summer 2004).
[107] See Cormac Ó Gráda, *Ireland: a new economic history 1780-1939* (Oxford, 1994), pp 239-240.
[108] The POSB was structured in such a way that deposits were used to purchase government debt, a highly liquid asset.
[109] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 &7, vic. Cap 91* , paragraph 52, p. 11. [C.8381], H.C. 1897, xxiii, 383.
[110] The POSB was a government-backed financial institution: see C. R. Perry, *The Victorian post office: the growth of a bureaucracy* (Suffolk, 1992), p. 66.

Ledgerwood in that ‘MFIs [microfinance institutions] providing credit services must select borrowers whom they trust to repay the loans. When collecting savings, however, it is the customers who must trust the MFI.’[111] This may appear to be a trivial matter, but without deposit mobilisation a financial intermediary engaging in microcredit is not financially sustainable. It must rely on existing sources of capital which give it limited growth potential and possibly sows the seeds for future decline. If a microfinance provider is not financially self-sustainable it will be reliant on subsidies, and if these subsidies are withdrawn then the institution will be forced to cease operations. This is what happened to the Raiffeisen societies discussed in chapter 6. In effect, the post-famine era saw a growth in microsavings institutions, a product of the general improvement in living standards caused by emigration and the continued stream of remittances, at the expense of existing microcredit institutions.

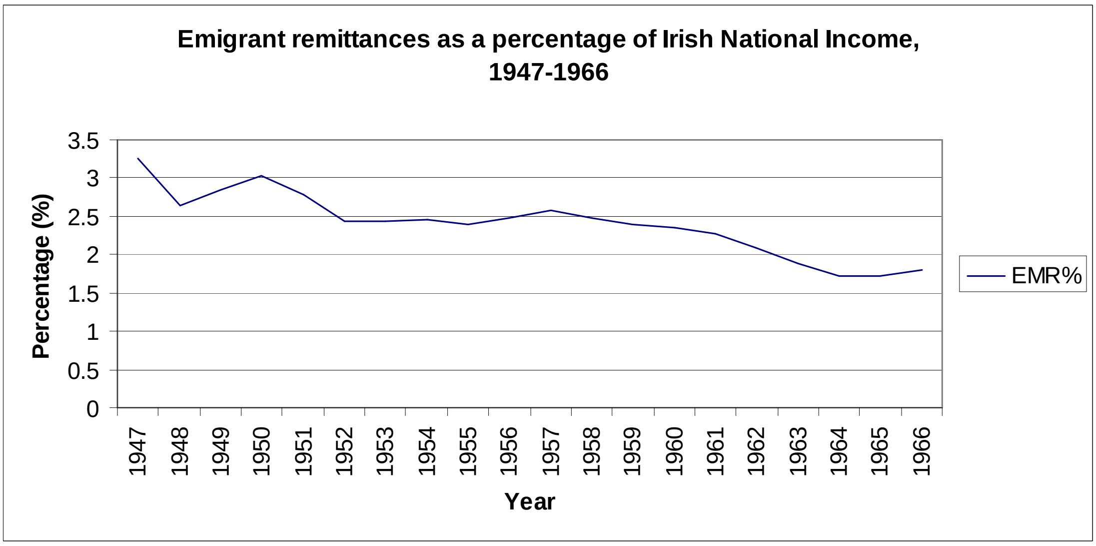
Emigration and remittances show the extent of the obligation which remitters felt towards their friends and family. Despite being several hundred miles away remitters continually sent assistance to their friends and family at home. But the remittance patterns also created a dependency culture in the west of Ireland, with households being reliant on remittances as a supplement to their own household income. This dependency culture encouraged and enabled people to stay in rural Ireland where indigenous resources alone would have only enabled them to eke out a subsistence existence. The emigration and remittances flows declined in the twentieth century, but the dependence culture remained, with the state replacing emigrants abroad. The existence of remittances also facilitated and perpetuated the cultural demand for secrecy in rural Ireland. People were loath to divulge their personal financial details, something which was detrimental to any attempt to encourage co-operative banking. Remittances may also be an explanatory factor in the lack of mutual societies in rural Ireland. For example, the need to develop mutual livestock insurance societies was undermined by fact that in case of the death of livestock people could write letters to their relations asking them to provide the funds to replace deceased stock.[112] Schrier has argued that remittances subsidised the Irish economy,

[111] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington D.C., 1998), p.162
[112] Arnold Schrier, *Ireland and the American emigration 1850*-1900 (Minnesota 1958, reprint 1997), p. 116.

or 'at the very minimum made life in Ireland tolerable for a great proportion of the peasantry'.[113]

Emigration continued to be a feature of Irish society until more recent times, for example, the inquiry into emigration in the 1950s was instigated in response to the continued emigration flows from Ireland post-independence.[114] The continuation of emigration also saw a corresponding prolongation in remittance flows to Ireland, and figure 8.19 shows emigrant remittances as a percentage of Irish national income from 1947-1966.

Figure 8.19



Source: National Accounts, various years.

In *Nineteen acres* John Healy recounted the story of his American relatives who always sent remittances regularly at Christmas and Easter. His aunt even returned one year to visit the family in Mayo, bringing parcels of clothes as gifts. Healy, upon receiving a US State Department Journalism Scholarship, paid a visit to his American relatives in 1957. He had difficulty finding where they lived, as he had preconceived notions of them living the American dream and having a suburban house with a 'stoop'.[115] Yet what he found was his relatives living in an apartment, not quite living the American dream. His aunt's husband had died in an accident and her son had lost his business, allegedly through mafia influence, and was unemployed. It transpired

[113] Ibid, p. 123.
[114] *Report of Commission on Emigration and other population problems*, 1948-1954 (Department of social welfare, Dublin , 1954), R. 84 (Pr. 2541).
[115] John Healy, *Nineteen acres* (Galway, 1978), p. 67.

that his aunt was saving up two dollars a week from her social security cheque for the Irish remittance,[116] despite having visited the family years previously and knowing that the Irish relatives were in a comfortable position. When he asked her how long things had been like that and how she had been sending home money from the benefit cheque, his aunt replied ‘a long time’.[117] John Healy observed that:

> The world will never know how much these scared, brave, sometimes ignorant but always loyal emigrants to the New World sent home in dollars and parcels to the old people in the old country. No one will ever know the full extent of their sacrifices and how much they kept hidden from the old people who thought that America was indeed the land of opportunity where the streets were truly paved with gold.[118]

It is difficult to determine how many other cases were like the one described by John Healy, but it is something which should be considered when discussing both Irish experiences of remittances and remittances in general.

[116] Ibid, p. 80.
[117] Ibid, p. 79.
[118] Ibid, p. 61.

Conclusion

Never lend people money, it gives'em amnesia

(Groucho Marx/ Spike Milligan)

In this thesis we discussed the history of a number of microfinance institutions in nineteenth century Ireland. We saw the development and decline of the Irish loan funds and TSBs, the growth of the POSB, and the success of the joint stock banks. We found numerous attempts to imitate foreign financial institutions, almost all with limited or no success. We analysed how the state entered the long-term credit market, but misallocated resources. And we outlined how financial services developed that enabled the transfer of remittances, and how these interacted with microfinance institutions in Ireland.

In sum, this study aimed to contribute a greater understanding of Irish economic and social history through the study of microfinance institutions that existed in the nineteenth century. Stanley Jevons, in the conclusion to his work *The theory of political economy*, stated that:

> I have ventured in the preceding pages to call in question not a few of the favourite doctrines of economists. To me it is far more pleasant to agree than to differ; but it is impossible that one who has any regard for truth can long avoid protesting against doctrines which seem to him to be erroneous. There is ever a tendency of the most hurtful kind to allow opinions to crystallise into creeds…I think there is some fear of the too great influence of authoritative writers in political economy. I protest against deference for any man, whether John Stuart Mills, or Adam Smith, or Aristotle, being allowed to check inquiry. Our science has become far too much a stagnant one, in which opinions rather than experience and reason are appealed to.[1]

This thesis adhered to the view held by Jevons - except where he says economists and political economy we should read historians and history respectively.

Each chapter of this thesis contained a conclusion relevant to the material presented, but to conclude this dissertation we shall look at a number of recurring issues that appeared throughout: legislation/formal constraints, institutional imitation, economic versus social goals, and the role of the state in the economy.

1. Legislation/Formal constraints

An important consideration in all of the microfinance institutions we discussed in this thesis was the role of legislation. Legislation is important as it places a constraint on

[1] Stanley Jevons, *The theory of political economy* (1871, reprint 1970 Suffolk), pp 260 & 261.

the actions of economic agents. Ill-thought-out legislation, or socially motivated legislation, may only have short-term objectives in mind and may fail to take into consideration the long-term implications of the imposition of such constraints. Of all the institutions discussed in this thesis, only the joint stock banks were able to successfully overcome the legislative constraints, such as the restrictions on the number of partners, within the period of study. Although new constraints, such as limits on note issues, were imposed in the 1840s, these may have actually helped stabilise the banking sector. The TSBs began to shake off the shackles of government-imposed savings limits towards the end of the period of study, but there still was an element of government influence on their investment portfolios. These are significant factors in explaining the success of these institutions, most of which are still in existence today.

The major Irish banks that existed in 1914 gradually merged and consolidated their position. The Bank of Ireland (1783) merged with the Hibernian bank (1824) in 1958, and then with the National Bank (1835) in 1966. This was followed by the creation of the Allied Irish Bank (AIB), formed by the merger of the Provincial (1825), Munster & Leinster (1885), and Royal (1836) in 1966.[2] The Northern Bank (1824) was bought by the Midland Bank in 1965, and amalgamated with the Belfast Bank (1827) in 1968-69. The Ulster Bank (1836) remained as independent banking business until more recent times. Two of the nineteenth century provident savings institutions that were designed to encouraged thrift, the TSBs and the Buildings societies, were merged in 1999. But there is no presence of the loan funds, Monts-de-Piété, or the Raiffeisen banks in Ireland, north or south, today. This is despite the fact that the Monts-de-Piété are still in existence in France, although under the less pious name of Crédit Municipals, and Raiffeisen banks are still part of the German financial landscape. Can we explain this?

Firstly, if we look at the LFB loan funds, almost their entire existence was regulated by the acts of parliament passed in 1823, 1836, 1838 and 1843. The legislation relating to the loan funds placed significant impediments to future development and institutional evolution. The acts of parliament determined how much they could lend, how much they could charge for their services, and how much they could pay as interest on their capital. All of these factors are significant, as they

[2] F. S. L. Lyons, 'Reflections on a bicentenary' in F. S. L. Lyons (ed.), *Bicentenary essays, Bank of Ireland 1783-1983* (Dublin, 1983), p. 210.

forced loan funds to charge unprofitably low discount rates on low value loans, hence limiting their ability to compete and thereby limiting their profitability. This is significant because it restricted the ability of the loan funds to develop beyond simple discount banks. The institutions were designed in the belief that they would stop usury by undercutting the market, but the fact was that the institutions were financially unsustainable. But perhaps the most significant constraint was the £10 loan ceiling. In the first chapter we showed how comparable institutions in France did not impose similar lending ceilings. The French institutions actually received the majority of their income from making higher value loans, and the income from high value loans was able to cross-subsidise low value loans. Arguably, if the loan funds were not subjected to these constraints Ireland could have developed a significant non-profit financial sector to challenge the dominance of the joint stock banks.

Another significant impact of the loan fund legislation was that it imposed a central authority on the loan fund system, and this authority was given a monopoly on the stationery that was required to process the business of loan funds. This institution was important as it distorted incentives. It made savers and borrowers feel that the loan funds were government-backed institutions, but in reality they were not. There was a lack of reform both within the institution itself. It appears as though most of its work was undertaken by one man from the 1850s to the late 1870s, and that the legislation relating to it created an ideal situation for regulatory capture. The lack of reform enabled the supervisory body to become captured by the market and perpetuated a form of debt peonage, which it theoretically ought to have stopped. Legislative constraints on the LFB loan funds influenced their development in other ways, perhaps overlooked by the legislature. By not outlawing fines, it enabled a system of fines to be incorporated into the lending methodology of the loan funds and used as a revenue-generating instrument. No other commercial lender in Ireland had access to such 'debt enforcement' instruments. Fining was illegal in comparable institutions in England and Wales, where, coincidentally, there was a high number of legal actions to enforce debt repayment.

A significant failure on the part of the legislation relating to loan funds and to TSBs was that it created a moral hazard. The fact that the liability of management of financial institutions was limited to very small sums, if at all, meant that management had no incentive to monitor the institutions for which they acted as trustees and managers. This created false confidence amongst savers as they felt that these institutions had both the backing of governments - in the case of loan funds misleading stamps on stationery suggested they were government institutions - and were the responsibility of trustees. In a recent article Ó Gráda argued that the 'vulnerability to poor management and embezzlement' in savings banks is partly explained by Ireland's relative backwardness in comparison to the rest of the UK.[3] On this point I beg to differ because the case of the TSBs and the loan funds illustrates the dangers of moral hazard. The fact that similar moral hazards occurred in Great Britain vindicates this point. Perhaps it would be more apt to say that the dangers of, and damage caused by, moral hazard are greater in a relatively underdeveloped economy.

The failures in the 1840s of both TSBs and loan funds are important, and give us a better understanding of the development of savings markets in Ireland. The LFB loan funds were uncompetitive in savings markets after the famine, and this meant that they did not have access to a significant amount of relatively costless information. Before the famine they had information advantages over competitors, but after the famine these advantages were eroded by both the fact that they experienced decreases in deposits and the fact that the joint stock banking sector was expanding.

Savings banks were subject to significant legislative constraints, most noticeably the constraints on savings amounts and investment choices. TSBs were given some scope of investment once account balances went over the total limit, and were allowed to establish special investment departments. However, the low deposit ceiling was an impediment to their development. The most significant aspect of the savings bank question was the fact that they were loss making; the government was subsidising savings. The involvement of the state in these institutions augmented the moral hazard problems that are inherent in banking; there should have been no interference whatsoever with these institutions. Trustees were exonerated from liability for the management of these savings banks and as such had no incentive to monitor staff. Managers should have been forced to account for their own actions. If there was no government interference in these institutions there would not have been such incentive distortions. Another significant factor relating to the savings bank question was that it misallocated resources; money was saved in savings banks because there was a government guarantee. This crowded out other financial

[3] Concluding section of 'Savings banks, famine, and financial contagion: Ireland in the 1840s and 1850s' (forthcoming IESH).

intermediaries that did not possess equally strong state guarantees. If there were no constraints on investments in TSBs, there would have been no government guarantee but it would have less distortionary effects on the savings market. More people would have saved elsewhere in the financial sector, or used informal saving techniques. The fact that many people saved in the savings banks in the early nineteenth century is a reflection of the legislative constraints and state subsidies. The savings banks paid above market interest rates, rates which the private market could not match. It is also worth noting that the LFB was contemporaneous to savings banks, but this also meant that the government was supporting two financial institutions that were in competition with each other for deposits.

As was shown in chapter 3, there was a view in Irish society, and amongst Irish historians such as J.J. Lee, that the Irish banks were conservative in their lending habits and that this conservatism was a reflection of business attitudes in Ireland.[4] But this may not necessarily be the case. If we use the Verdier hypothesis on the development of universal banking,[5] we can see that there was no significant competition for the joint stock banks in the savings markets from 1848 (when the TSB frauds occurred) to 1893 (when savings ceilings were raised in the savings banks). The fact that the private sector (the joint stock banks), did not experience competition from the public sector (savings banks), or the non-profit sector (loan funds), during this period enabled them to specialise as commercial banks. According to the Verdier hypothesis, increased competition and segmentation of the savings markets gave banks greater incentives to engage in universal banking, thus arriving at where many contemporaries and historians wanted the banks to go. But the fact that there was no competition or market segmentation was not the fault of the banks; the game could only be played with the agents that were given. The fact that the competition in the form of non-profit or public firms failed to materialise in this period is a direct result of the legislative framework that existed.

The argument that I wish to put forward is that there should have been no restrictions placed on any of the public savings banks or the non-profit institutions at

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[4] Joseph Lee seems to have been heavily influenced by Gerschenkron. He questioned why Ireland did not have any investment banks. For example see Joseph Lee, 'Capital in the Irish economy' in L. M. Cullen (ed.) *The formation of the Irish economy* (Cork, 1976), p. 60; and Joseph Lee, *The modernisation of Irish society* (Dublin, 1973), p. 20.

[5] Daniel Verdier, 'Explaining cross-national variations in universal banking in nineteenth century Europe, North America, and Australasia' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 23-42.

all. In the first instance, the loan fund societies and the savings banks should have been allowed to operate unhindered. They would have eventually found their own level, or they would have failed earlier.

2. Institutional imitation

In this thesis we encountered a number of examples of institutional imitation, and of all the examples we observed only the joint stock banks were successful. So the question we should ask ourselves is: why the joint stock banks and nothing else? In a recent guide to microfinance Joanna Ledgerwood stated that the 'first step in understanding the context in which a microfinance provider operates is to determine who makes up the financial system'.[6] So essentially the first step one needs to do is some market research. The main reason why the joint stock banks were successfully imitated was because there was a greater understanding at the outset of what the existing banking supply was like and what the demand for the banking services would be in Ireland. The promoters of the joint stock banks knew that the private banking sector was weak, and that there was only one joint stock bank operating in the country. The Bank of Ireland was the incumbent joint stock bank, but it was operating on a unit bank basis. Scottish banking was imitated in full and adapted to local needs. The imitation went so far as to recruit Scottish expertise. A key factor to the success was the fact that there was a market opportunity. Joint stock banking was an innovation and was stronger and more competitive than anything existing in Ireland. Joint stock banking was robust, and in the latter nineteenth century converged towards Scottish trends.

The experience of imitating Scottish banking is in marked contrast to the attempts to imitate French Monts-de-Piété and German Raiffeisen banks. Why did these imitations fail? Was it because there was a closer cultural affinity with Scotland and less so with the Continent? The answer is no. The reason for both their failures was because they never took the pre-existing market into consideration, nor did they appreciate the intricacies of the institutions they were imitating, nor the economic pre-conditions necessary for these institutions to operate.

Both propagators of the imitations failed to understand how it was the institutions had come to prominence in their homeland. The Mont-de-Piété case

[6] Joanna Ledgerwood, *Microfinance handbook* (Washington D.C., 1999), p. 12.

showed genuine ignorance of the fact that monopoly status was required to maintain existence, but there was also a moral arrogance that implied that the imitation was better than the indigenous alternative. Other key oversights were regarding the importance of high value pawns to the Paris Mont-de-Piété, the fact that the Parisian Mont-de-Piété had a minimum loan limit, and the fact that the Paris Mont-de-Piété actually operated a *de facto* branch network. The enthusiasts behind the Raiffeisen co-ops displayed similar ignorance. They did not appreciate the importance of savings in a savings and loans institution. They thought that it would be possible to imitate the lending mechanism and that savings was just an option. Other areas where the propagators did not appreciate the intricacies of the Raiffeisen societies was that they were integrated with other forms of co-operative enterprises, and that federated bodies enabled them to achieve economies of scale. In both cases the resulting imitations were superficial and flawed.

3. Economic versus social goals

The previous discussion on institutional imitation is linked with the issue of social versus economic motivation. In place of social we could also use ideological. In this thesis we have encountered a number of institutions that were promoted based solely on social preferences rather than on a basis of sound economic rationale. Firstly, we have the case of the loan funds and the Monts-de-Piété that were promoted and encouraged in the early nineteenth century. Their *raison d'être* was to combat ‘usury’, supply capital and use profits from lending to fund charitable ventures. There was a belief that the loan funds/Monts-de-Piété could be substituted for public poor relief. The logic of this analysis was flawed. The institutions, as designed, were never going to replace the poor relief expenditure. Firstly, there was an inherent conflict between the ‘commercial’ lending and the charitable functions. The commercial aspect of the venture was pro-cyclical, i.e. supply increased in booms and decreased in recessions, whereas the demand for poor relief was countercyclical, i.e. greatest in recessionary periods. The problem was that profits from the booms had to be saved and retained for recessionary periods, but the attitude was to disburse profits annually. Another key problem was that loans were capped at £10, so the profitability of the system was constrained. Given that the advocates of the systems, namely the authors of the published pamphlets referring to loan funds, looked to the French example, did they not realise that there was no upper ceiling in France? In fact the inverse was true. The

French Monts-de-Piété had a 3 franc minimum loan, as smaller loans are actually loss-making. The surety system, used by loan funds, was also likely to be adversely affected by a recession; in a recession people would be less willing to incur the risk of someone else's debt obligations. Possibly a better alternative would have been to mix the Mont-de-Piété and the loan fund, impose no lending ceilings, and retain profits to build up a reserve fund to secure deposits. The commercial and charitable functions were incompatible; they should have been decoupled.

In the case of the Mont-de-Piété the propagators undertook a pious, holier-than-thou approach to pawnbroking, but failed to realise the intricacies of running a pawnbroking institution. Although pawning requires collateral, the pawnbrokers must still overcome problems of asymmetric information. The object of the pawnbroker is not to acquire pledges but to maximise redemptions. A defaulted loan is a hindrance to a pawnbroker as he or she must then try and recoup losses from the sale of the good. The cost of storage and auctioneering may actually result in a loss on the pawn. Therefore a pawnbroker would prefer to build up a personal rapport with borrowers, i.e. create information, to know who will repay or not. Another important issue is that low value items cost more per transaction than high value items. These subtleties were overlooked by the Mont-de-Piété propagators in their crusade against pawnbroking, a crusade that was lost. One last point regarding pawnbroking and the Irish Mont-de-Piété aim to target the poor, it must be borne in mind that pawning requires that borrowers possess some intrinsically valuable assets. The poorest sections of society would not have such assets, so a Mont-de-Piété model automatically excludes them. Loan funds used personal security and this is what was innovative and useful about them, but they too were blinded by social goals. The key point that I wish to make is that Barrington's Mont-de-Piété was socially motivated. He believed that he was fighting the good fight to combat usury. But the institution he created was ideologically motivated and as such failed to take into account the key issues that made the French system operable. The restrictions of loans to £10 meant that the Mont-de-Piété were financially unsustainable.

The same arguments apply to the Raiffeisen societies. Plunkett *et al* wanted to fight 'gombeenism', and they thought that the Raiffeisen bank was the best way to go about it. That is all fine and well, except in their excitement to introduce Raiffeisen banks they gave no consideration to what actually made these institutions operate successfully in Germany, how they fitted into the financial structure in Germany, and where they would fit in the Irish financial structure.

The Raiffeisen banks in Germany were savings and loans institutions, had complementary trading powers, and had federated structures. In Ireland they were introduced as lending agencies, with little if any emphasis placed on saving. Why was this? Because the 'gombeen man' provided credit and he did not provide savings, but this was short sighted and it undermined the long-term development of Raiffeisen banks in Ireland. Classic financial intermediation theory should have made them realise that savings and loans are interrelated, but the cooperative enthusiasts were arrogant in that they believed that their way was morally right and their efforts would be vindicated. They were wrong. Nor did they take into consideration the fact that the German financial structure did not resemble the one in Ireland. Given that there were vociferous cries against the Irish joint stock banks one would like to think they would have questioned why the German joint stock banks received the praise that they did. If the financial structure had been taken into consideration they would have realised that the Irish joint stock banks were deposit mobilisers, unlike their German counterparts. This is how the Raiffeisen banks were able to find a market in Germany, and this is why they would struggle in Ireland. This is partly why the Raiffeisen banks failed to establish themselves in Ireland, but the fact that no efforts were made to mobilise savings is more important. In fact, the Irish imitators used inter-bank loans rather than compete for deposits. This was financially unsustainable.[7]

The savings banks, TSBs and the POSB, were other examples of socially driven microfinance institutions as governments attempted to encourage 'thrift' on a mass scale. The goal of thrift was so enticing that various governments were willing to subsidise the savings of the people. Verdier actually believed that governments were hungry for credit, and that this is the reason why national savings banks were established.[8] But this view is too Machiavellian, as the evidence from the parliamentary debates show that contemporaries were more concerned with encouraging thrift. The problem with the ideologically motivated encouragement of 'thrift' was that there was no cost assessment. The belief seems to have been that if

[7] For a more recent example see the case of Northern Rock, as it too had an over-reliance on the inter-bank lending market.
[8] Daniel Verdier, 'Explaining cross-national variations in universal banking in nineteenth century Europe, North America, and Australasia' in Douglas J. Forsyth and Daniel Verdier (eds), *The origins of national financial systems: Alexander Gerschenkron reconsidered* (London, 2003), pp 28-29.

there were no facilities to save, then people would be spendthrifts. This view of personal saving is ideologically motivated, and the result was that people did use and abuse the savings banks that the state provided. Abuses came in the form of manipulating the constraints (i.e. trust accounts). Another useful way to abuse the state savings system was to save when market rates were low, and withdraw when market rates were high.[9] The government should not have entered the savings market as there was an existing private market, especially in Ireland where the joint stock banks were engaging in deposit mobilisation. Government intervention in the savings markets distorted the market and incentive structures, especially in the case of the TSBs where it created moral hazards. The government subsidised savings, and this was detrimental to market-orientated institutions. People felt unfairly treated by the joint stock banks, who all followed market rates, and public inquiries and public personalities questioned the low rates in the joint stock banks *vis-à-vis* government rates without questioning the fact that government rates were arbitrarily determined.

4. Government intervention

The first section of this conclusion dealt with government intervention in the economy in the form of legislative constraints. Here we will focus on the actions and policies of the state and its affect on the economy. Gerschenkron's hypothesis on government involvement in an economy is that government policy can be a substitute for some economic structures necessary for economic growth. But the argument I wish to emphasise is that Gerschenkron's argument can be turned around and that government actions do not always have positive effects. The main example that we saw in this thesis is the government land-purchase schemes. This policy was similar to the socially orientated motivations of the Monts-de-Piété, loan funds, Raiffeisen banks, and TSBs, in that the government implemented socially influenced economic policies without consideration for long-term economic development. The land purchase schemes were short-term solutions aimed at ending agrarian agitation in Ireland, but they created a long-term problem as they tied people to uneconomic landholdings. Admittedly, there was already a culture in existence that had strong affiliations to the land but this culture ought not to have been encouraged. If the state was willing to

[9] For an example of micro-arbitrage see the account of the POSB in India. This is the only acknowledgement that such incidents occurred, but assuming market rationality the same probably happened in Ireland; *Thirty fifth annual report of the Postmaster General on the Post Office*, p. 40. [C.5850], H.C. 1889, xxviii, 573.

invest large amounts of capital in Irish agriculture, perhaps it would have been better to attempt to relocate many of the people from uneconomic holdings. It could have provided funds for people to migrate either internally or abroad. It should have provided every possible incentive towards land consolidation and efficiency, but the government policy that was adopted did the opposite and created an agrarian culture that was dependent on state aid. The social value of land was emphasised in rural Ireland, but this should have been challenged. Non-agrarian programmes should have been promoted. Better targeted policies could have overcome cultural barriers to progress, if only there was a willingness to think beyond the immediate political and social concerns.

The previous paragraph suggests that the supply of state intervention is at fault, but there is no smoke without fire - there was a continual demand for government intervention in the Irish economy. The propagators of co-operation, although ideologically motivated, were right to highlight the excessive faith of the Irish populace in the capacity of the state. George Russell believed there was an excessive worship of the state in Ireland and he wrote: 'I think the worst enemies Ireland has today are those who are forever supplicating state aid on her behalf'.[10] There was a demand for land purchase schemes and there was a demand for other state services - effectively there was a dependency culture. But the actions of the state affected economic behaviour. It encouraged landowners to keep uneconomic farms and also distorted financial behaviour, with borrowers and savers encouraged not to maximise their returns. The state policies may have benefited individuals but it was detrimental to the development of the 'Irish' economy as it fostered cultural attitudes antinomic to economic development. In effect it delayed economic development.

Finally, the role of the state illustrates the limitations of microfinance programmes. In the first chapter of this thesis we were introduced to the RLF which was created by the surplus fund raised by the London relief committee in the early 1820s. The RLFs that were established were badly managed and wound up in the 1840s. The surplus funds were in the trusteeship of the UK treasury until the establishment of the CDB in the 1890s. The CDB is an interesting experiment in terms of microfinance, in that it represents the use of capital raised by the London Relief Committee, which can be compared against the same use of capital under the

[10] George W. Russell (AE), *Co-operation and nationality* (Dublin, 1912), p. 79.

RLFs from 1822 to 1846. The difference between the uses of funds revolves mainly around the fact that the CDB operated on a centralised basis and the RLFs were purely decentralised.

The CDB stated in its first report that it 'was constituted with a view to bringing about a gradual and lasting improvement in the poor districts in the West of Ireland and not for the immediate "relief".'[11] So let us analyse one of these policies, the attempt to promote fisheries in the west of Ireland. In its second report the Board stated that:

> For the starting of a fresh fish trade a heavy capital expenditure is necessary for the purchase of large boats and expensive gear – a boat suitable for mackerel and herring fishing with complete trains of nets costing from £300 to £600 according to size. In the case of most fishermen in Ireland this amount is procured by a loan from the Reproductive or Sea and Coast Fisheries Funds, the terms of repayment by half-yearly instalments being very favourable.[12]

It is worth reflecting on that statement. When the RLFs operated in the west of Ireland from 1822 to 1846, they were regulated by the Loan Fund Acts which placed a £10 restriction on loans. The practice of loan funds was also to issue loans for 20 weeks, with weekly repayments. These restrictions would not have been suited to large capital investments. Due to the absence of monetary inflation in the nineteenth century it is possible to make a comparison between the first and second half of the nineteenth century. The RLF, as it was constituted in the early 1800s, could not have financed the large scale capital investment required to establish a fresh fish industry. This coupled with the absence of railways meant that fishery loans would not have been a profitable option for borrowers as there was a limited market value for fresh fish. If loans to purchase large boats were obtainable, market dislocation would have prevented the sale of fresh fish. In the latter nineteenth century the CDB attempted to overcome both these obstacles. The CDB was able to provide loans of amounts greater than £10, which enabled fishermen to make capital investments that they otherwise would not have been able to make. The CDB also helped finance infrastructure which again would not have been possible for borrowers from the RLF in the early 1800s. The CDB constructed piers and waterways, essential infrastructure for fisheries, and attempted to encourage railway companies to provide rail services.

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[11] *First annual report of the Congested Districts Board for Ireland*, p. 5. [C. 6908], H.C. 1893-94, lxxi, 525.

[12] *Second annual report of the Congested Districts Board for Ireland, for the year ended the 31st of December, 1893*, p. 18. [C. 7266], H.C. 1893-94, lxxi, 583.

These policies would have enabled a subsidised fresh fish industry to develop. The CDB also established a number of fish curing stations in the west which laid the foundations for a cured fish trade.[13]

The emergent point is that microfinance programmes are not an alternative to economic development policies, but they can complement such policies. Microfinance programmes alone cannot induce economic development, and in many cases a big push is still required.[14] Ireland's 'big push' was focused on economically unsustainable activities in the west, but the example above does illustrate the limitations of microfinance programmes in the absence of other economic reforms

[13] Ibid, p. 19.
[14] Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny, 'Industrialization and the Big Push' in *Journal of Political Economy*, xcvii, no. 5 (1989) pp 1003-1026.

Appendices

Appendix 1

Table 2.4: Rates of discount on monthly loans in 1895

Rate of discount	Discount rate (%)	Annualised interest rate (%)	Number of societies
7 ½ d in the £	3.13	1.35	55
7d in the £	2.92	1.25	6
6 d in the £	2.50	1.07	20
5d in the £	2.08	0.89	2
4 d in the £	1.67	0.71	4

Note: There are 240d in the £.
The annualised interest rate has been calculated by applying the following formula[1]:
i=(d/(1-d))*100, and annualised by multiplying i by 5 (number of months in the loan term) and dividing by 12 (number of months in the year).
The monthly interest of 1.5d in the £, was equal to 0.62%, annualised to 0.26%

Source: *Report of loan fund committee 1897*, paragraphs 84-85, p. 15.

A.1.1 Loan fund loans; examples of amortisation

The following tables are examples of how loan fund loans operated. The template has been taken from Joanna Ledgerwood, *Microfinance handbook.*[2]
The method that used by the loan funds is comparable to the flat method of calculating interest rates outlined by Ledgerwood. Ledgerwood described the flat method as follows:

> This method calculates interest as a percentage of the initial loan amount rather than the amount outstanding (declining) during the loan term. Using the flat method means that interest is always calculated on the total amount of the loan initially disbursed, even though periodic payments cause the outstanding principal to decline.[3]

The following tables outline the flat method as used by loan funds in both weekly and monthly loans.

Weekly loans:

A1.1 Loan amount £10; 20 week loan term; weekly loan repayments; discount 6d in the pound.

[1] Samuel A. Broverman, *Mathematics of investment and credit* (Toronto, 2004), p. 32.
[2] Joanna Ledgerwood, *Microfinance handbook: an institutional and financial perspective* (Washington D.C., 1998), p. 141.
[3] Ibid, p. 141.

Week	Payments	Principal	Interest	Outstanding balance
	£	£	£	£
0				10
1	0.5	0.4875	0.0125	9.5
2	0.5	0.4875	0.0125	9
3	0.5	0.4875	0.0125	8.5
4	0.5	0.4875	0.0125	8
5	0.5	0.4875	0.0125	7.5
6	0.5	0.4875	0.0125	7
7	0.5	0.4875	0.0125	6.5
8	0.5	0.4875	0.0125	6
9	0.5	0.4875	0.0125	5.5
10	0.5	0.4875	0.0125	5
11	0.5	0.4875	0.0125	4.5
12	0.5	0.4875	0.0125	4
13	0.5	0.4875	0.0125	3.5
14	0.5	0.4875	0.0125	3
15	0.5	0.4875	0.0125	2.5
16	0.5	0.4875	0.0125	2
17	0.5	0.4875	0.0125	1.5
18	0.5	0.4875	0.0125	1
19	0.5	0.4875	0.0125	0.5
20	0.5	0.4875	0.0125	0
	10	9.75	0.25	

Discount	0.25
Principal	9.75

A.1.2 Loan amount £10; 20 week loan term; weekly loan repayments; discount 4d in the pound.

Week	Payments	Principal	Discount	Outstanding balance
0				10
1	0.5	0.49165	0.00835	9.5
2	0.5	0.49165	0.00835	9
3	0.5	0.49165	0.00835	8.5
4	0.5	0.49165	0.00835	8
5	0.5	0.49165	0.00835	7.5
6	0.5	0.49165	0.00835	7
7	0.5	0.49165	0.00835	6.5
8	0.5	0.49165	0.00835	6
9	0.5	0.49165	0.00835	5.5
10	0.5	0.49165	0.00835	5
11	0.5	0.49165	0.00835	4.5
12	0.5	0.49165	0.00835	4
13	0.5	0.49165	0.00835	3.5
14	0.5	0.49165	0.00835	3
15	0.5	0.49165	0.00835	2.5
16	0.5	0.49165	0.00835	2
17	0.5	0.49165	0.00835	1.5
18	0.5	0.49165	0.00835	1
19	0.5	0.49165	0.00835	0.5
20	0.5	0.49165	0.00835	0
	10	9.833	0.167	

Discount	0.167
Principal	9.833

Monthly loans:

A.1.3 Loan amount £10; 20 week loan term; monthly loan repayments; discount 7.5d in the pound.

Month	Payments	Principal	Discount	Outstanding balance
	£	£	£	£
0				10
1	2	1.9374	0.0626	8
2	2	1.9374	0.0626	6
3	2	1.9374	0.0626	4
4	2	1.9374	0.0626	2
5	2	1.9374	0.0626	0
	10	9.687	0.313	30

Discount	0.313
Principal	9.687

A.1.4 Loan amount £10; 20 week loan term; monthly loan repayments; discount 7d in the pound.

Month	Payments	Principal	Discount	Outstanding balance
	£	£	£	£
0				10
1	2	1.9416	0.0584	8
2	2	1.9416	0.0584	6
3	2	1.9416	0.0584	4
4	2	1.9416	0.0584	2
5	2	1.9416	0.0584	0
	10	9.708	0.292	

Discount	0.292
Principal	9.708

A.1.5 Loan amount £10; 20 week loan term; monthly loan repayments; discount 6d in the pound.

Month	Payments	Principal	Discount	Outstanding balance
	£	£	£	£
0				10
1	2	1.95	0.05	8
2	2	1.95	0.05	6
3	2	1.95	0.05	4
4	2	1.95	0.05	2
5	2	1.95	0.05	0
	10	9.75	0.25	

Discount	0.25
Principal	9.75

A.1.6. Loan amount £10; 20 week loan term; monthly loan repayments; discount 5d in the pound.

Month	Payments	Principal	Interest	Outstanding balance
	£	£	£	£
0				10
1	2	1.9584	0.0416	8
2	2	1.9584	0.0416	6
3	2	1.9584	0.0416	4
4	2	1.9584	0.0416	2
5	2	1.9584	0.0416	0
	10	9.792	0.208	

Discount	0.208
Principal	9.792

A.1.7. Loan amount £10; 20 week loan term; monthly loan repayments; discount 4d in the pound.

Month	Payments	Principal	Discount	Outstanding balance
	£	£	£	£
0				10
1	2	1.9666	0.0334	8
2	2	1.9666	0.0334	6
3	2	1.9666	0.0334	4
4	2	1.9666	0.0334	2
5	2	1.9666	0.0334	0
	10	9.833	0.167	

Discount	0.167
Principal	9.833

A. 1.2. Methodology used to calculate annual interest rates in the 1897 loan fund report.

The methodology used to calculate annual interest rates was shown in appendix B of the 1897 report on loan funds.[4] In appendix B an example was given of how to calculate annual rates of discount for monthly loans. An example was also given for weekly loans, but the methodology seems to have deviated from that used to calculate the rates for monthly loans. In essence what the report did was to calculate the discount charged for the use of an instalment over the combined number of days(e.g. 28+56+…+140=420) in the loan term. The rate of discount was divided by 420, and then subsequently multiplied by 365 to give an annual rate of discount. The same approach was said to have been used to calculate weekly loans (e.g. 7+14+…+140=1470), except the discount rates quoted in appendix B are not equal to the discount rates calculated using this approach. Instead it seems the rate of discount on the instalment was divided by 735 (1470/2). The various annual discount rates, calculated using this methodology, are shown below. The equivalent rates of interest are also shown.

[4] *Report of the committee appointed to inquire into the proceedings of charitable loan societies in Ireland, established under the Act 6 &7, vic. Cap 91.* appendix B, p. 33. [C.8381], H.C. 1897, xxiii, 383.

A.1.8. Discount of 4d on a loan of £1 for 20 weeks, repayable by 5 monthly instalments of 4s each

Instalment	Days	Discount
0.2	28	0.016667
0.2	56	0.016667
0.2	84	0.016667
0.2	112	0.016667
0.2	140	0.016667
0.2	420	0.016667

Discount 420 days (%)	8.33
Discount 1 day (%)	0.02
Discount 365 days (%)	7.24
Interest (%)	7.81

A. 1. 9. Discount of 5d on a loan of £1 for 20 weeks, repayable by 5 monthly instalments of 4s each

Instalment	Days	Discount
0.2	28	0.020833
0.2	56	0.020833
0.2	84	0.020833
0.2	112	0.020833
0.2	140	0.020833
0.2	420	0.020833

Discount 420 days (%)	10.42
Discount 1 day (%)	0.02
Discount 365 days (%)	9.05
Interest (%)	9.95

A.1.10. Discount of 6d on a loan of £1 for 20, repayable by 5 monthly instalments of 4s each

Instalment	Days	Discount
0.2	28	0.025
0.2	56	0.025
0.2	84	0.025
0.2	112	0.025
0.2	140	0.025
0.2	420	0.025

Discount 420 days (%)	12.50
Discount 1 day (%)	0.03
Discount 365 days (%)	10.86
Interest (%)	12.19

Discount of 7d on a loan of £1 for 20, repayable by 5 monthly instalments of 4s each

Instalment	Days	Discount
0.2	28	0.029167
0.2	56	0.029167
0.2	84	0.029167
0.2	112	0.029167
0.2	140	0.029167
0.2	420	0.029167

Discount 420 days (%)	14.58
Discount 1 day (%)	0.03
Discount 365 days (%)	12.67
Interest (%)	14.80

A. 1.11. Discount of 7.5d on a loan of £1 for 20, repayable by 5 monthly instalments of 4s each

Instalment	Days	Discount
0.2	28	0.03125
0.2	56	0.03125
0.2	84	0.03125
0.2	112	0.03125
0.2	140	0.03125
0.2	420	0.03125

Discount 420 days (%)	15.63
Discount 1 day (%)	0.04
Discount 365 days (%)	13.58
Interest (%)	15.71

A.1.12. Discount of 6d on a loan of £1 for 20, repayable by 20 weekly instalments of 1s each

Instalment	Days	Discount
0.1	7	0.025
0.1	14	0.025
0.1	21	0.025
0.1	28	0.025
0.1	35	0.025
0.1	42	0.025
0.1	49	0.025
0.1	56	0.025
0.1	63	0.025
0.1	70	0.025
0.1	77	0.025
0.1	84	0.025
0.1	91	0.025
0.1	98	0.025
0.1	105	0.025
0.1	112	0.025
0.1	119	0.025
0.1	126	0.025
0.1	133	0.025
0.1	140	0.025
0.1	1470	0.025

Discount 1470 days (%)	25
Discount 1 day (%)	0.017007
Discount 365 days (%)	6.207483
Interest (%)	6.618314

Discount 735 days (%)	25
Discount 1 day (%)	0.034014
Discount 365 days (%)	12.41497
Interest (%)	14.17436

A.2.13 Discount of 4d on a loan of £1 for 20, repayable by 20 weekly instalments of 1s each

Instalment	Days	Discount
0.1	7	0.016667
0.1	14	0.016667
0.1	21	0.016667
0.1	28	0.016667
0.1	35	0.016667
0.1	42	0.016667
0.1	49	0.016667
0.1	56	0.016667
0.1	63	0.016667
0.1	70	0.016667
0.1	77	0.016667
0.1	84	0.016667
0.1	91	0.016667
0.1	98	0.016667
0.1	105	0.016667
0.1	112	0.016667
0.1	119	0.016667
0.1	126	0.016667
0.1	133	0.016667
0.1	140	0.016667
0.1	1470	0.016667

Discount 1470 days (%)	16.66667
Discount 1 day (%)	0.011338
Discount 365 days (%)	4.138322
Interest (%)	4.316972

Discount 735 days (%)	16.66667
Discount 1 day (%)	0.022676
Discount 365 days (%)	8.276644
Interest (%)	9.023486

Appendix 2.1: IAOS instructions for guidance of committee and secretary of agricultural banks, c. 1901.[5]

1. The secretary should see that all applications for membership are properly filled in by the applicant, and his or her signature witnessed. These forms must be brought before the Committee, and if applicants are admitted, the form must be signed by the Chairman of the Meeting and the Secretary, the forms of application must be carefully preserved by the Secretary, as it may become necessary to prove membership later on. Unless these instructions are carried out the admission will be illegal, and the Society will have no power of legally binding is members by the rules.
2. A copy of the Bank Rules should be given to each member, for which the Committee has power to charge sixpence. The Secretary should, however, be careful always to have on hands some copies of the Rules.
3. It is desirable that a small entrance fee should be charged of either sixpence or one shilling.
4. Before the first General Meeting can be held seven special members who signed the application to have the society registered, and who act as Committee temporarily, must admit applicants for membership who have duly signed the form.
5. If there is another Bank in a neighbouring parish or district it would be desirable to exchange lists of members, so as to prevent anyone having borrowing powers in two Societies. If lists of sureties and borrowers were also exchanged it would tend to prevent the making of loans not properly secured
6. At the first General Meeting the order of business shall be as follows. –
   (a) Election of permanent committee
   (b) Ratifying appointment of Trustees
   (c) Election of Treasurer
   (d) Election of Auditors
   (e) Other offices, if any.
   (f) The members shall then pass a resolution empowering the Committee to receive deposits and borrow money on their behalf for the purposes of the society. The resolution shall limit the amount up to which the Committee may in this way pledge the liability of the Society until the next General Meeting is held. Unless this is done the Committee will have no legal power to receive money for the purposes of the society
   (g) Any other general business of the society

7. The secretary of the society shall keep in the Minute Book a record of the business done at each meeting of the Committee or of the Society. The Minutes shall record –
   (a) Date of meeting
   (b) Names of members of Committee present
   (c) Names of members admitted to Society at meeting
   (d) List of loans granted or refused

[5] *Seventh report of the Irish Agricultural Organisation Society, Limited, for year ending 31st December, 1901*, [Leaflet no. 2 b], pp 70-72.

(e) Any other business of which it is desirable a record should be kept, such as resolutions, amendments thereto, or notices of resolutions, any action taken with regard to any member, etc.

The Secretary shall read the minutes of the preceding meeting at each meeting of the Committee, and they shall be signed by whoever may act as Chairman for the time. The minutes of a general meeting can only be affirmed at the next general meeting. It is most desirable that the minutes should be correctly entered, as they furnish a record of the authority under which the Committee or Secretary may act.

8. Before the Committee can take advantage of the resolution of the general meeting of members granting authority to borrow, they must pass a resolution nominating two members of Committee to act with the Secretary in executing any bond or security for repayment of money if borrowed from any public body or corporation. They must also pass a resolution authorising the Secretary to affix the seal of the Society to any such documents.
9. The form of bond for repayment of loan supplied by the I.A.O.S. can be used for sums under £5 without a stamp. As the stamp duty on this form for sums over £5 would exceed that required on the ordinary Promissory Note, it is better to use the latter for any sums exceeding that amount. The Secretary should be careful to see that all such forms are properly filled up, witnessed, and dated. It is not legal to date or sign business documents on Sunday.
10. Two sureties are necessary in every case where a loan is granted. It is undesirable to accept as security property or land, as it would be difficult and costly to realise. Committees should be on their guard against cross sureties, i.e. A. and B. becoming security for C., C and B. for A., and A. and C. for B, as in that case no real security is offered. A borrower who is found to have divided his loan with his sureties is breaking his contract with the Society, and the loan committee have power to recall the loan.
11. The Depositor's card, if filled up, is a sufficient receipt for money lodged on deposit. Committees are advised to seek for local deposits in preference to borrowing from the Government or Joint Stock Banks. In case of the deposit being for a large sum, it is desirable to have an agreement or understanding with depositors about the notice required before withdrawal.
12. If renewals of loans are to be entirely deprecated, and they should only be granted upon the most exceptional circumstances. As the borrower was granted the loan for a sufficient time to enable him to make his profit out of the loan before repayment, there is rarely any excuse for prolonging the time.
13. In granting loans the length of time for which loan is asked should be adjusted to the purpose. The custom which prevails in some Societies of lending all loans for the full time allowable, i.e., twelve months is one which should be stopped. Repayment by instalments should be encouraged whenever the profits derivable from the loan come in gradually or when the borrower otherwise sees his way to do this. As interest is charged only on money actually in the borrower's possession, a considerable saving is effected by repayment in instalments.
14. An account should be opened in the nearest Joint Stock Bank, as it is much better to pay loans by cheque than to have the local Treasurer holding the funds. A Treasurer must, however, be appointed, whose duty it will be to lodge all moneys received in the Bank as soon as possible. Two or more members of Committee should be authorised to sign cheques, which should always be counter-signed by the Secretary.

15. The Committee should remember that an annual general meeting is necessary, and it should be summoned at the beginning of every year, as soon as the accounts have been audited.

Appendix 2.2: Loan use in Raiffeisen Societies.

The following information was taken from Bank organiser reports that were included in the correspondence of the IAOS and the Raiffeisen societies. Unfortunately not all records contain bank organiser reports, neither are the bank organiser reports available for a continuous number of years.

Ballymoyer Credit Society

1905- Buying and holding over stock
1906 - Purchase of cattle, pigs, seeds and manures
1913 - Calves and stock generally
1916 – Purchase of livestock and seeds

Source: (*N.A.I.* 1088/79/1, Ballymoyer Credit Society, Whitecross, Co. Armagh)

Columbkille credit society

1914 - Purchase of pigs, calves, cows, holding stock, repairing houses
1918 - Milch cows, grazing cattle, calves, pigs, horses, hold over stock

Source: (*N.A.I.* 1088/253a/1 and 1088/253a/2, Columbkille credit society)

Corrigan Agricultural Bank

1913- Purchase of cattle, "holding over" stock, purchase manures and seeds
1914 - Purchase of cattle, calves, pigs, "holding over" stock

Source: (*N.A.I.*, 1088/280/1, Corrigan Agricultural Bank)

Dromintee Agricultural Bank

1904 - Purchase seeds and manures
1905- Purchase of cattle, sheep, pigs, seeds, manures etc
1906 - Stock purchase
1907- Keeping over stock, Purchase pigs and cattle
1911- Purchase livestock

Source: (*N.A.I.*, 1088/354/1, Dromintee Agricultural Bank)

Killinagh Credit Society
1909 - Purchase of stock, "holding over" stock, purchase seed
1910 - Purchase of cattle stock, cash payments manures and seeds
1911- Purchase of livestock, "holding over" stock, occasionally for manures and seeds
1912 - Purchase of cattle, etc calves, pigs, "holding over" stock, purchase of seeds

1913 - Purchase of seeds, manures, cattle, pigs, “holding over” stock
1914 - Purchase of cattle, pigs, “holding over” stock
1916 - Purchase of livestock, “holding over” stock
1917- Purchase of livestock, “holding over” stock until better agricultural conditions prevail

Source: (*N.A.I.*, 1088/552/1,Killanagh credit society, Co. Leitrim)

Killeshandra Agricultural Bank

1900 - purchase of cows, horses, sheep, pigs, etc.
1905 - Purchase of cows, young stock, seeds

Source: (*N.A.I.*, 1088/549A/1, Killeshandra Agricultural Bank)

Appendix 2.3: Congested District Board short and medium term loans.[6]

Table A2.1 CDB terms for agricultural loans (March, 1903)

Purpose of loan	Amount of loan	Period of repayment	Rate of interest charged	Amount of half-yearly repayment, (incl. interest)
			Per cent	
Credit banks	Advances of £50 as required (no limit fixed)	1 ½ years	3	Interest only
Purchase of Bee-keeping apparatus	Up to £10	1 year	3	Repaid in one sum
Purchase of livestock [a]	£3 to £20	6 months to 5years	3	10s 6d to £2 3s 4d
Purchase of fencing material	£1 to £25	1 year to 10 years	3	10s 6 d to £1 9s 2d
Purchase of out-office, carts, etc. [a]	£1 to £25	1 year to 5 years	3	10s 6d to £2 14s 5d

a- board’s estates

Source: Appendix xxvii, Twelfth report of the congested districts board for Ireland, (1903) [C. 1622], Ir 35182 c 4, p. 96.

[6] Appendix xxvii, *Twelfth report of the Congested Districts Board for Ireland*, p. 96[Cd.1622], H.C. 1903, lv, 99.

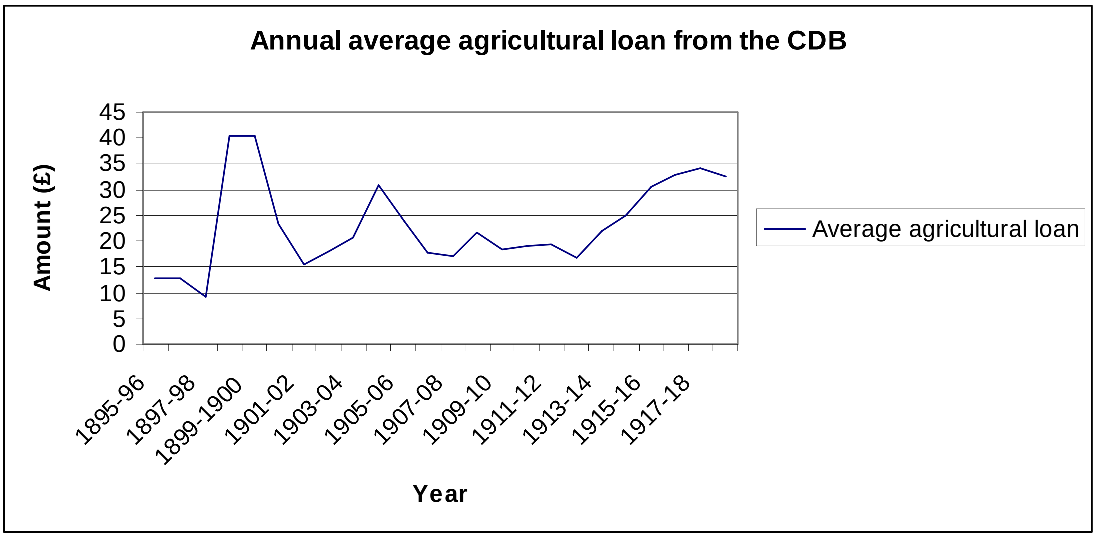


Table A2.2 CDB terms for fishery loans (March, 1903)

Purpose of loan	Amount of loan	Period of repayment	Rate of interest charged	Amount of half-yearly repayment, (incl. interest)
For purchase of boats and fishing gear	£1 to £5	2 years	2 ½	5s 2d to £1 5s 9d
"	£5 to £20	3 years	2 ½	To £3 9s 7d
"	£20 to £50	4 years	2 ½	To £6 12s 2d
"	£50 to £100	5 years	2 ½	To £10 14s
For purchase of large boats	£200 to £500	6 years to 8 years	2 ½	£18 1s to £34 19s 5d

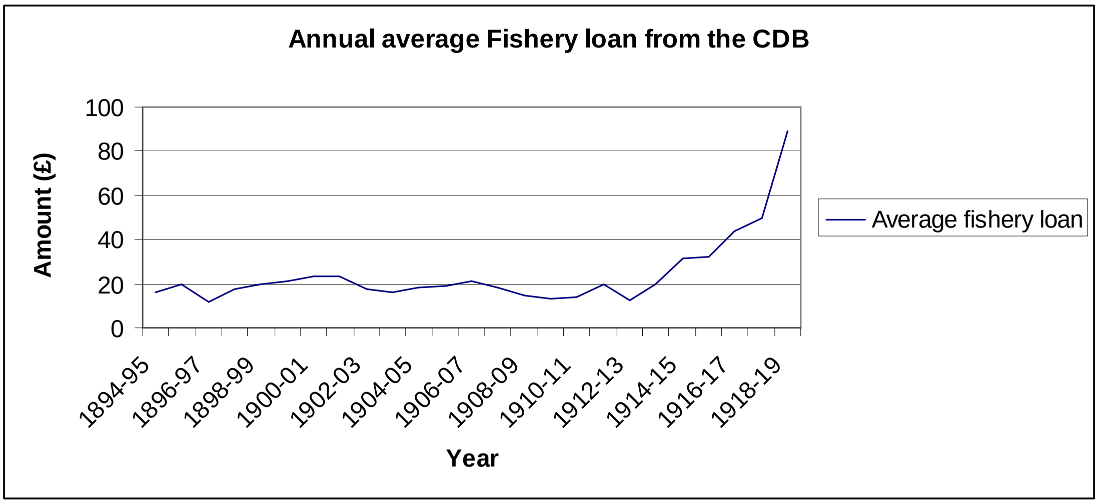
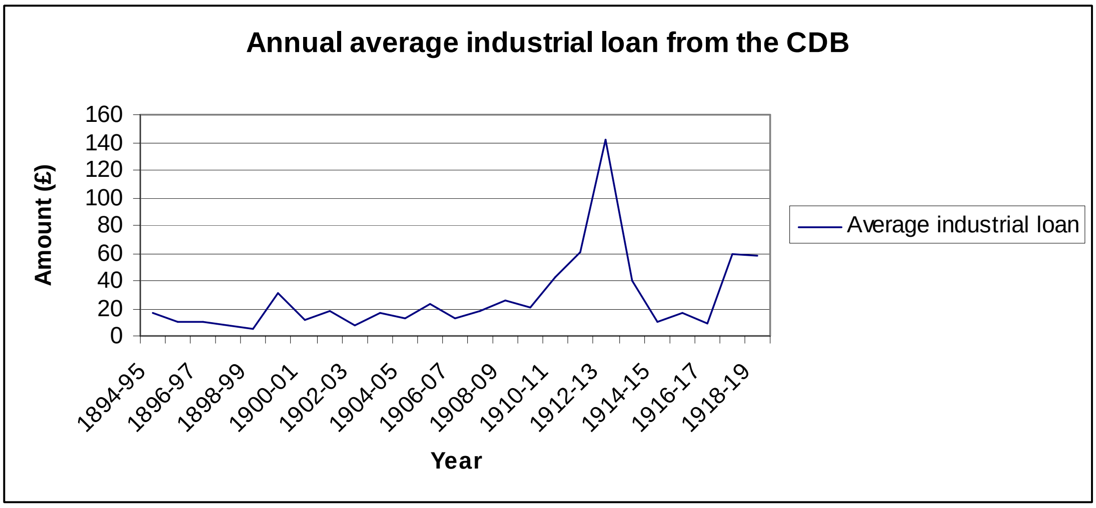


Table A2.3 CDB terms for industrial loans (March, 1903)

Purpose of loan	Amount of loan	Period of repayment	Rate of interest charged	Amount of half-yearly repayment, (incl. interest)
	£		Per cent	£
Purchase of handlooms, knitting machines, etc	£7 10s (average)	3 years	2 ½	£1 6s 1d
Purchase of spinning wheels	£1 5s 6d (average)	2 years	2 ½	6s 7d
Purchase of carpenter's tools	£1	1 ½ years	2 ½	6s 10d
Purchase of materials for barrel making	Up to £100	1 year	2 ½	



Appendix 3 : Mapping methodology and Maps

The institutions studied in this thesis have been mapped using point coordinates (x,y) and projections were made using ARCgis software. Point coordinates for all of the maps below were obtained by matching place names with coordinates in GoogleEarth™, the Ordnance Survey Historical database and the Placenames Database of Ireland. The exact location of the institutions is unknown, and unknowable, but surviving information of the town or village where an institution was located enables us to map approximations using x y coordinates. Each map is an approximation of the location of a particular institution at a particular point in time. The methodology was to find the coordinates at the central point of the location. The resulting mapped representation gives us the radius of the location. Another difficulty with mapping was the slow introduction of standardised place names in Ireland.[7] This problem has been mitigated by using the Ordnance Survey Historical database and the Placenames Database of Ireland. The following excerpts state the source of information for each set of maps.

Loan fund societies, 1836-1911

The coordinates for loan fund societies were obtained from a number of parliamentary papers relating to loan fund activity. The data for the years 1836 and 1838 relate to information regarding the number of loan funds that submitted rules to the clerks of the peace. In the context of loan funds discussed in this thesis, this includes RLFs associated with the London Relief Committee and loan funds that later registered with the LFB. Information on loan funds for the years 1841, 1851, 1861, 1871, 1880, 1895, 1901 and 1911 was obtained from annual reports of the LFB.

The maps for the years 1836 and 1838 only include information relating to the reports themselves and the number of loan funds found in a particular location. The maps from 1851 onwards attempt to measure the flow of loan funds by showing the locations where there was continuity between periods, where there were closures and where new societies opened. There were a number of cases of locations having more than one loan fund. This has been represented by making categories of locations that

[7] Chapter 2 in William Smyth's thesis gives an account of the development of boundaries and place names in Ireland in the early nineteenth century: Smyth, William Anthony, 'Sir Richard Griffith's Three Valuations of Ireland, 1826-1864' (PhD thesis, NUI Maynooth Department of History, 2008).

had one loan fund and locations that had two loan funds. As there were cases where there were more than one loan fund in one particular location, the closure of a loan fund is captured by the fact that the existing loan fund is classified as having one society, whereas in a previous period it had two.

The coordinates for each loan fund was obtained from its spelt name in the LFB reports, but it was not possible to locate a small number of loan funds. These were loan funds that had generic titles such as the Dublin South Eastern (1851), the Wexford Temperance loan fund (1851 and 1861), the Johnstone Charitable loan fund located in Dublin (1851, 1861 and 1871), and the Limerick Pery and Jubilee (1851, 1861 and 1871, 1880, 1895, 1901, 1911). Each of these societies was included in a map, apart from the Wexford temperance loan fund, and they were assumed to have been located in the city rather than in a rural location.

Joint Stock Banks 1861 to 1911

The following maps were derived from the banking directories published in *Thom's Directory* from 1861 to 1911. A number of joint stock banks were spatially correlated i.e. located in the same town. The methodology used to map this was to classify towns by the number of banks located in each town. The map legend illustrates how many joint stock banks were in a particular location at time T. At all periods the two outlying locations are Dublin and Belfast. The maps contain records of the number of bank branches and sub-branches.

TSBs 1818 to 1911

The following maps were derived from a number a sources. Firstly the information of the initial TSBs registered in 1818 was obtained from a parliamentary return.[8] The information for 1830 and 1844 was taken from the savings bank compilations published by Tidd Pratt.[9] The list of TSBs from 1861 to 1911 was taken from *Thom's Directory*. The maps represent the approximate location of each TSB.

From 1830 onwards each map contains four variables for the given year. The first variable is the number of TSBs that have ceased by year T, these are variables

[8] *An account of the several banks for savings, established in Ireland, and registered, under the act 57 Geo. III, cap. 105; specifying the date of each establishment, and the amount of the sums vested to their credit severally, in government securities, under the provisions of that act*., H.C. 1818, (153), xvi, 381.

[9] John Tidd Pratt, *The history of savings banks in England, Wales, and Ireland* (London, 1830); and John Tidd Pratt, *A summary of the savings banks in England, Scotland, Wales, and Ireland* (London, 1846).

recorded in a previous mapping period but that were not included in the list of the next mapping period. The second variable is number of TSBs not registered in year T-1 (i.e. new). The third variable is number of TSBs that continued operating from one mapping period to the next (i.e. T-1 and T). The fourth variable is the number of branches associated with the TSBs. Pratt recorded a number of branches associated with the Dublin savings banks. These have been added to the lists from *Thom's* in the later years, as it was recorded that the Dublin savings bank had branches. Maps included in the work of Horne show that the Belfast savings bank had branches,[10] but I was unable to find more detailed information of these so they have not been included.

Maps of Raiffeisen societies, 1901-1920

The methodology used to construct these maps was as follows. The names of societies were obtained from the IAOS annual reports for the years 1901, 1905, 1908, 1911, 1914 and 1920 were used to indicate location. Coordinates were retrieved from Google Earth, and the Ordinance Survey historical database. In some cases society names did not indicate a location. Modern researchers are not the only ones who faced difficulties pinpointing co-operatives on the map. An IAOS inspector had a similar problem. In a memo to the IAOS Secretary, Mr. Moore asked:

> Could you give any idea of where this society is located I have searched all the maps at my disposal and the nearest approach to the name I can find is Ballymyre about 3 miles from Newtown Hamilton. Is this the place?...If I had a full list of the societies in Co. Armagh and Fermanagh I would try to mark them on map for future use.[11]

For these societies I used the IAOS list of societies in the National Archive of Ireland and also the annual reports of the Registrar of Friendly Societies. The points in the maps represent the approximate geographic location of each society.

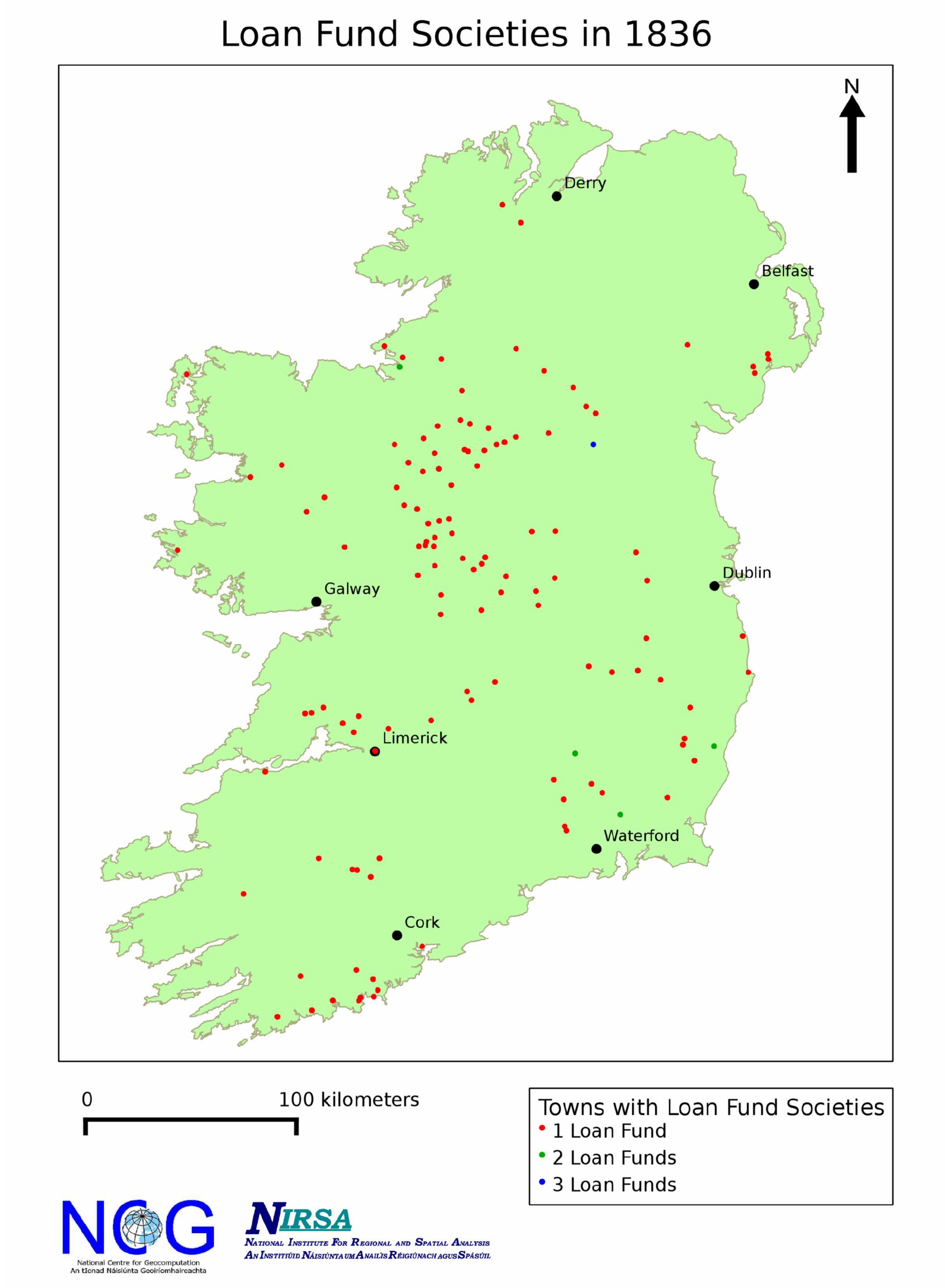
The mapping methodology used was to highlight societies that ceased operating, societies that were inactive and societies that continued to remain active. This is done from 1905 until 1920, with the legend on each map explaining the variables.

[10] Oliver H. Horne, *A history of savings banks* (London, 1947).

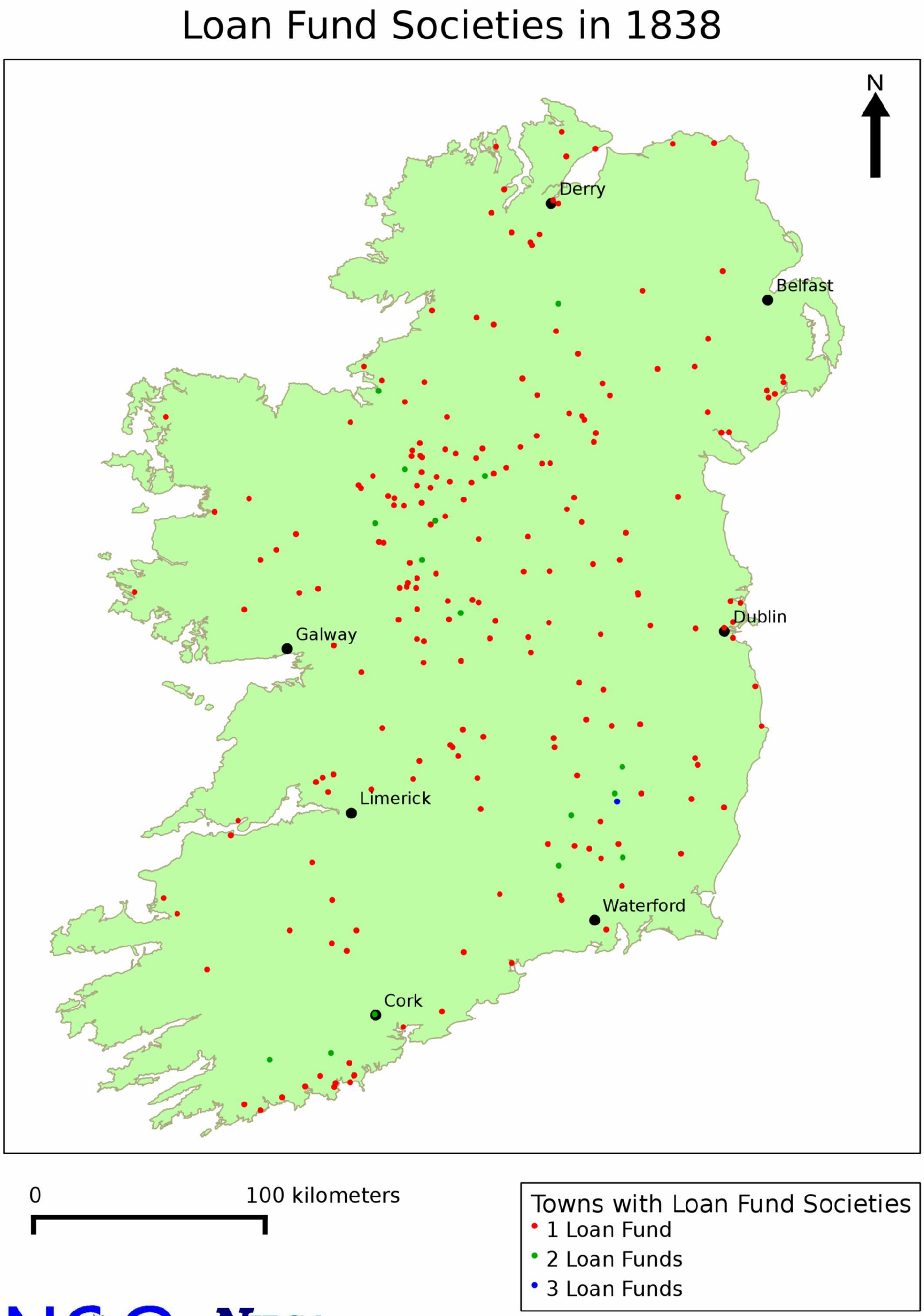
[11] 'Memo from Moore to secretary of IAOS re Ballymoyer Credit Society', 15/6/1909 (*N.A.I* 1088/79/1, Ballymoyer Credit Society, Whitecross).

Post Office Money order office and POSB, 1845-1911

The methodology used to construct these maps was as follows. The names of societies were obtained from a parliamentary return in 1845 and from the postal directory in *Thoms* for the years 1861, 1871, 1881, 1891, 1901 and 1911 were used to indicate location.

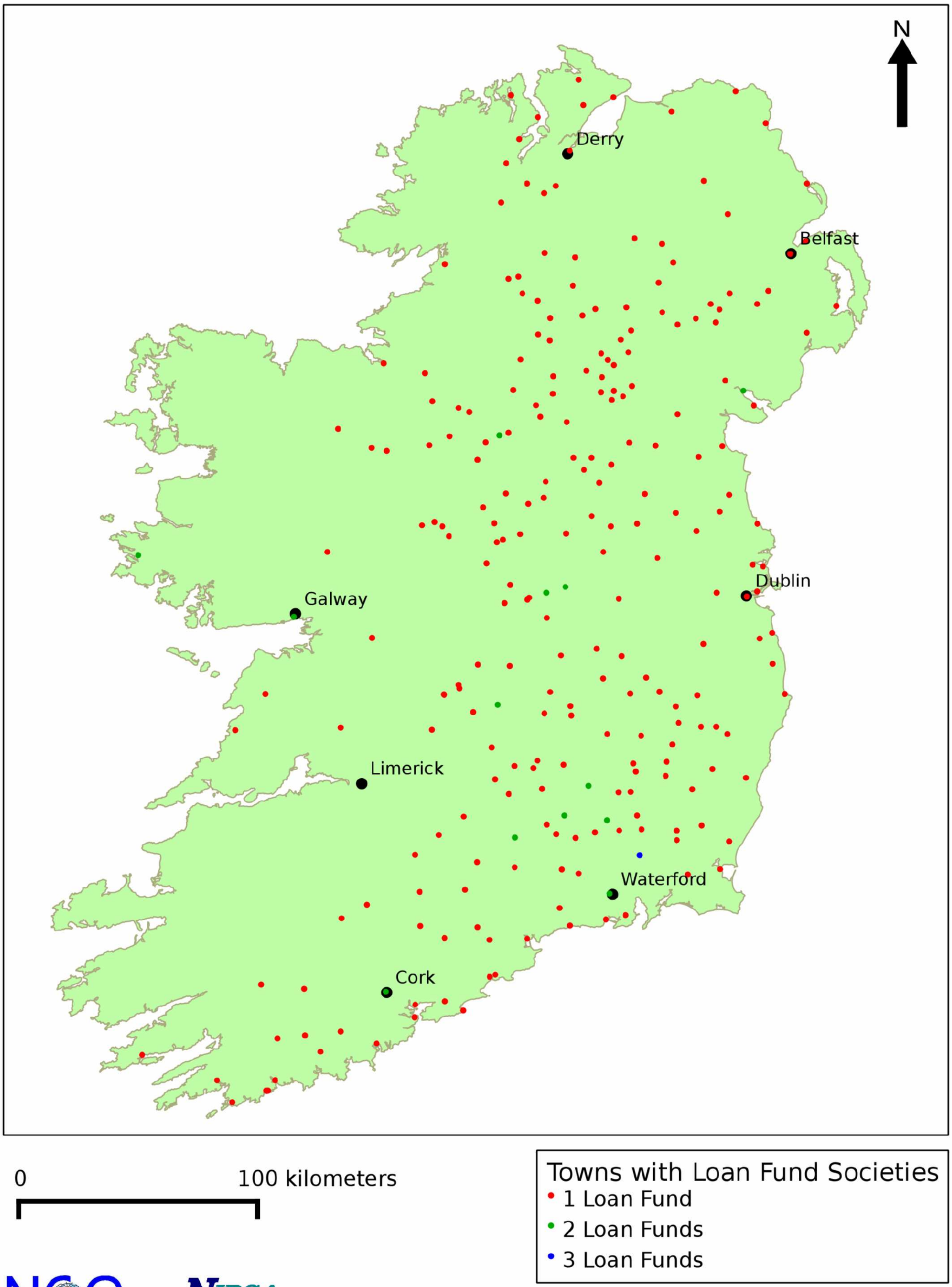

Loan Fund Societies in 1836
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
0
100 kilometers
Towns with Loan Fund Societies
1 Loan Fund
2 Loan Funds
3 Loan Funds
National Centre for Geocomputation
An tIonad Náisiúnta Geoiríomhaireachta
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

Map 1.1


Loan Fund Societies in 1838
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
0
100 kilometers
Towns with Loan Fund Societies
1 Loan Fund
2 Loan Funds
3 Loan Funds

Map 1.2

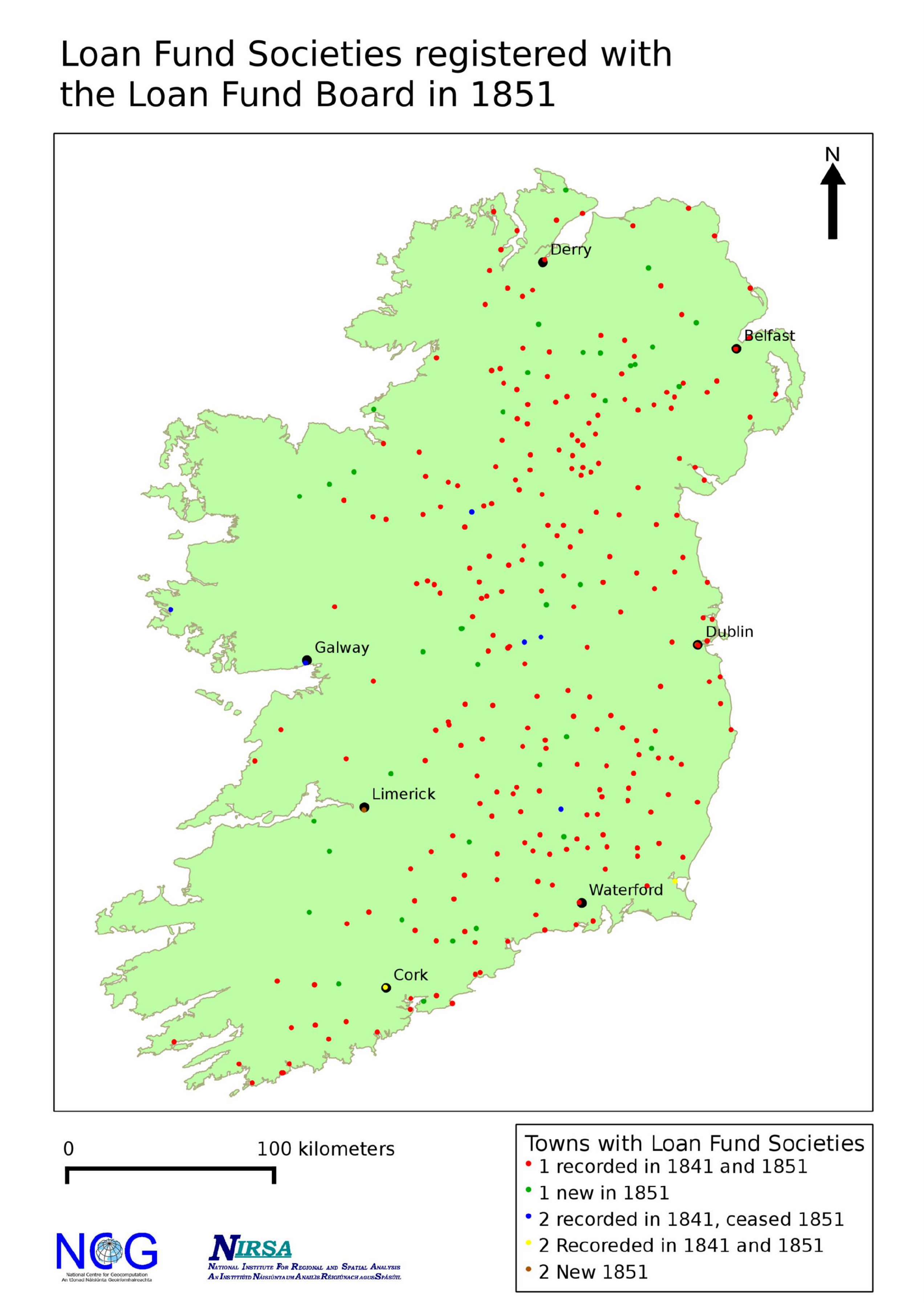
Loan Fund Societies registered with
the Loan Fund Board in 1841



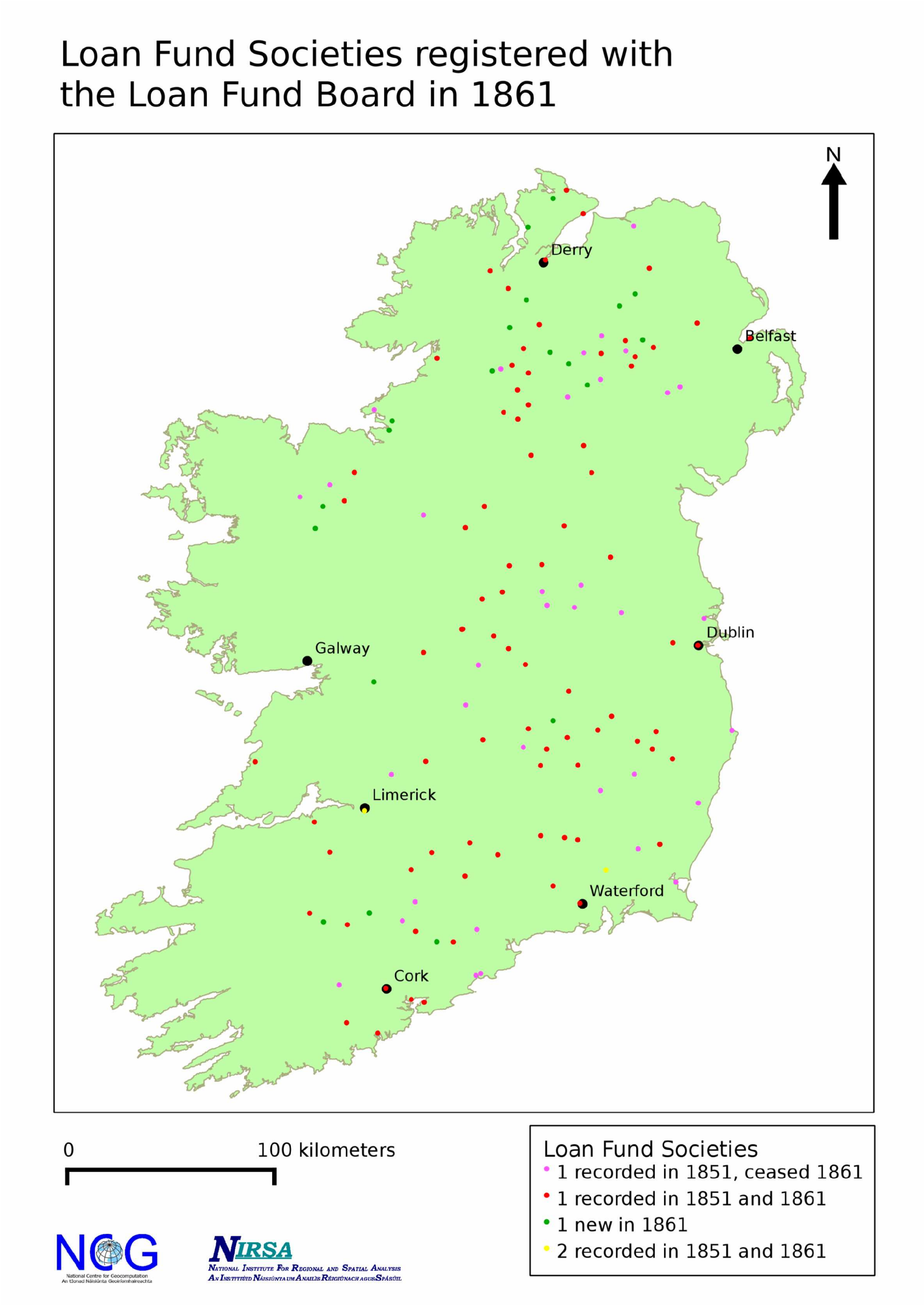
NCG
National Centre for Geocomputation

NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

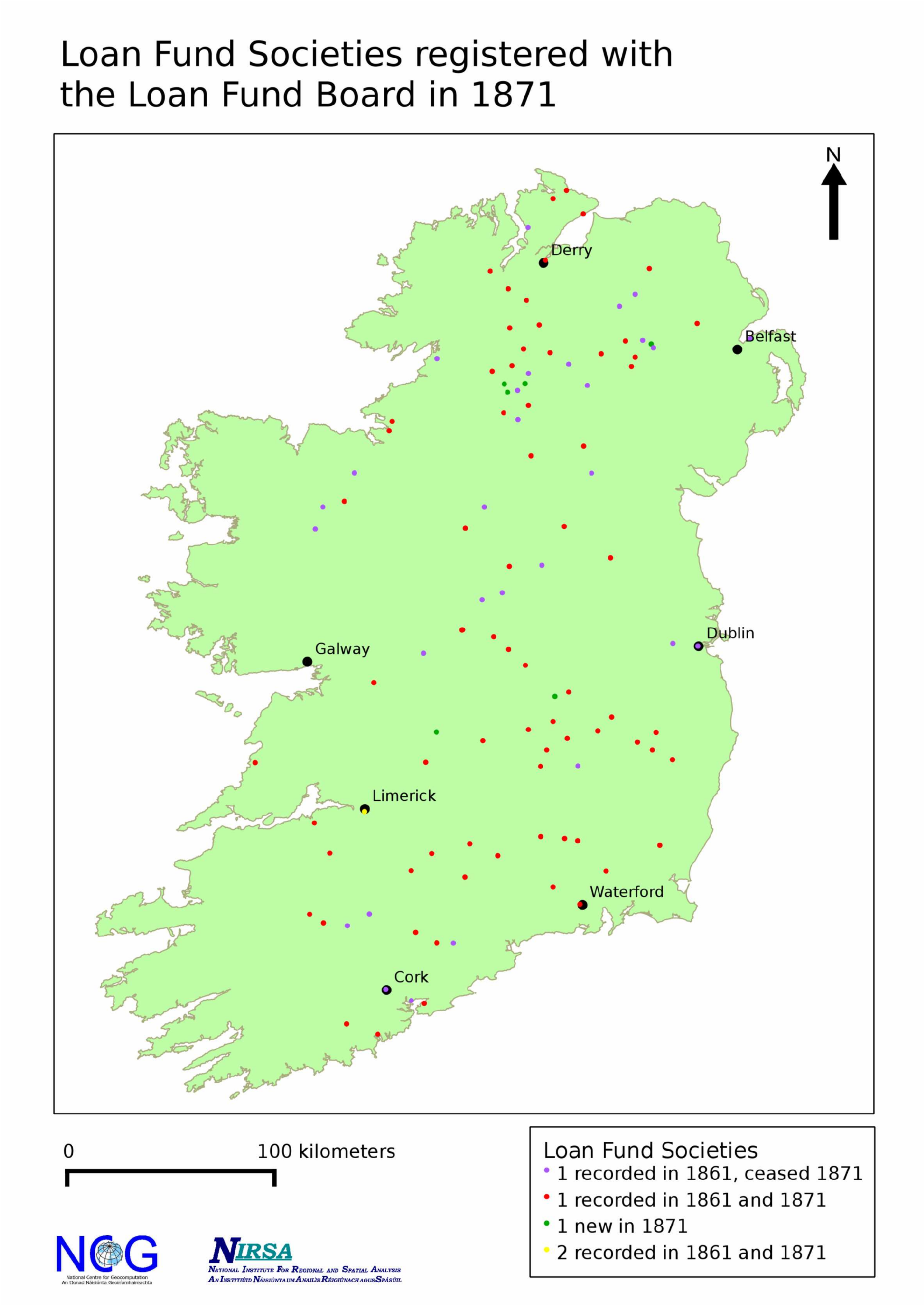
Map 1.3


Loan Fund Societies registered with
the Loan Fund Board in 1851
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
0
100 kilometers
Towns with Loan Fund Societies
1 recorded in 1841 and 1851
1 new in 1851
2 recorded in 1841, ceased 1851
2 Recoreded in 1841 and 1851
2 New 1851
NCG
National Centre for Geocomputation
An tIonad Náisiúnta Georíomhaireachta
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

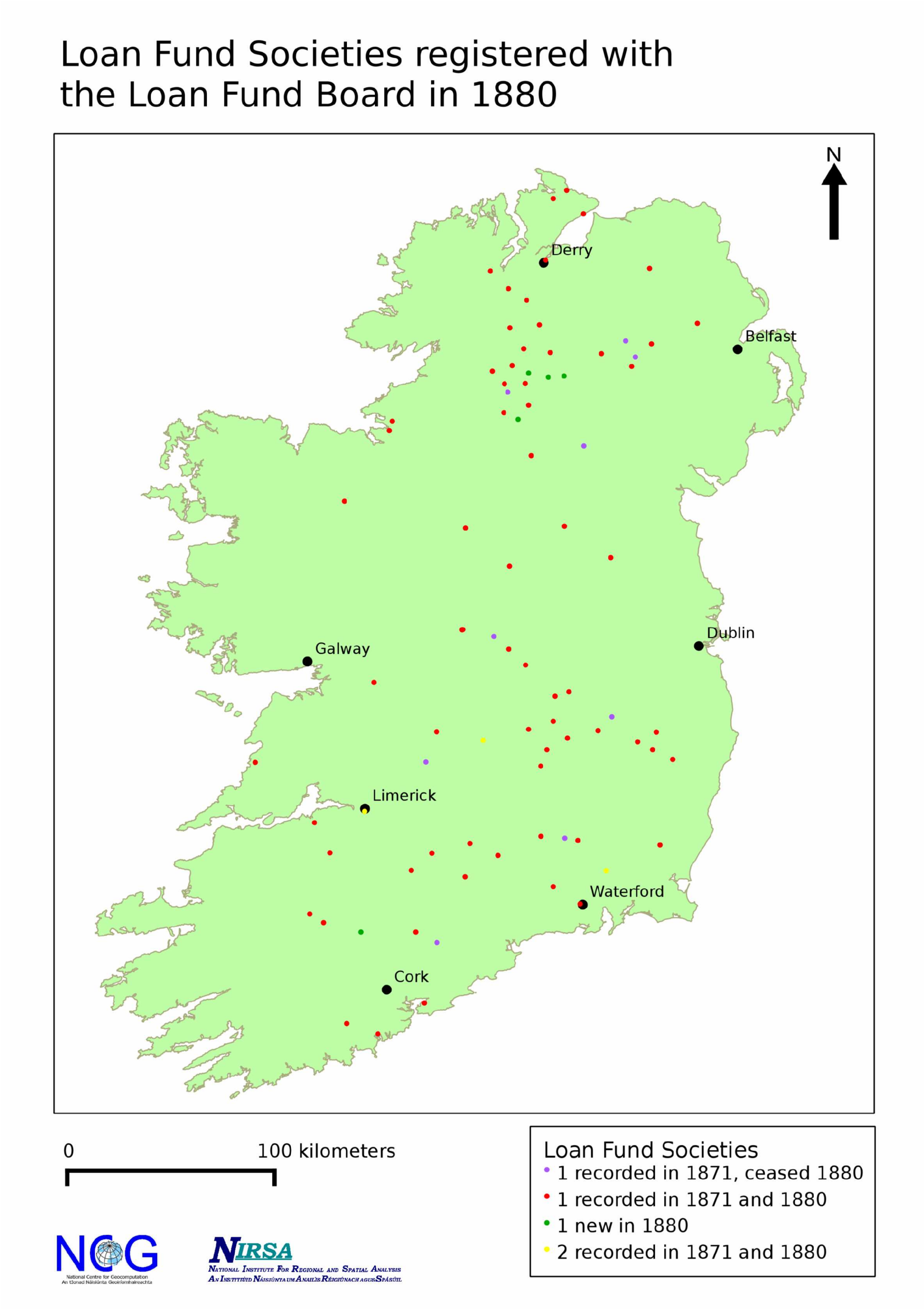
Map 1.4


Loan Fund Societies registered with the Loan Fund Board in 1861
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
0
100 kilometers
Loan Fund Societies
1 recorded in 1851, ceased 1861
1 recorded in 1851 and 1861
1 new in 1861
2 recorded in 1851 and 1861
NCG
NIRSA

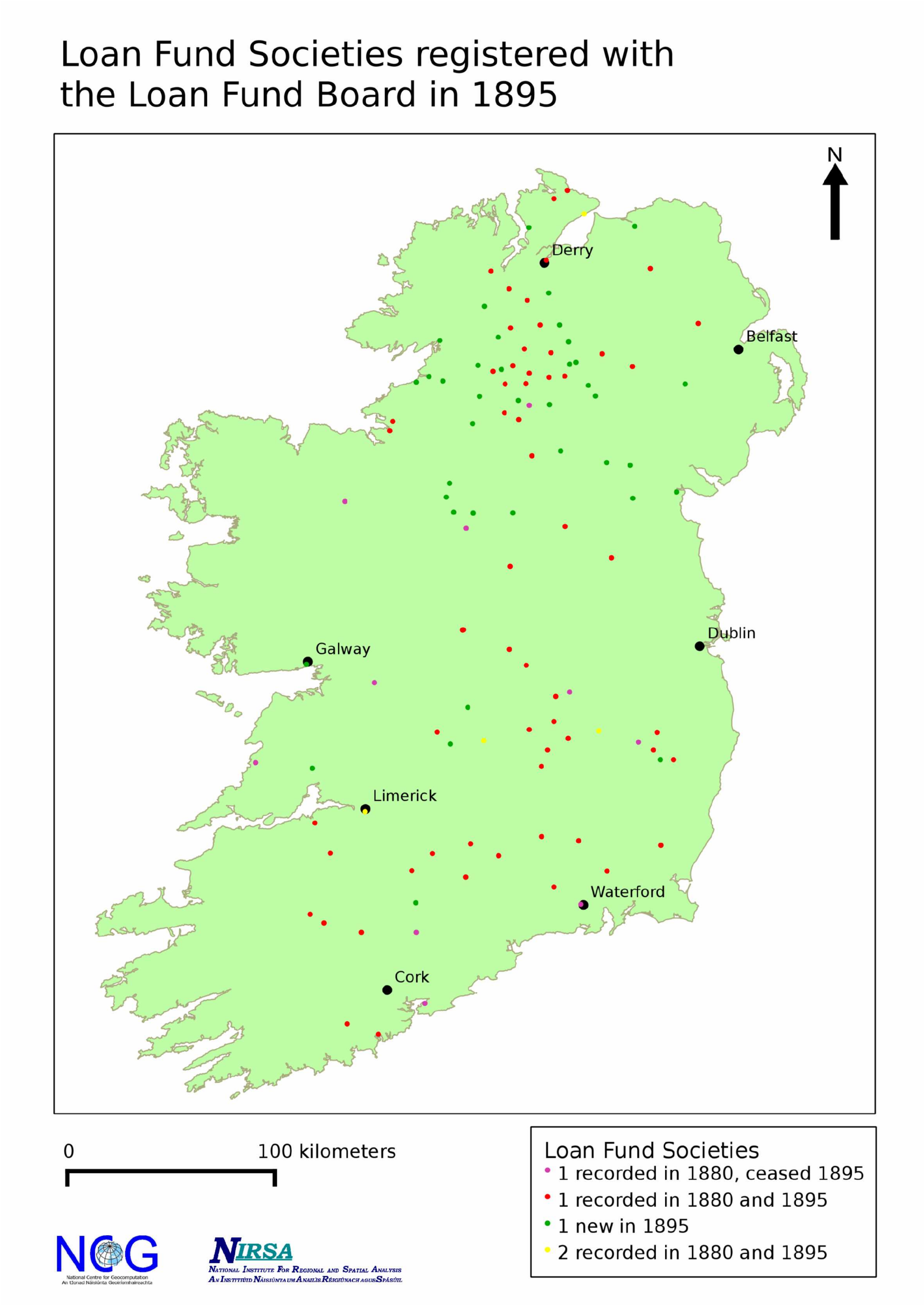
Map 2.1


Loan Fund Societies registered with the Loan Fund Board in 1871
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
0
100 kilometers
Loan Fund Societies
1 recorded in 1861, ceased 1871
1 recorded in 1861 and 1871
1 new in 1871
2 recorded in 1861 and 1871
NCG
NIRSA

Map 2.2

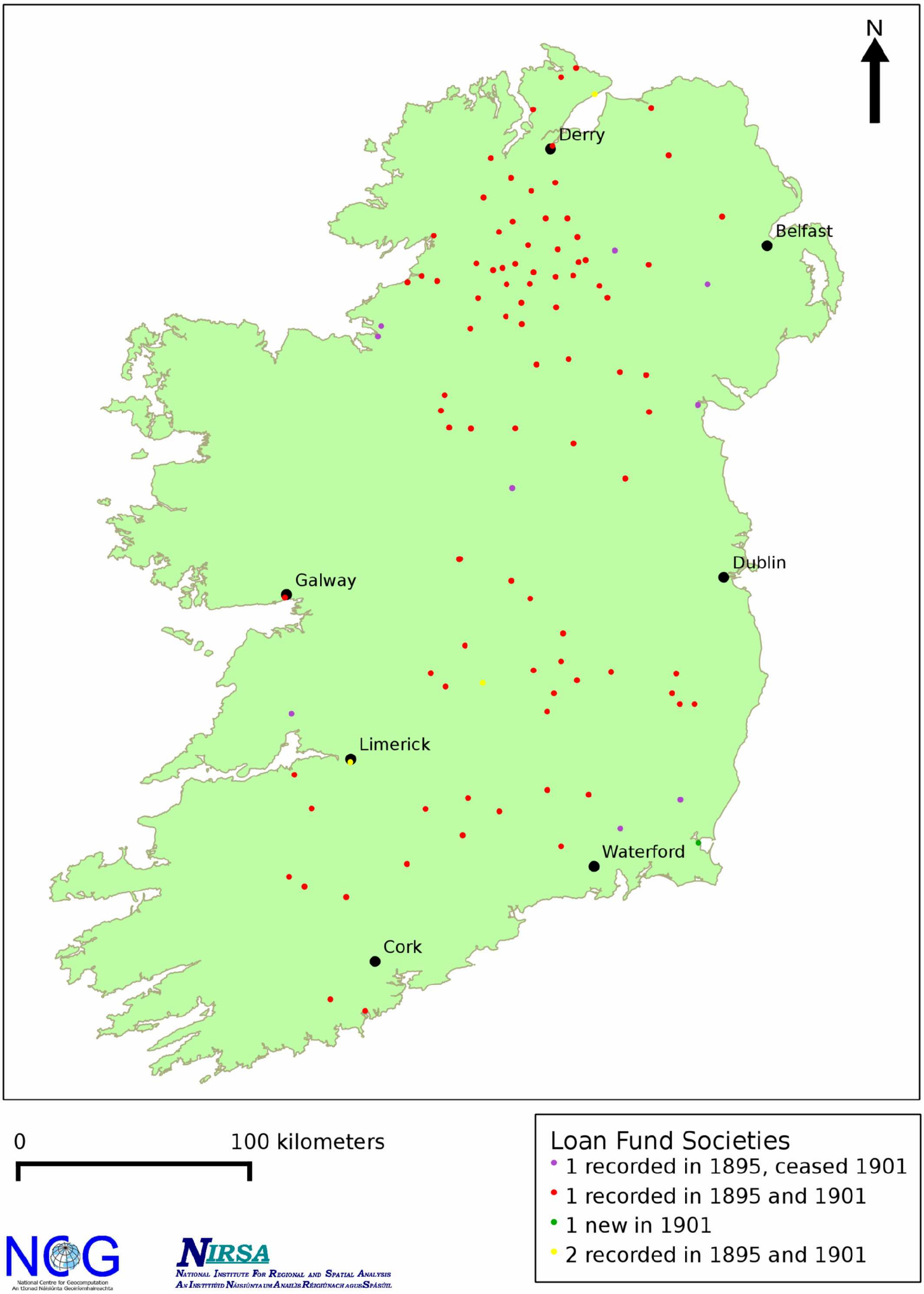

Loan Fund Societies registered with the Loan Fund Board in 1880
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
0
100 kilometers
Loan Fund Societies
1 recorded in 1871, ceased 1880
1 recorded in 1871 and 1880
1 new in 1880
2 recorded in 1871 and 1880
NCG
National Centre for Geocomputation
NIRSA
National Institute For Regional and Spatial Analysis

Map 2.3

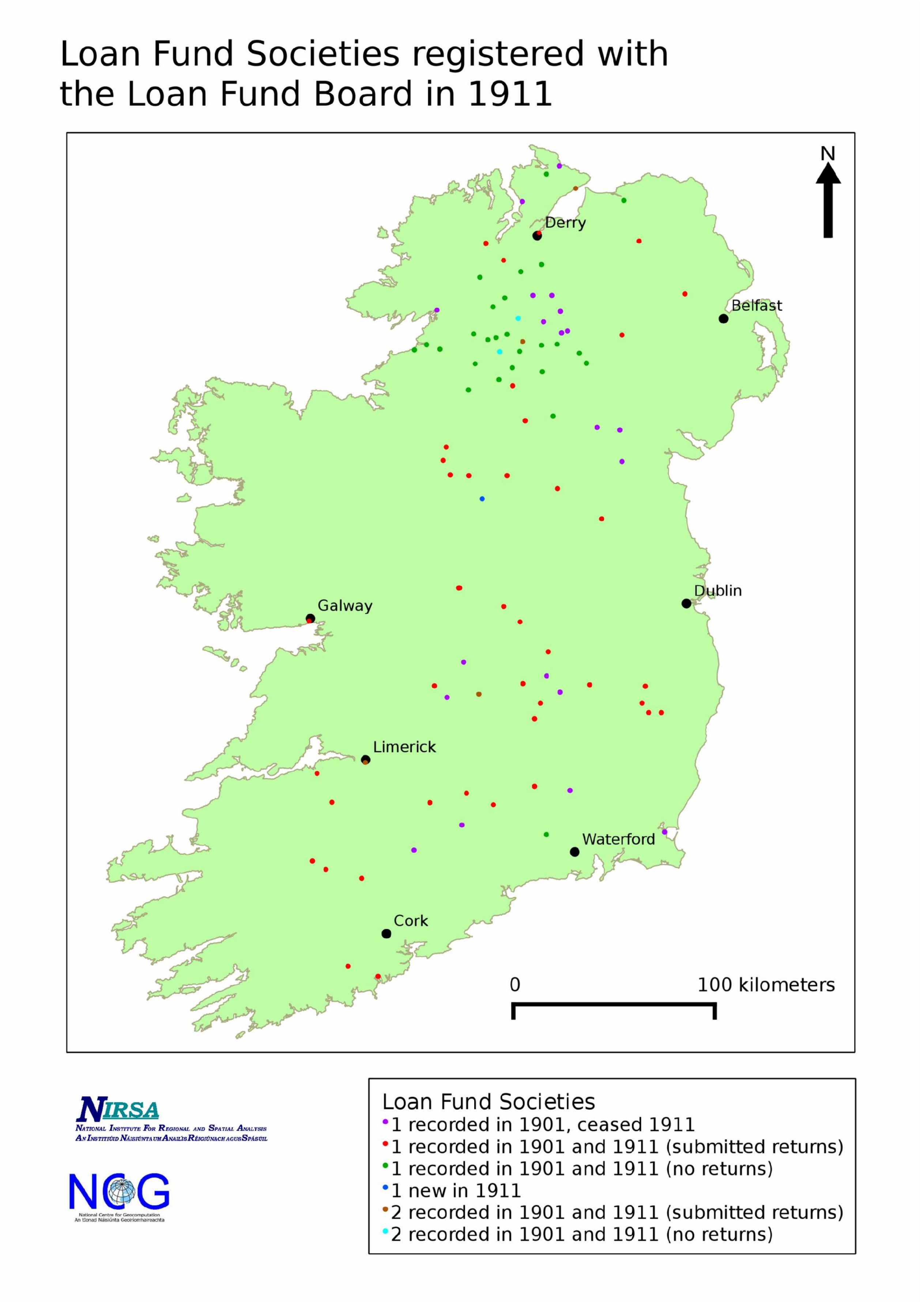

Loan Fund Societies registered with
the Loan Fund Board in 1895
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
0
100 kilometers
Loan Fund Societies
1 recorded in 1880, ceased 1895
1 recorded in 1880 and 1895
1 new in 1895
2 recorded in 1880 and 1895
NCG
NIRSA

Map 2.4

Loan Fund Societies registered with the Loan Fund Board in 1901

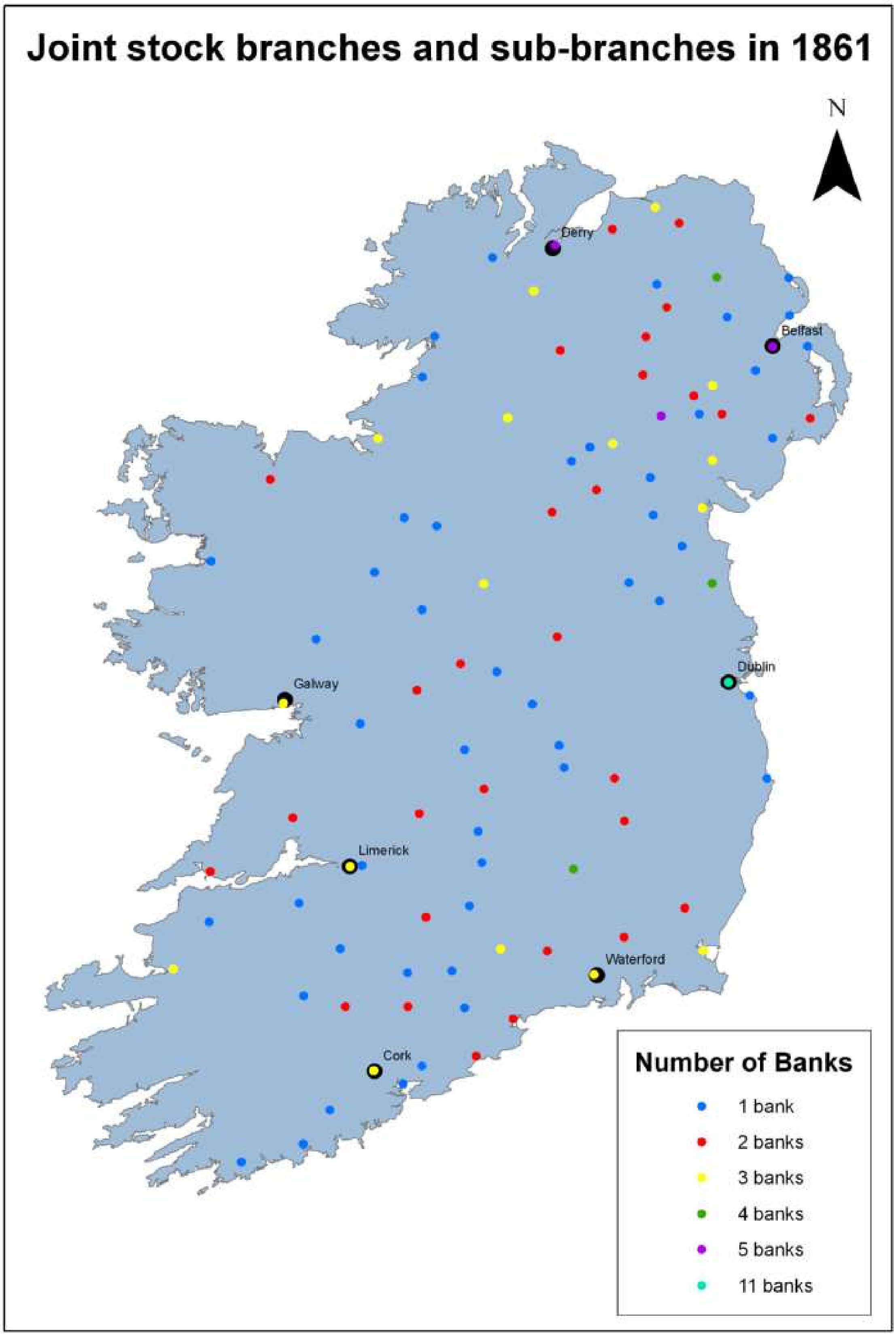


Map 2.5

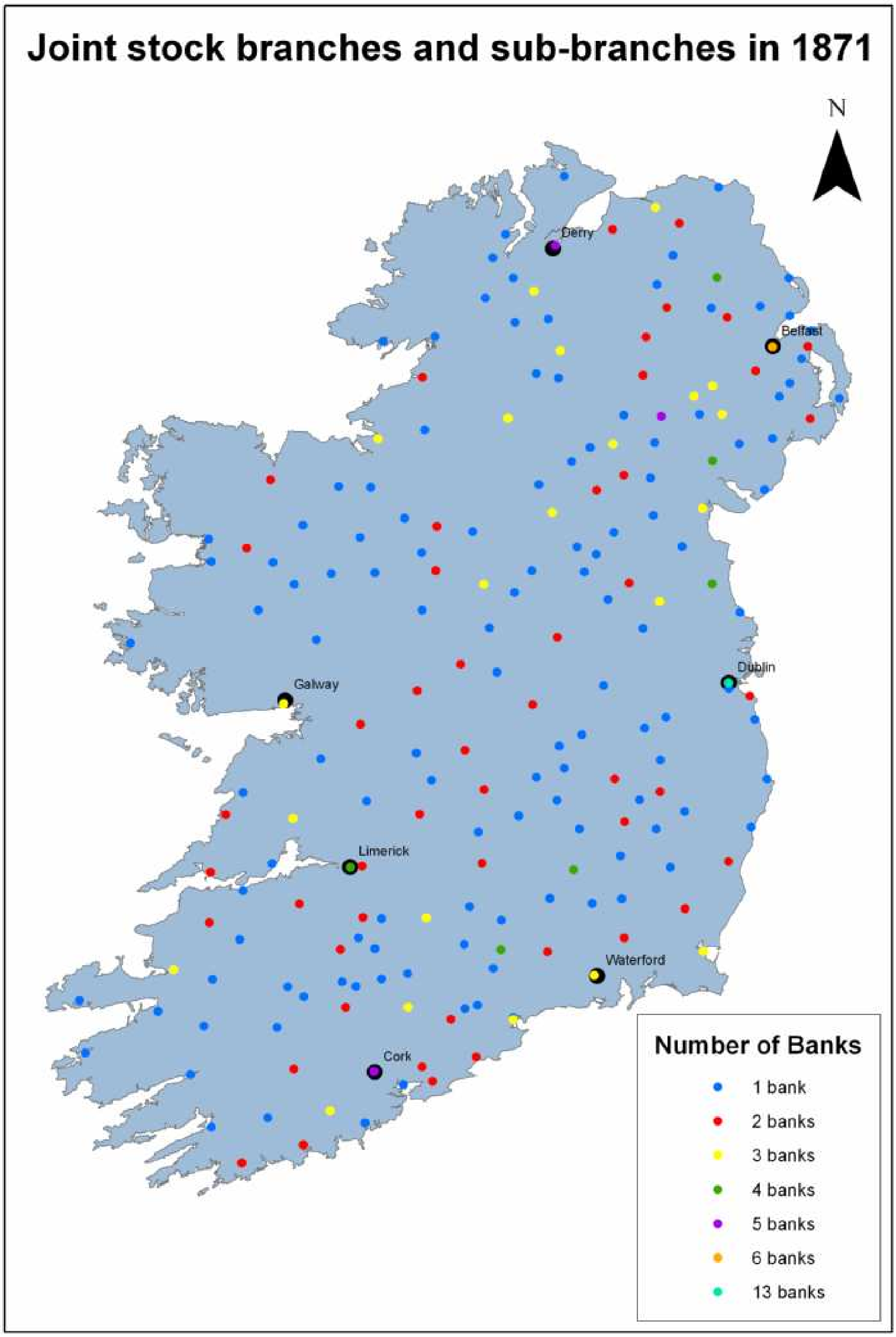


Loan Fund Societies registered with
the Loan Fund Board in 1911
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
0
100 kilometers
NIRSA
National Institute For Regional and Spatial Analysis
NCG
Loan Fund Societies
1 recorded in 1901, ceased 1911
1 recorded in 1901 and 1911 (submitted returns)
1 recorded in 1901 and 1911 (no returns)
1 new in 1911
2 recorded in 1901 and 1911 (submitted returns)
2 recorded in 1901 and 1911 (no returns)

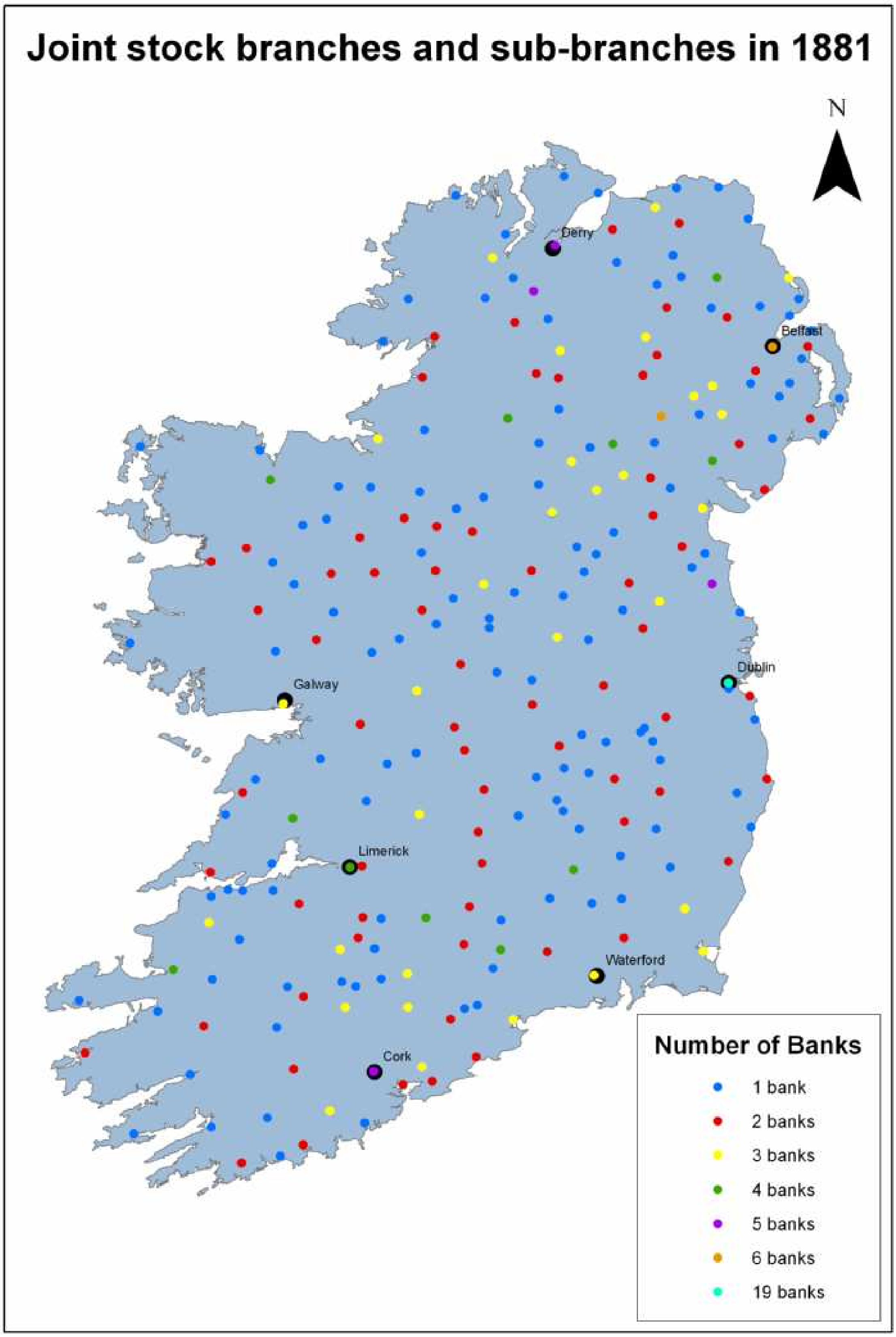
Map 2.6


Joint stock branches and sub-branches in 1861
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
11 banks

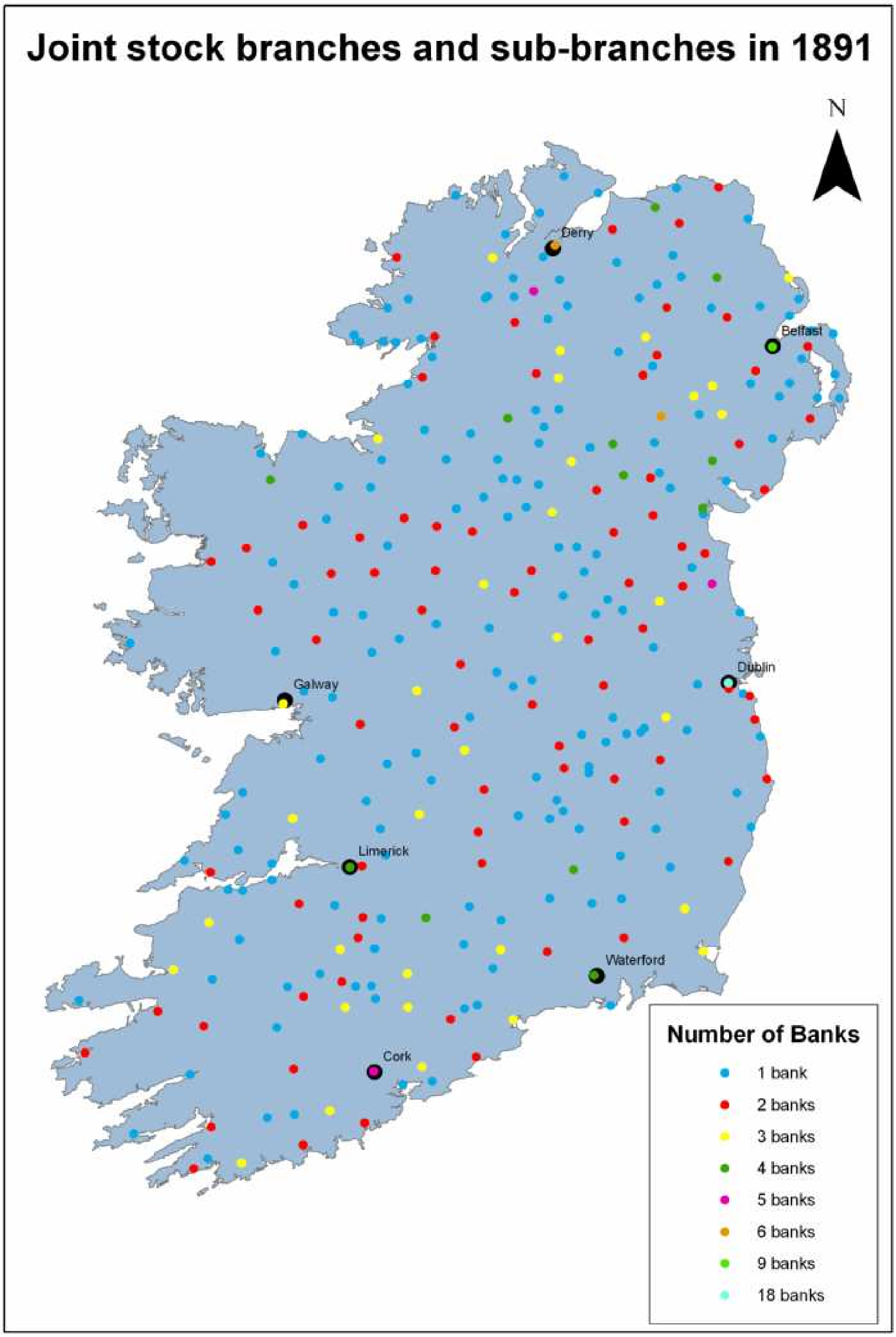
Map 3.1


Joint stock branches and sub-branches in 1871
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
6 banks
13 banks

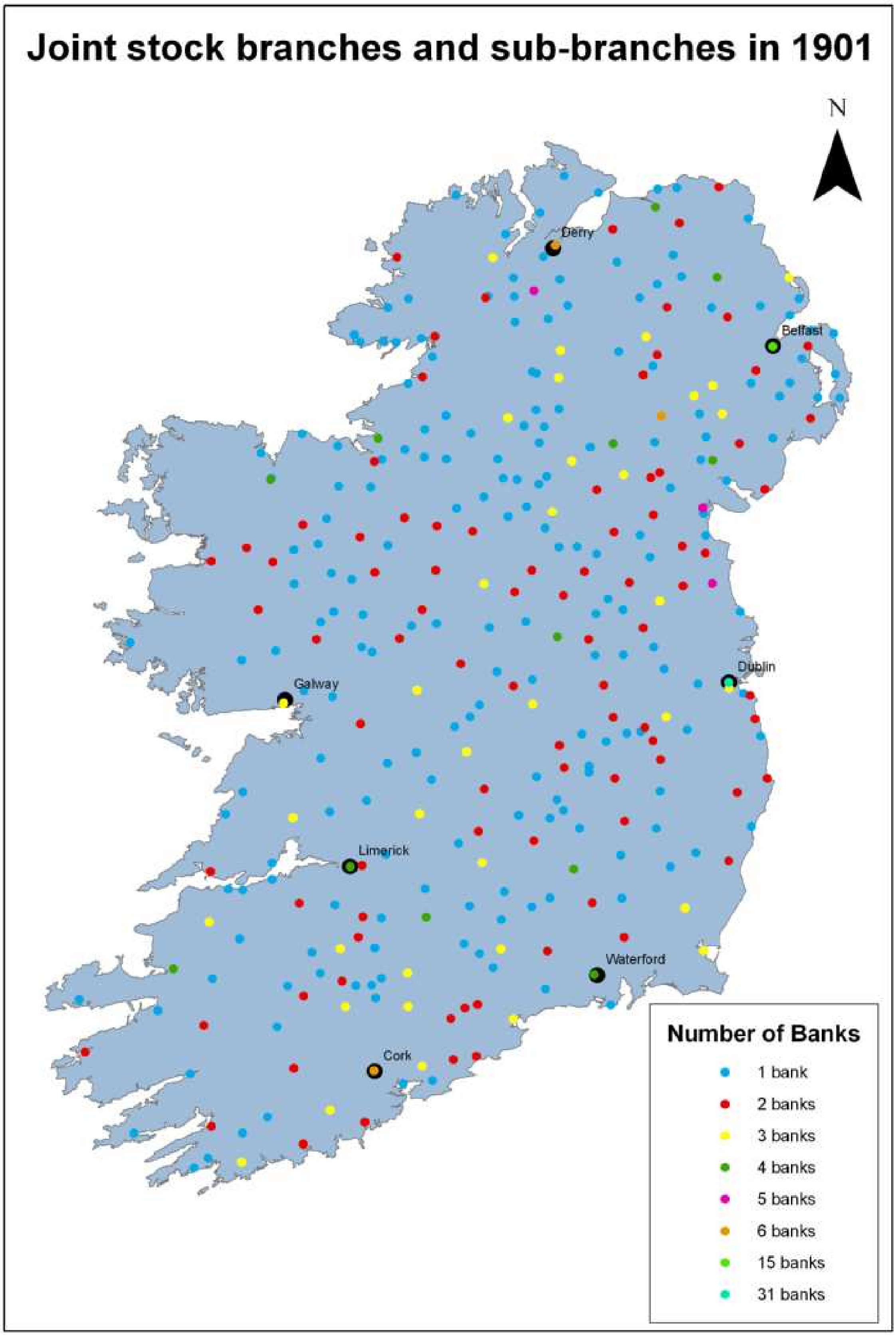
Map 3.2


Joint stock branches and sub-branches in 1881
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
6 banks
19 banks

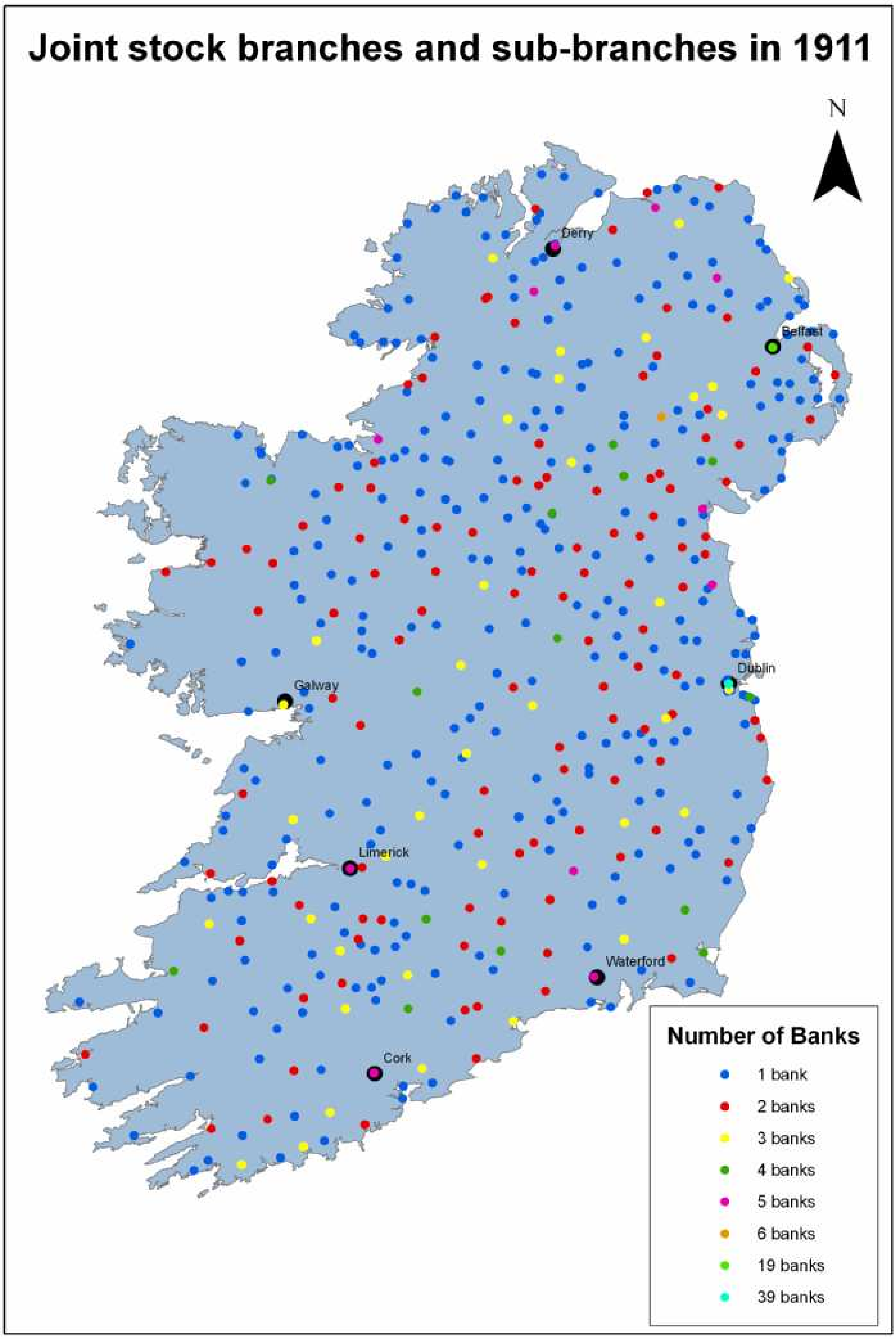
Map 3.3


Joint stock branches and sub-branches in 1891
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
6 banks
9 banks
18 banks

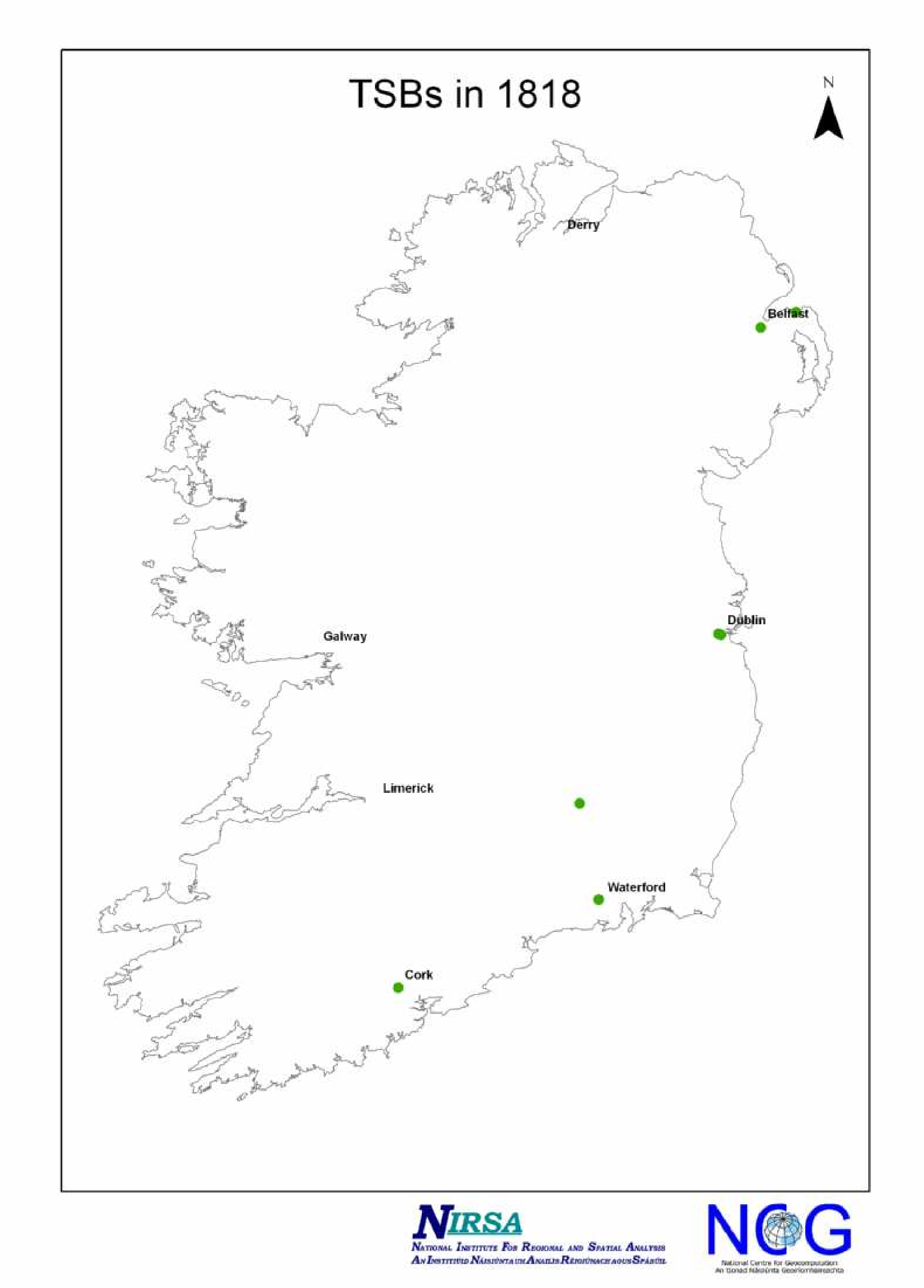
Map 3.4


Joint stock branches and sub-branches in 1901
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
6 banks
15 banks
31 banks

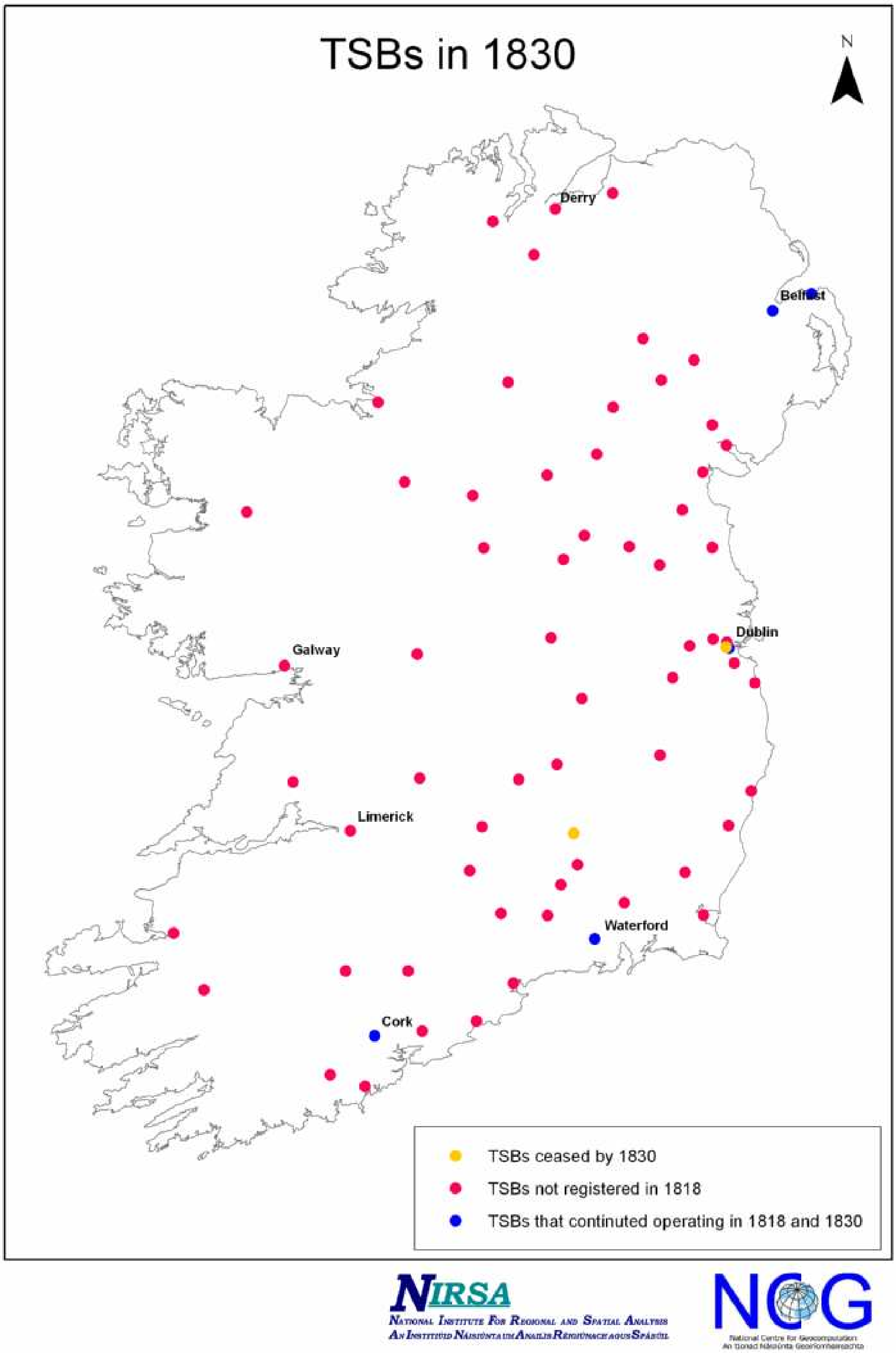
Map 3.5


Joint stock branches and sub-branches in 1911
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Number of Banks
1 bank
2 banks
3 banks
4 banks
5 banks
6 banks
19 banks
39 banks

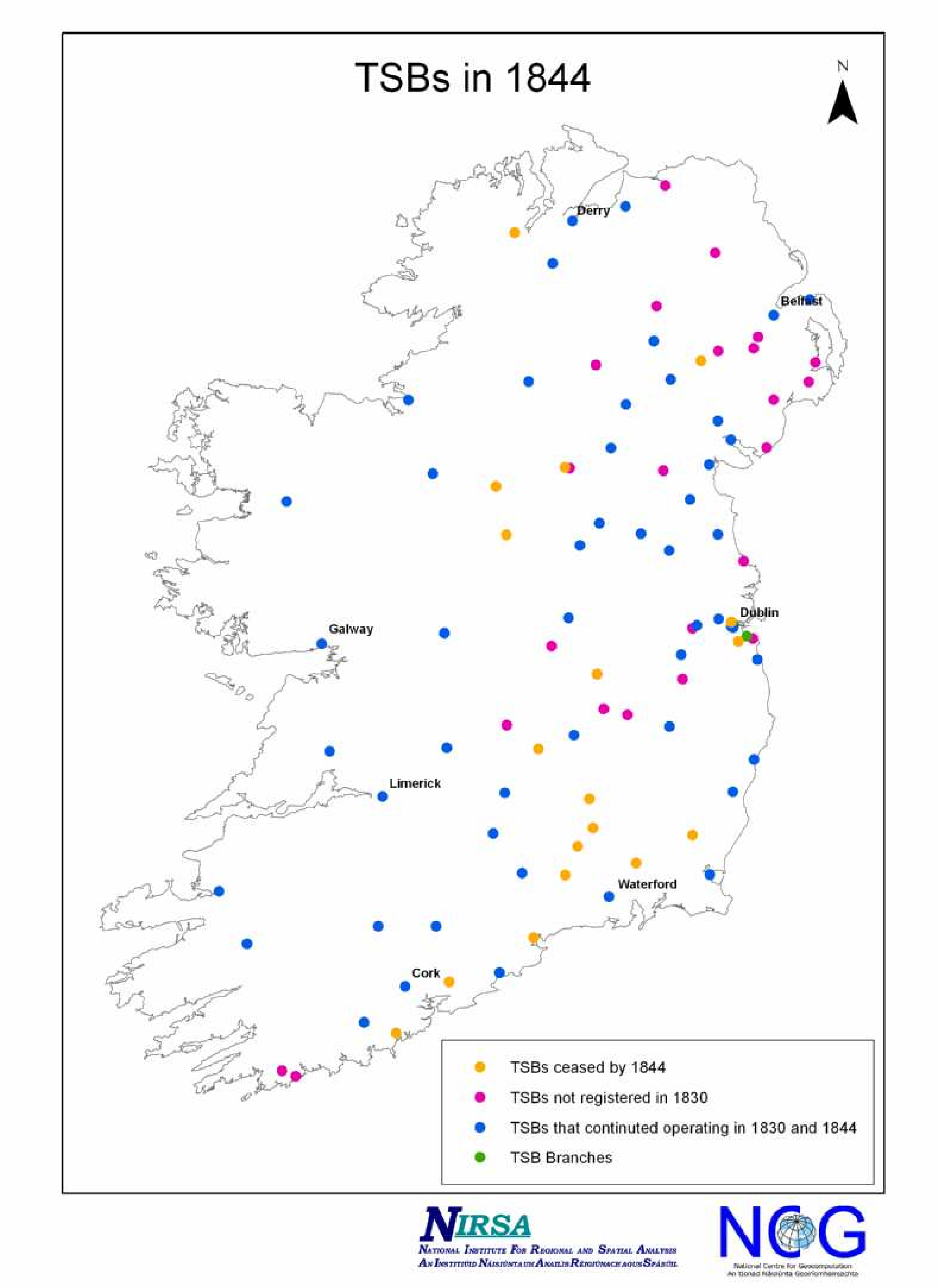
Map 3.6


TSBs in 1818
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
NIRSA
National Institute For Regional and Spatial Analysis
An Instituid Náisiúnta um Anailís Réigiúnach agus Spásúil
NCG

Map 4.1


TSBs in 1830
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
TSBs ceased by 1830
TSBs not registered in 1818
TSBs that continuted operating in 1818 and 1830
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil
NCG
National Centre for Geocomputation
An tIonad Náisiúnta Georíomhaireachta

Map 4.2


TSBs in 1844
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
TSBs ceased by 1844
TSBs not registered in 1830
TSBs that continuted operating in 1830 and 1844
TSB Branches
NIRSA
National Institute For Regional and Spatial Analysis
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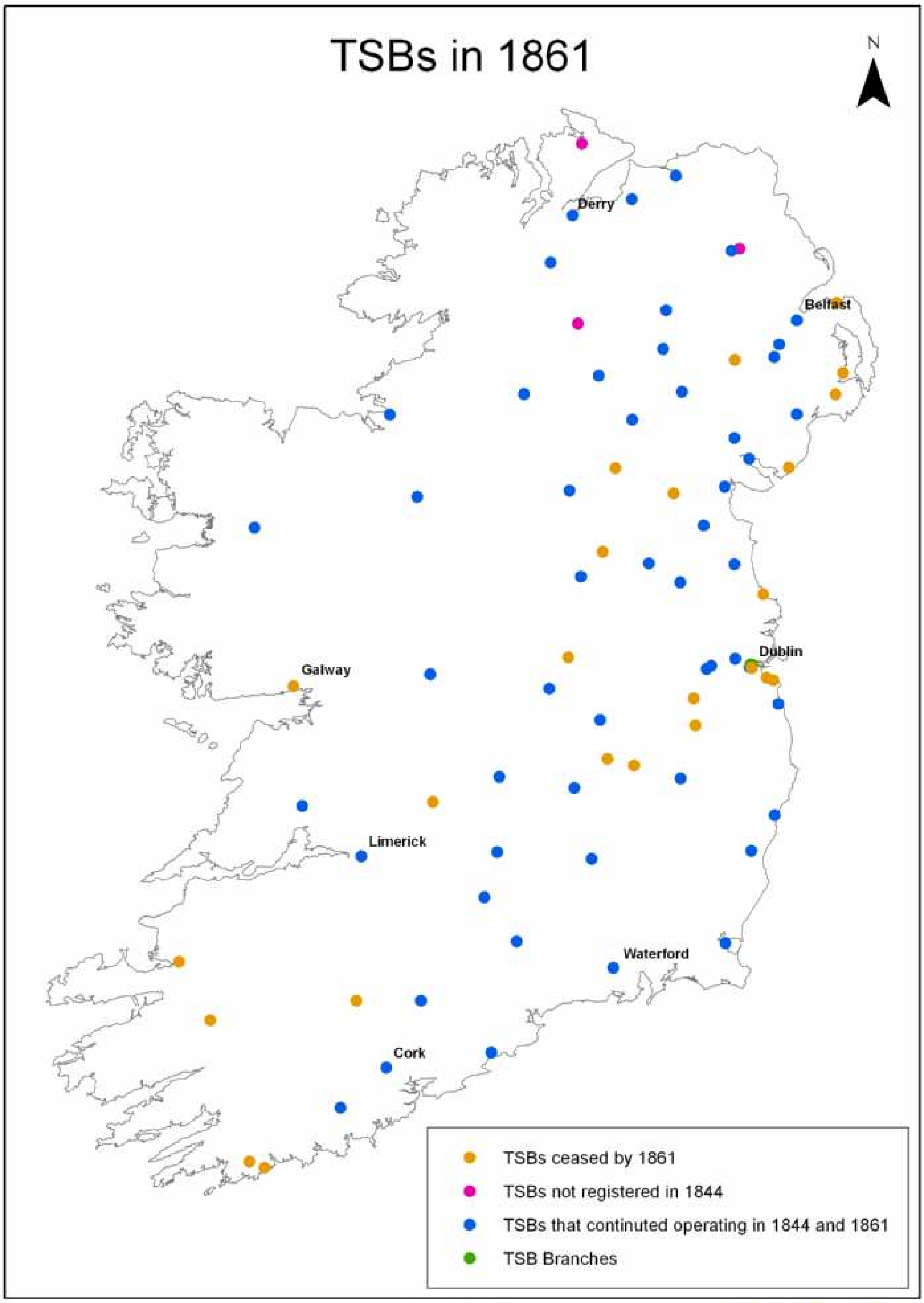
NCG
National Centre for Geocomputation
An tIonad Náisiúnta Geocríomhaireachta

Map 4.3



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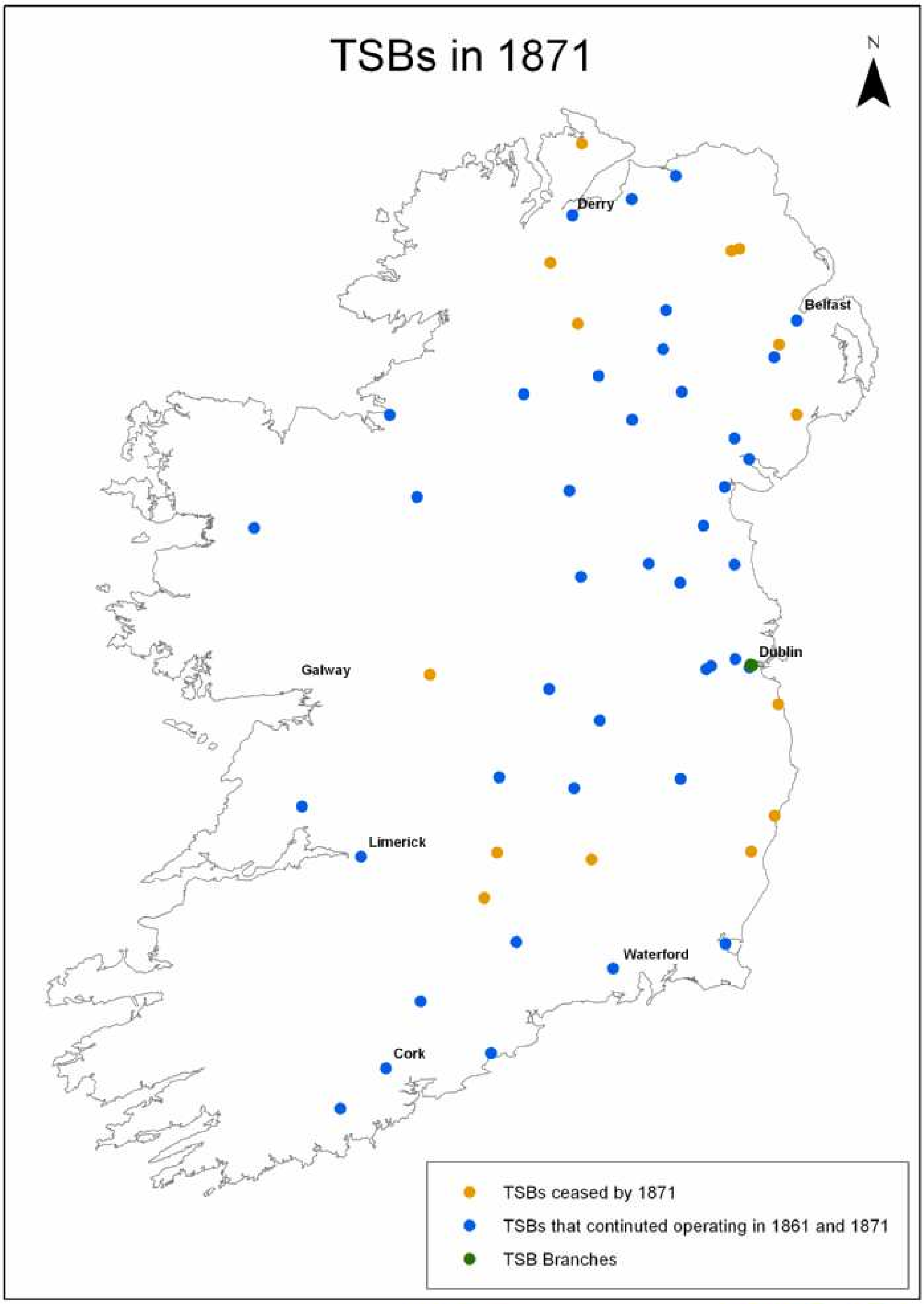
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

NCG
National Centre for Geocomputation
An Lárionad Náisiúnta Geoiomhaireachta

Map 4.4



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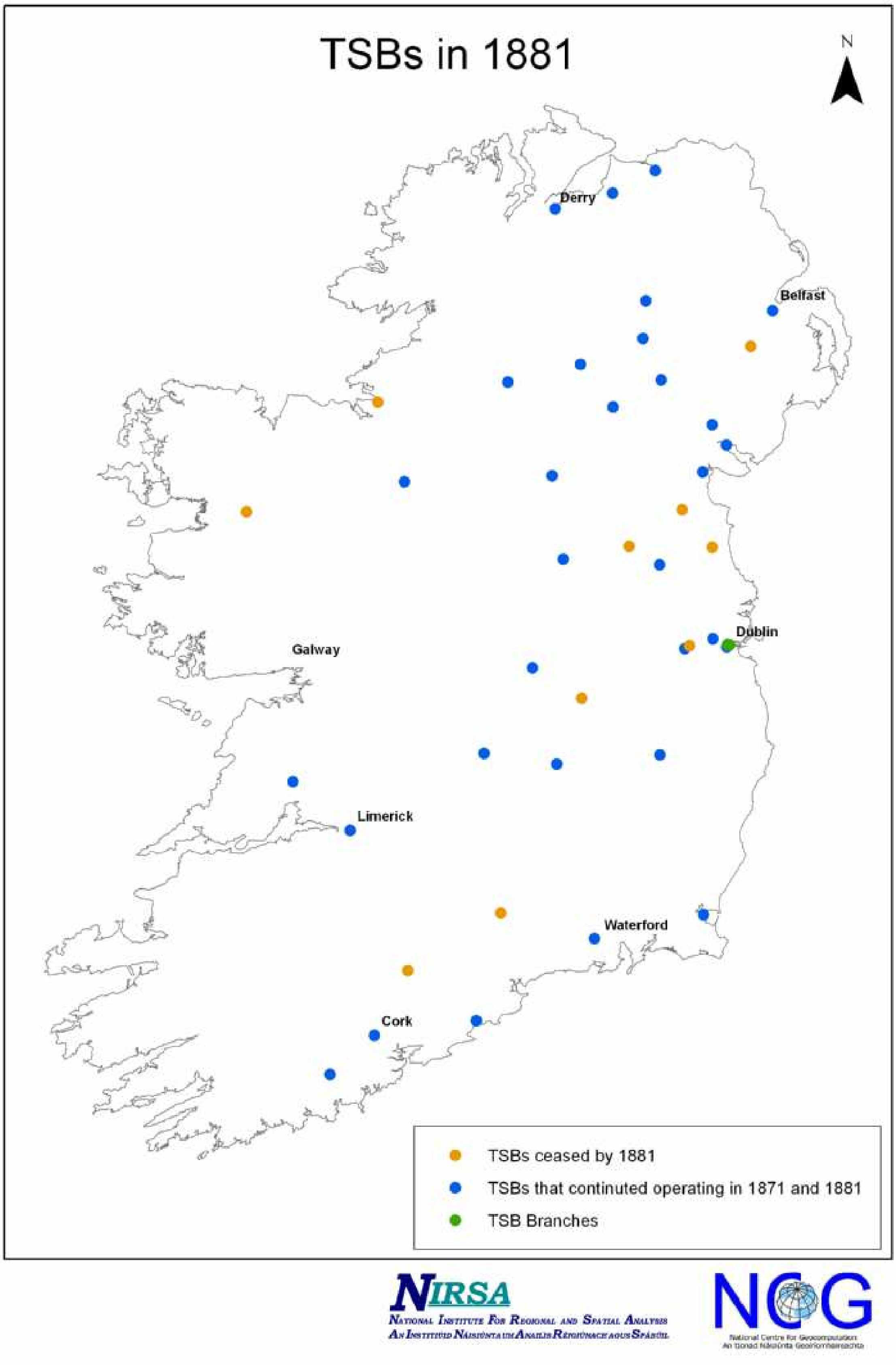
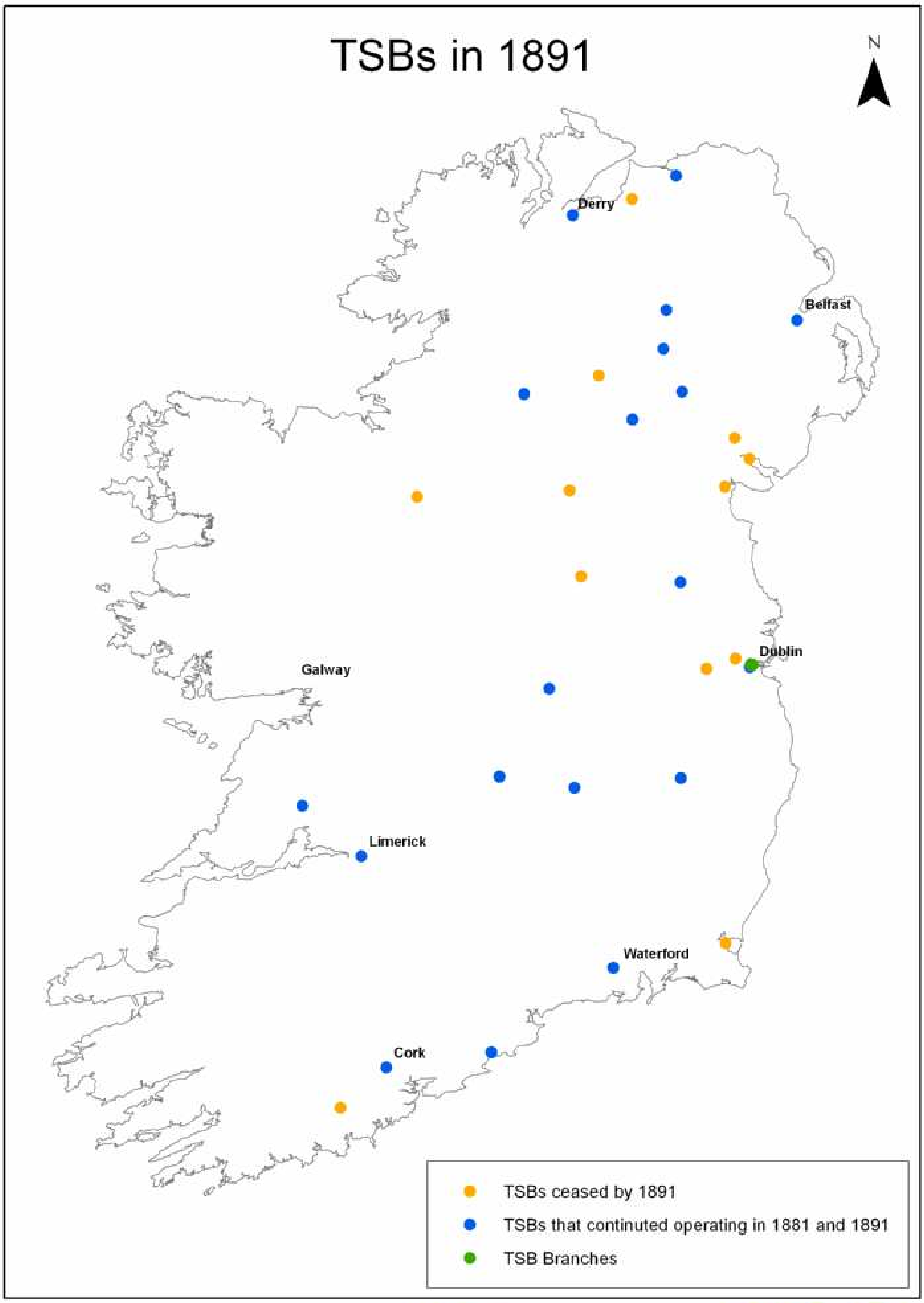
NCG

Map 4.5


TSBs in 1881
N
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
TSBs ceased by 1881
TSBs that continuted operating in 1871 and 1881
TSB Branches
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil
NCG
National Centre for Geocomputation
An tIonad Náisiúnta Geocríomhaireachta

Map 4.6



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National Institute For Regional and Spatial Analysis
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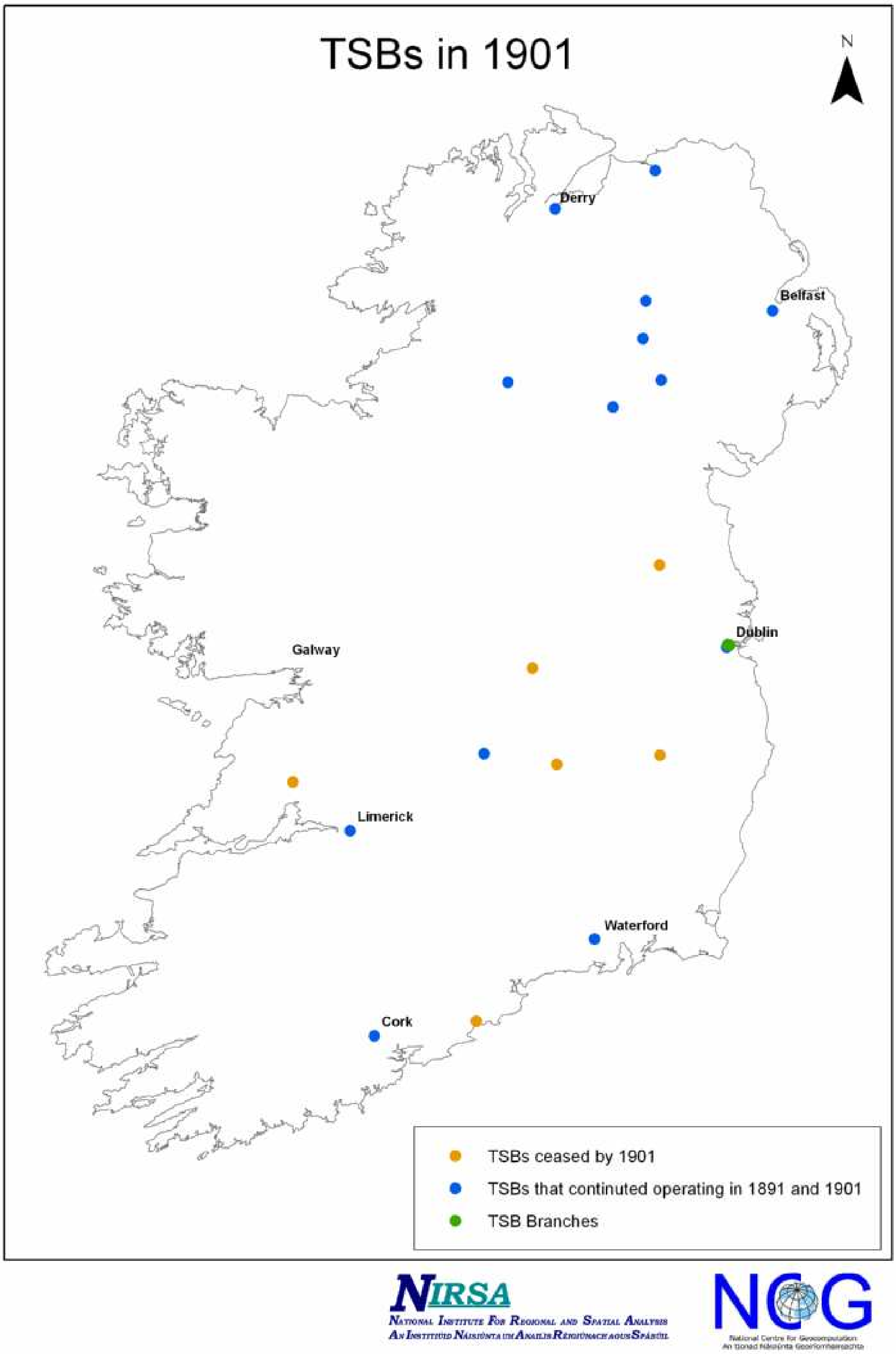
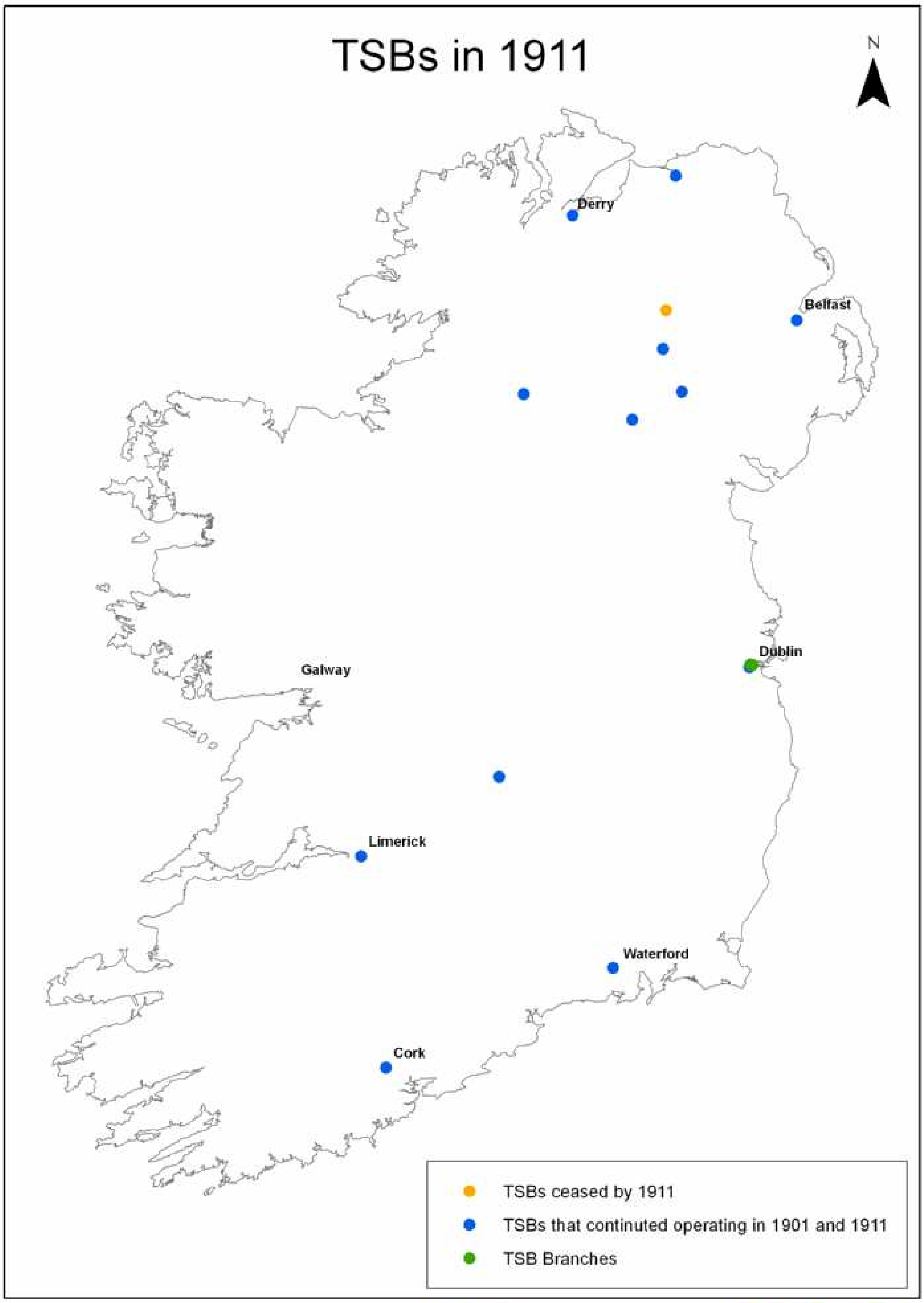
NCG
National Centre for Geocomputation
An tIonad Náisiúnta Geocríomhaireachta

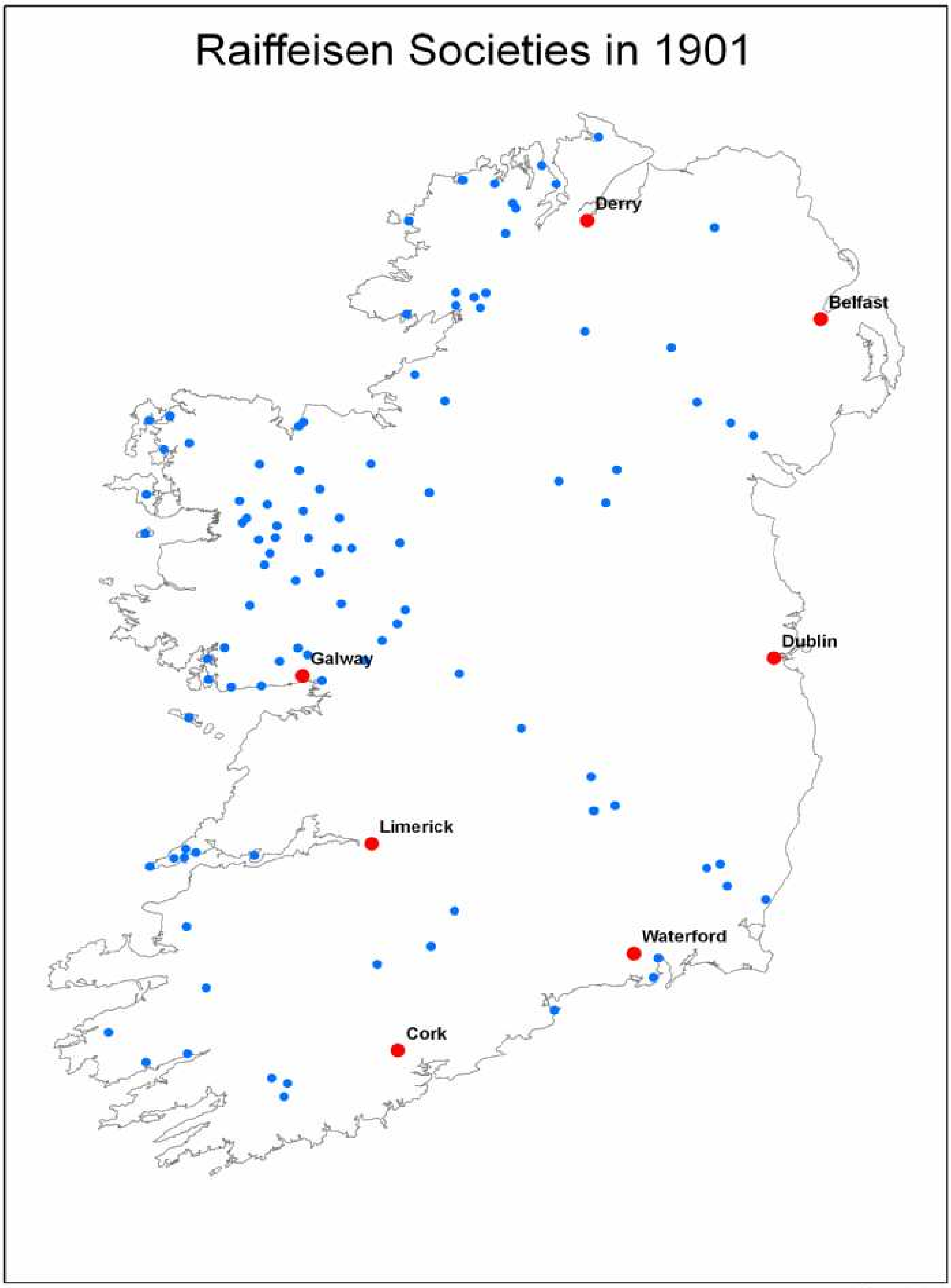
Map 4.7


TSBs in 1901
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
TSBs ceased by 1901
TSBs that continuted operating in 1891 and 1901
TSB Branches
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil
NCG
National Centre for Geocomputation

Map 4.8


TSBs in 1911
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
TSBs ceased by 1911
TSBs that continuted operating in 1901 and 1911
TSB Branches

Map 4.9



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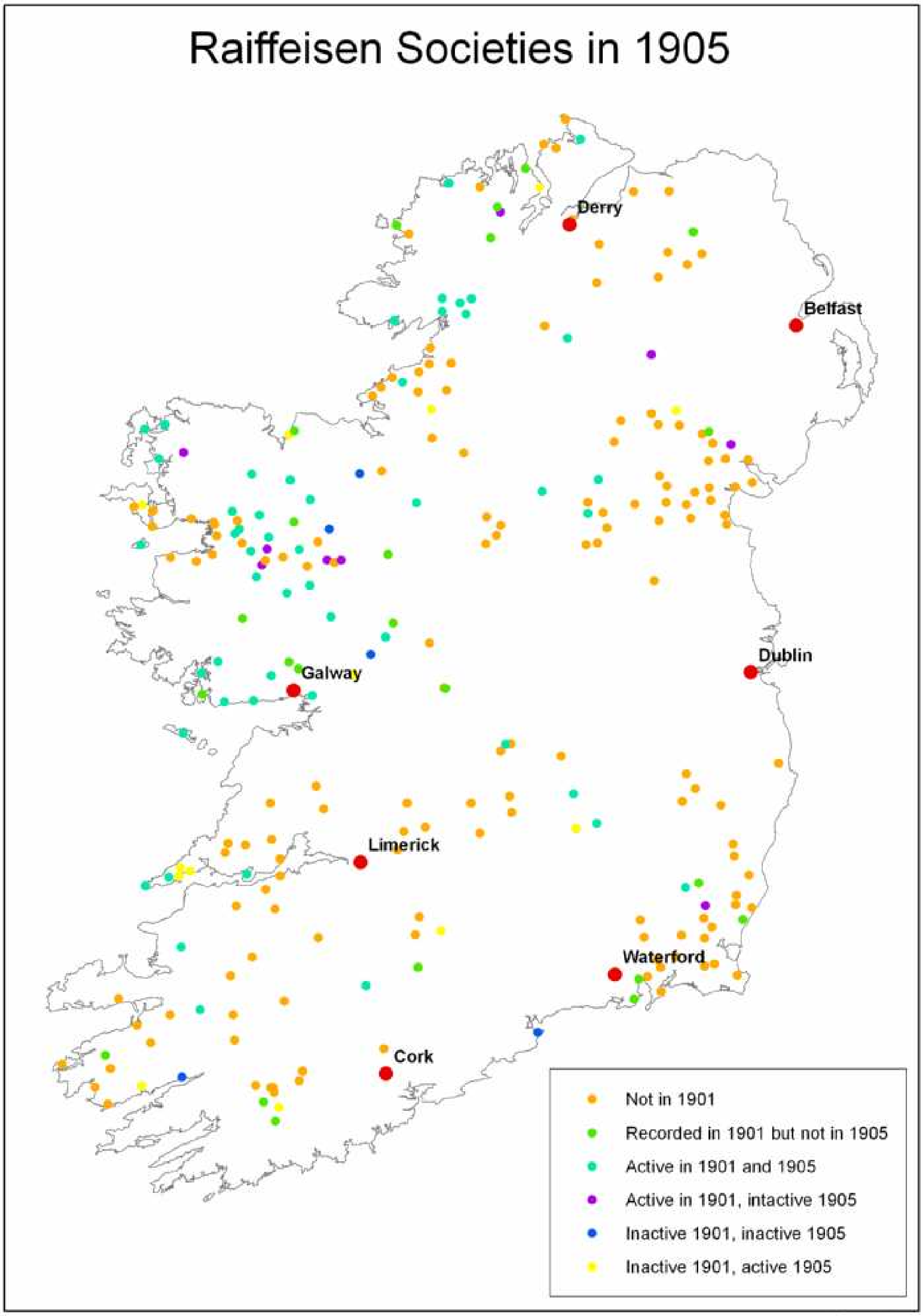
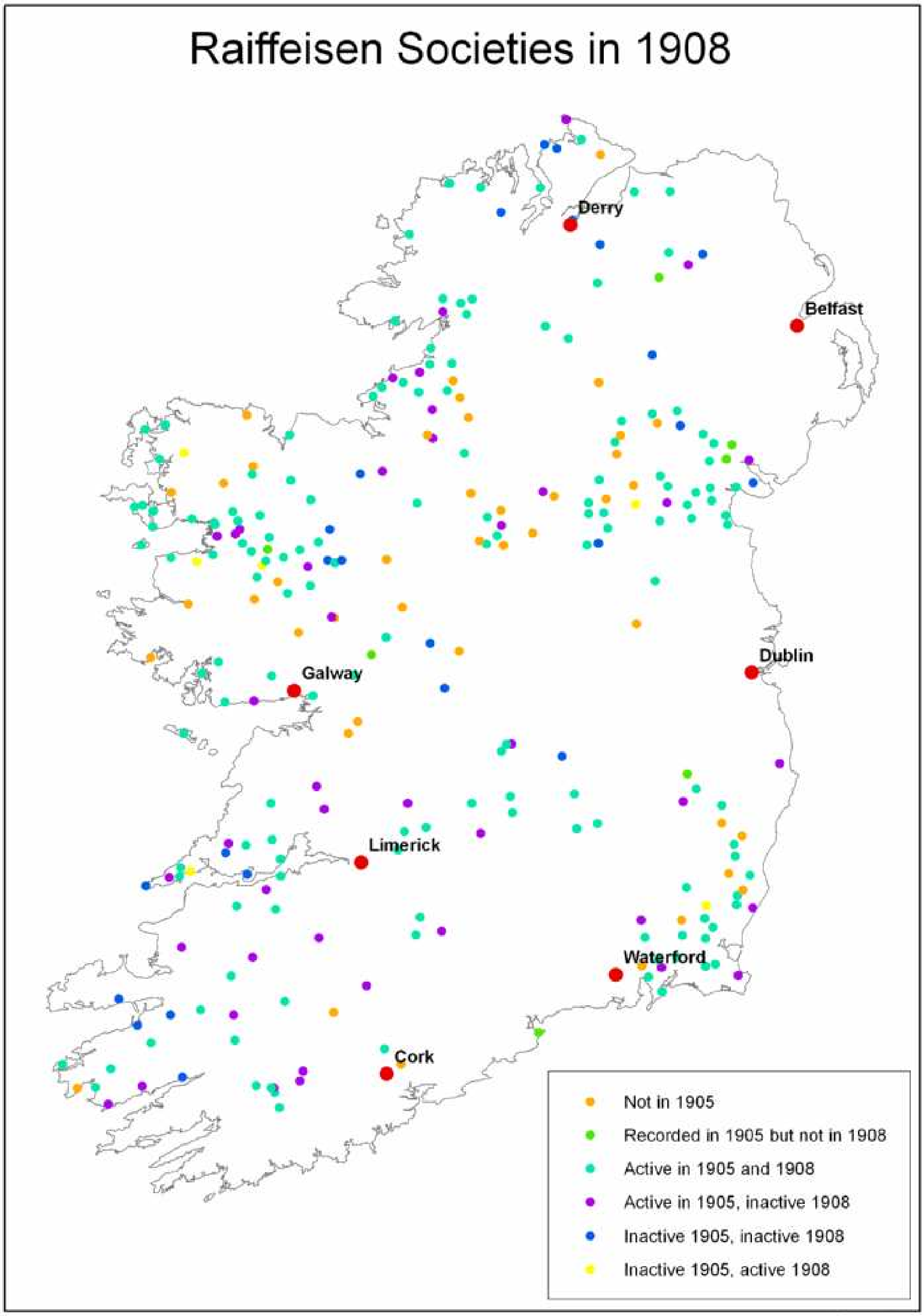
Map 6.1

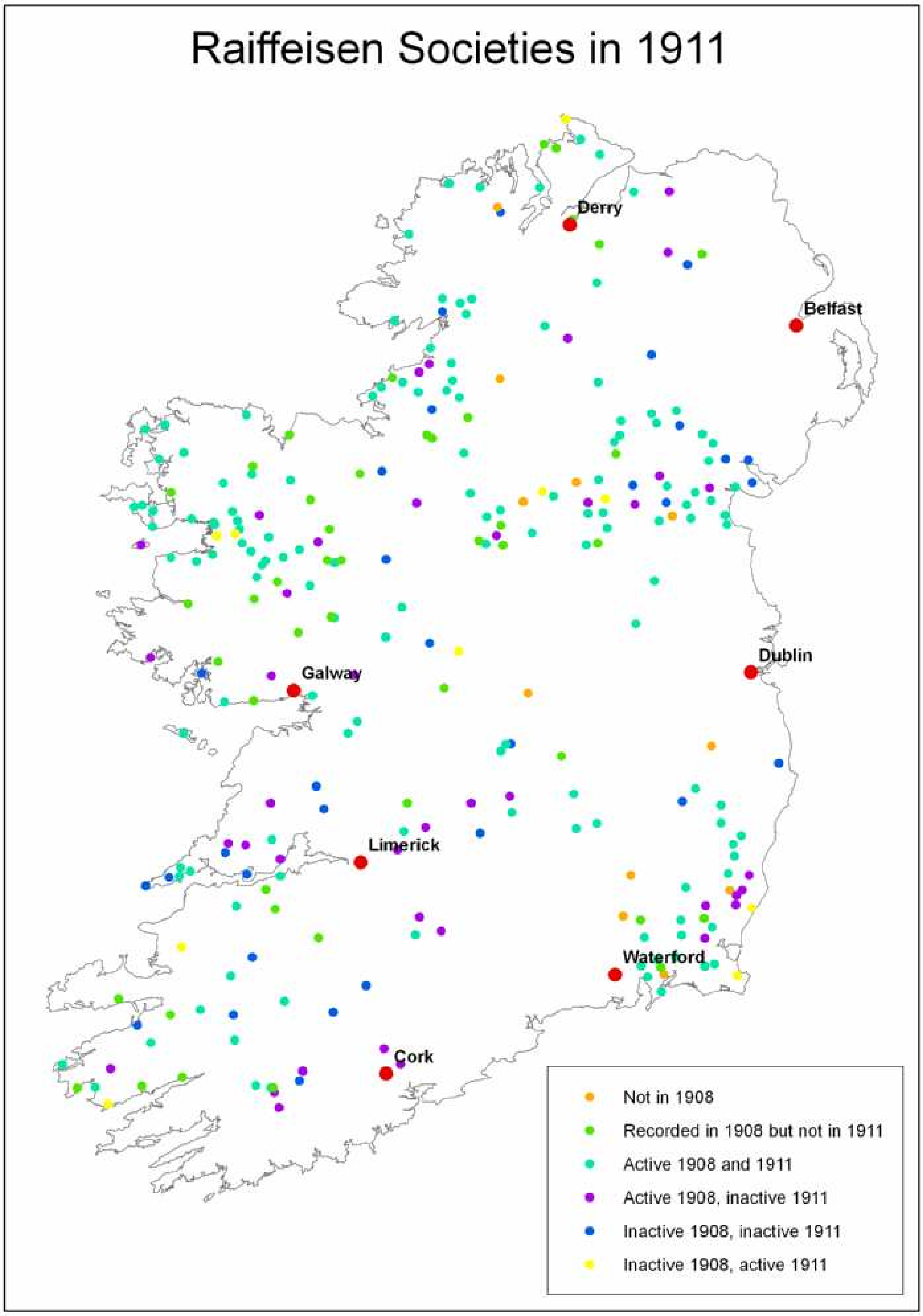

Raiffeisen Societies in 1905
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Not in 1901
Recorded in 1901 but not in 1905
Active in 1901 and 1905
Active in 1901, intactive 1905
Inactive 1901, inactive 1905
Inactive 1901, active 1905

Map 6.2



Raiffeisen Societies in 1908
Derry
Belfast
Galway
Dublin
Limerick
Waterford
Cork
Not in 1905
Recorded in 1905 but not in 1908
Active in 1905 and 1908
Active in 1905, inactive 1908
Inactive 1905, inactive 1908
Inactive 1905, active 1908

Map 6.3



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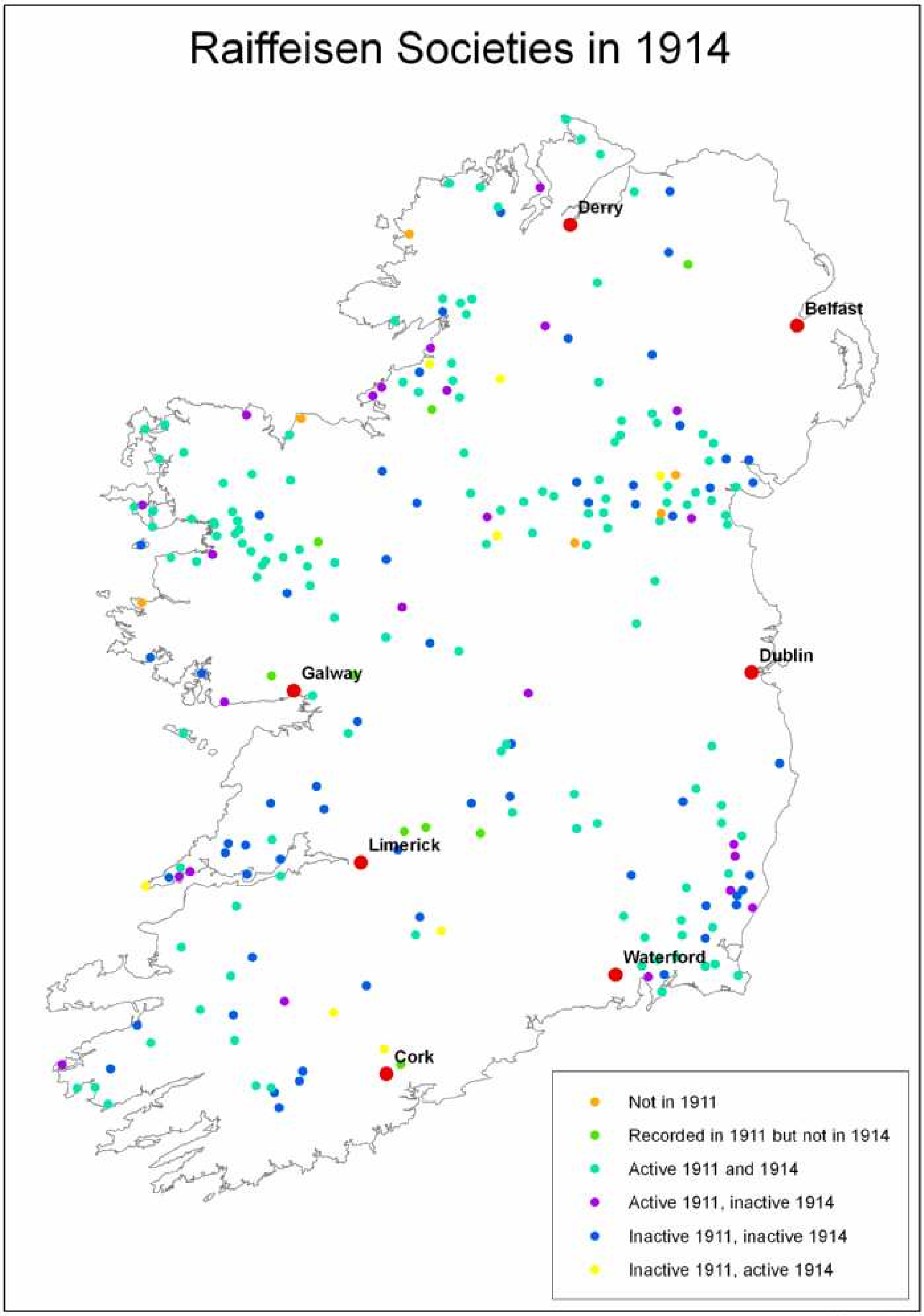
Map 6.4



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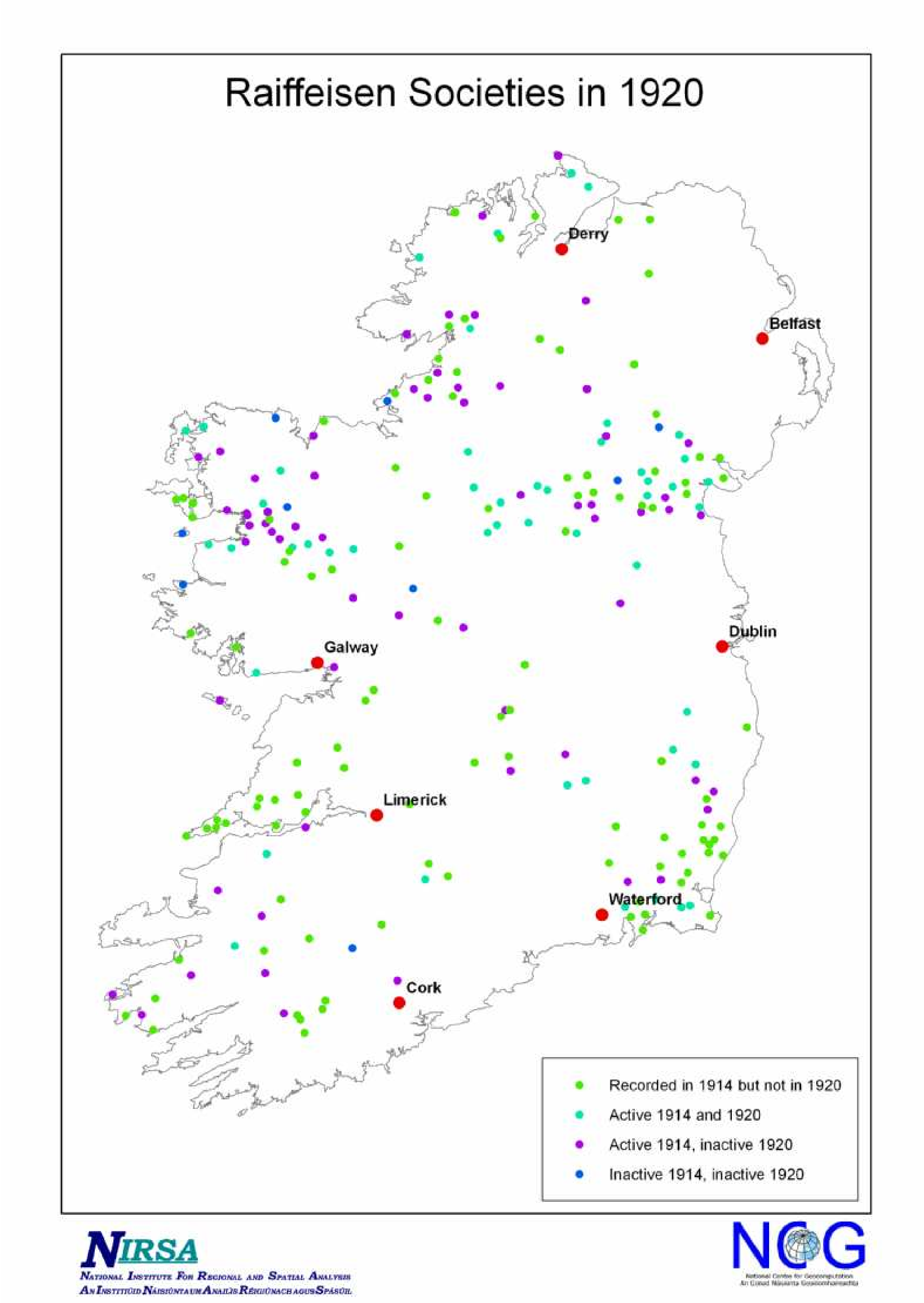
Map 6.5


Raiffeisen Societies in 1920
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
Recorded in 1914 but not in 1920
Active 1914 and 1920
Active 1914, inactive 1920
Inactive 1914, inactive 1920
NIRSA
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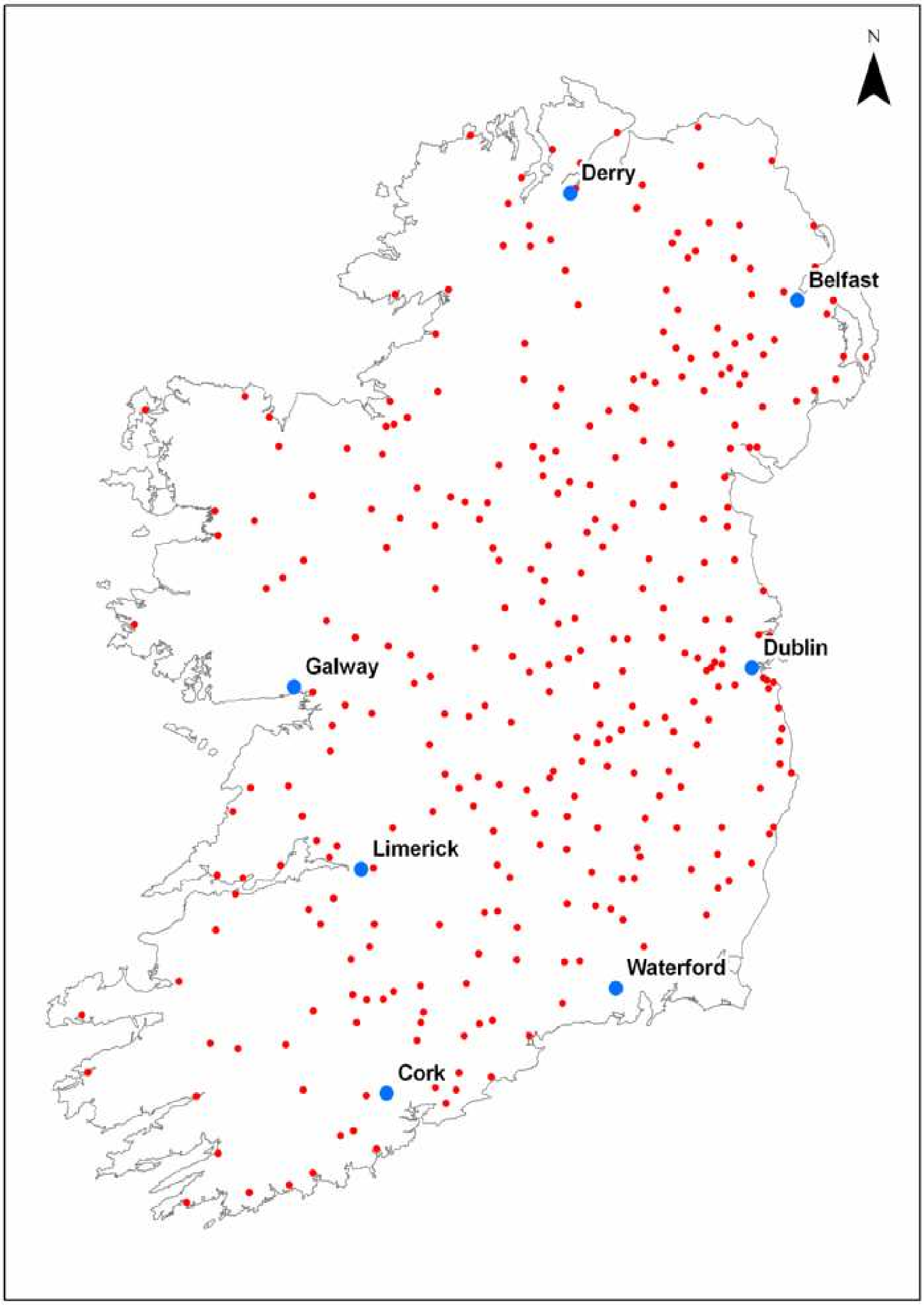
NCG

Map 6.6

Post Office Money Order Offices, 1845



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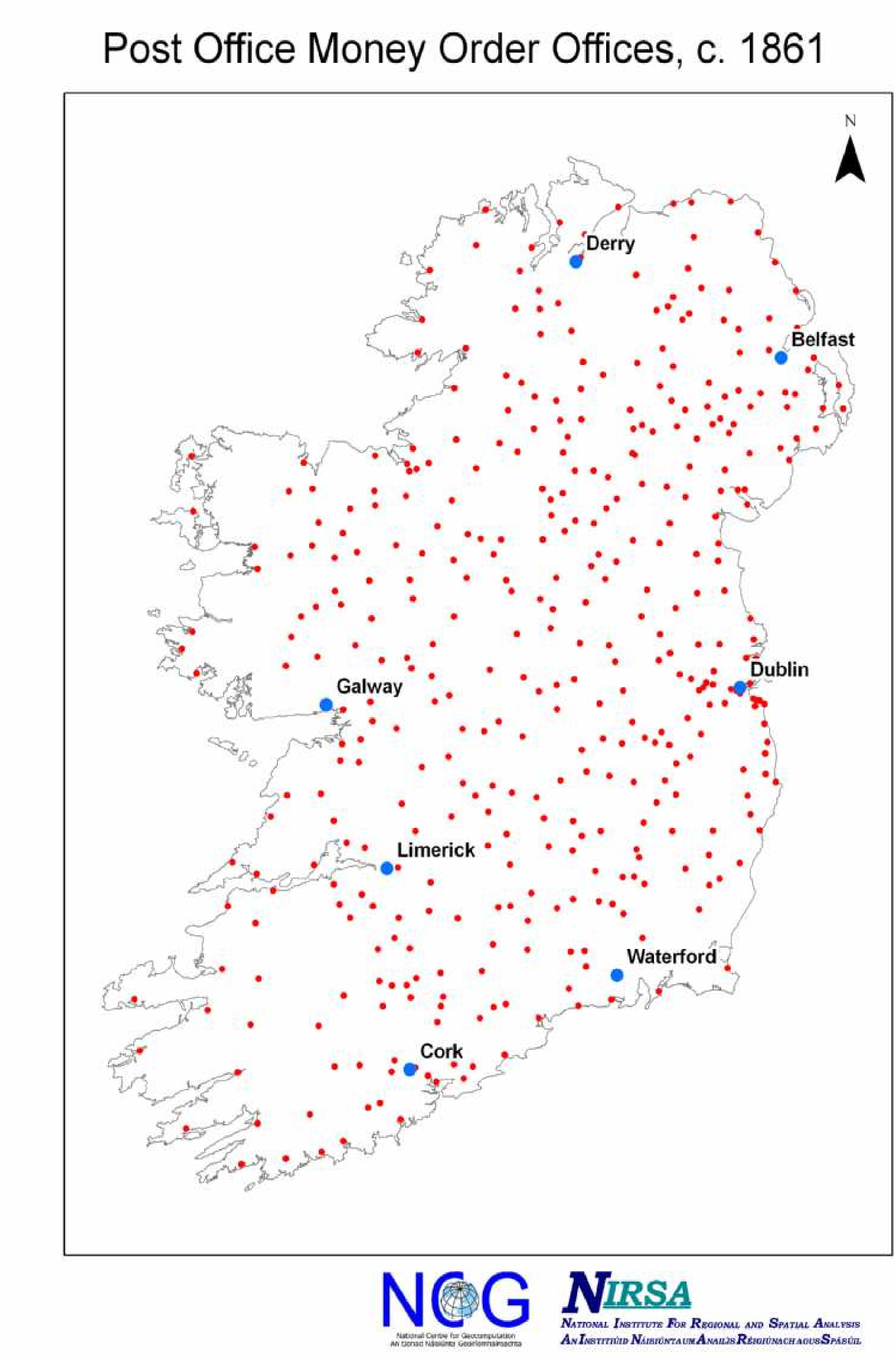
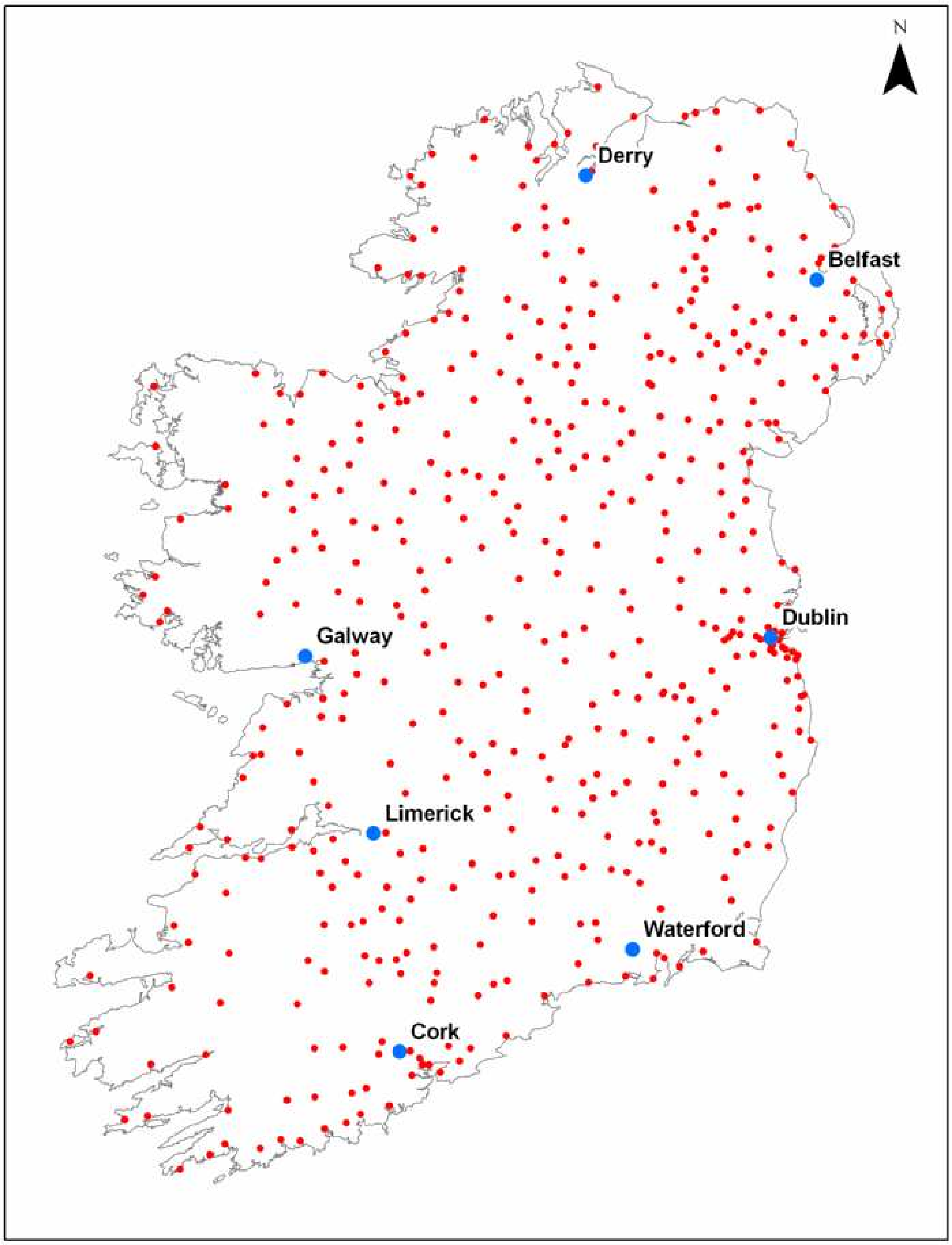
NIRSA
National Institute For Regional and Spatial Analysis

Map 8.1


Post Office Money Order Offices, c. 1861
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
National Centre for Geocomputation
An Lárionad Náisiúnta Geoiomhaireachta
NIRSA
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

Map 8.2

Post Office Money Order Offices and Post Office Savings Banks, c. 1871



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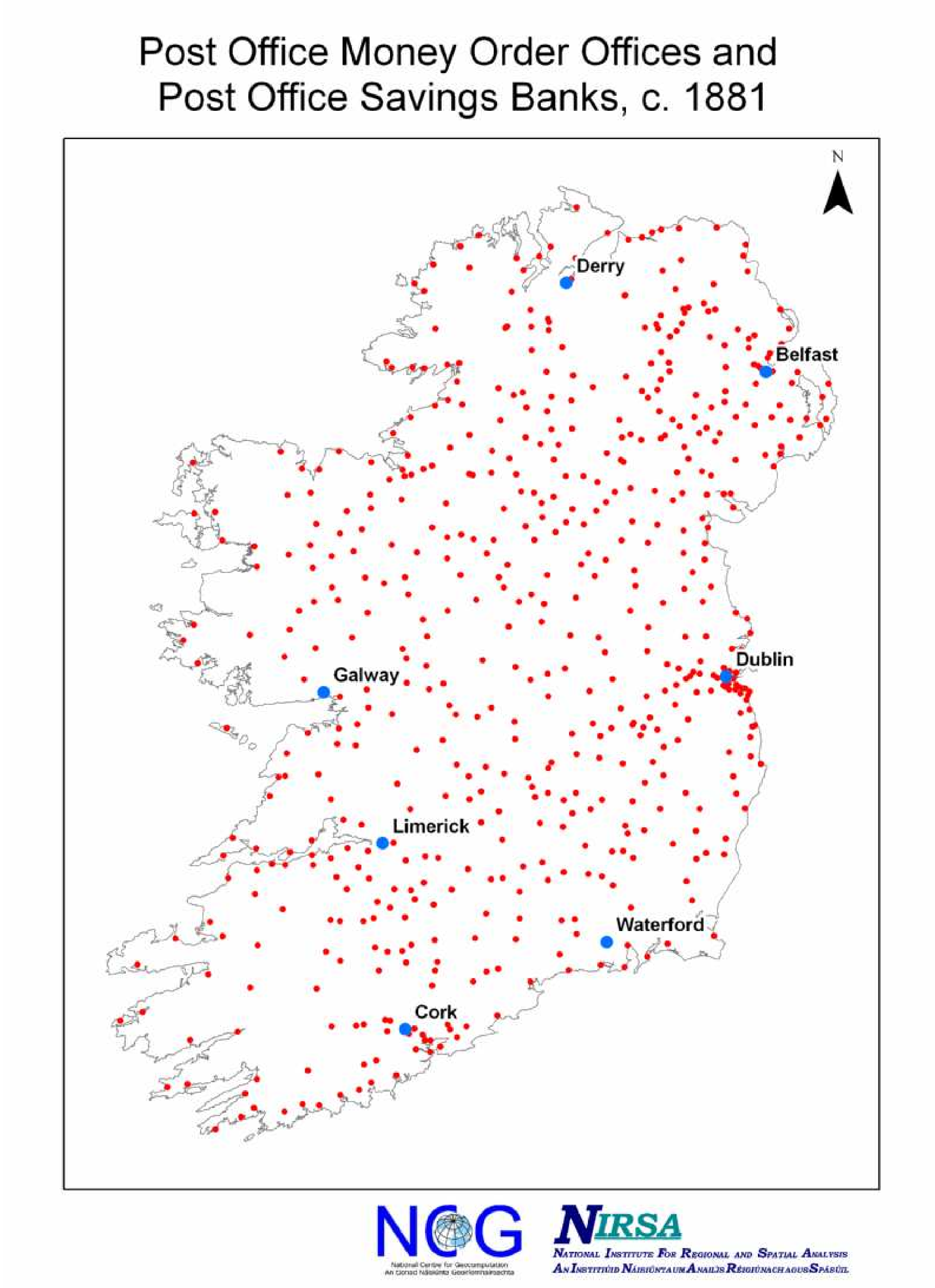
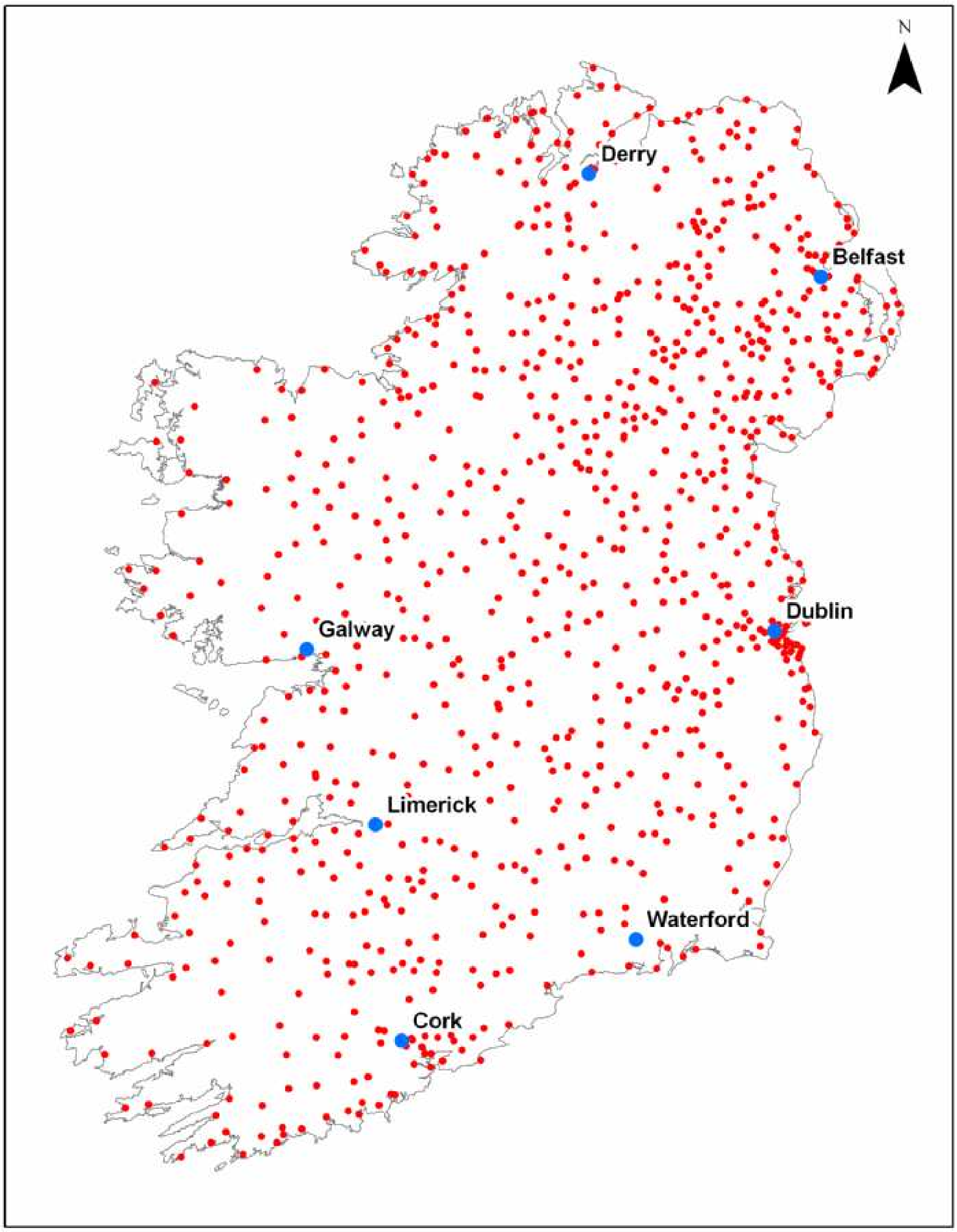
AN INSTITIÚID NÁISIÚNTA UM ANAILÍS RÉIGIÚNACH AGUS SPÁSÚIL

Map 8.3


Post Office Money Order Offices and
Post Office Savings Banks, c. 1881
N
Derry
Belfast
Dublin
Galway
Limerick
Waterford
Cork
NCG
NIRSA
National Institute For Regional and Spatial Analysis

Map 8.4

Post Office Money Order Offices and
Post Office Savings Banks, c. 1891



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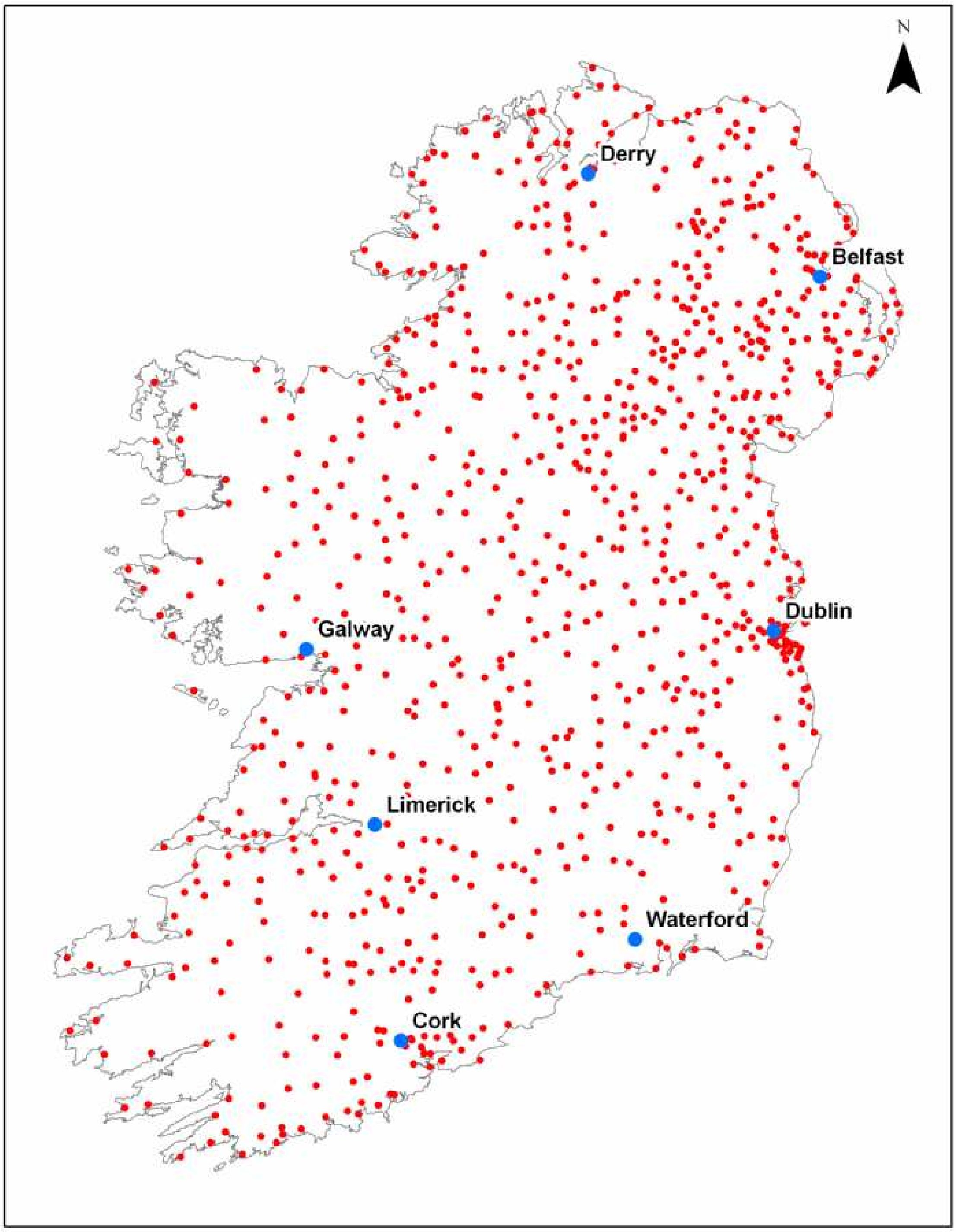
Map 8.5

Post Office Money Order Offices and
Post Office Savings Banks, c. 1901



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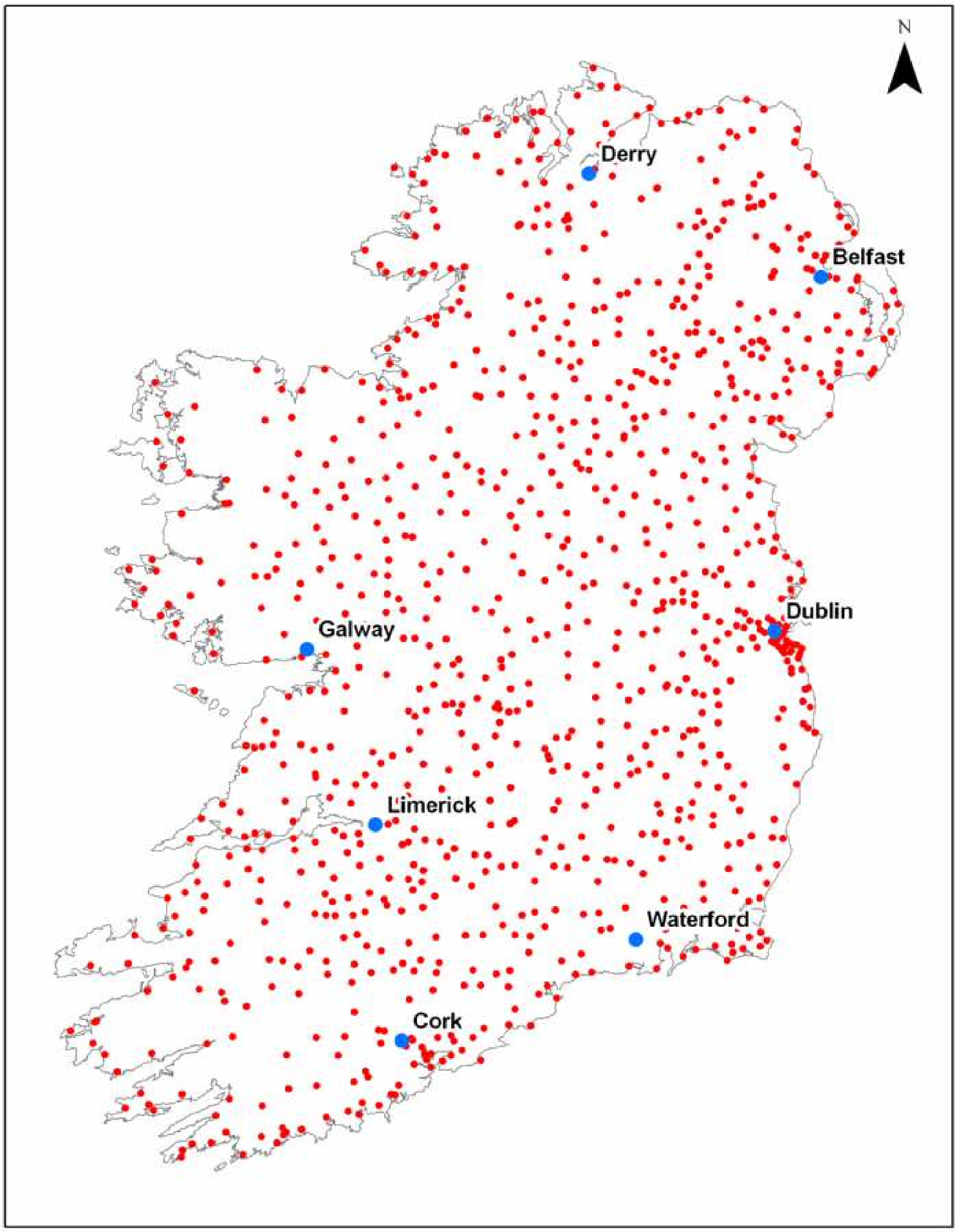
National Institute For Regional and Spatial Analysis
An Institiúid Náisiúnta um Anailís Réigiúnach agus Spásúil

Map 8.6

Post Office Money Order Offices and Post Office Savings Banks, c. 1911



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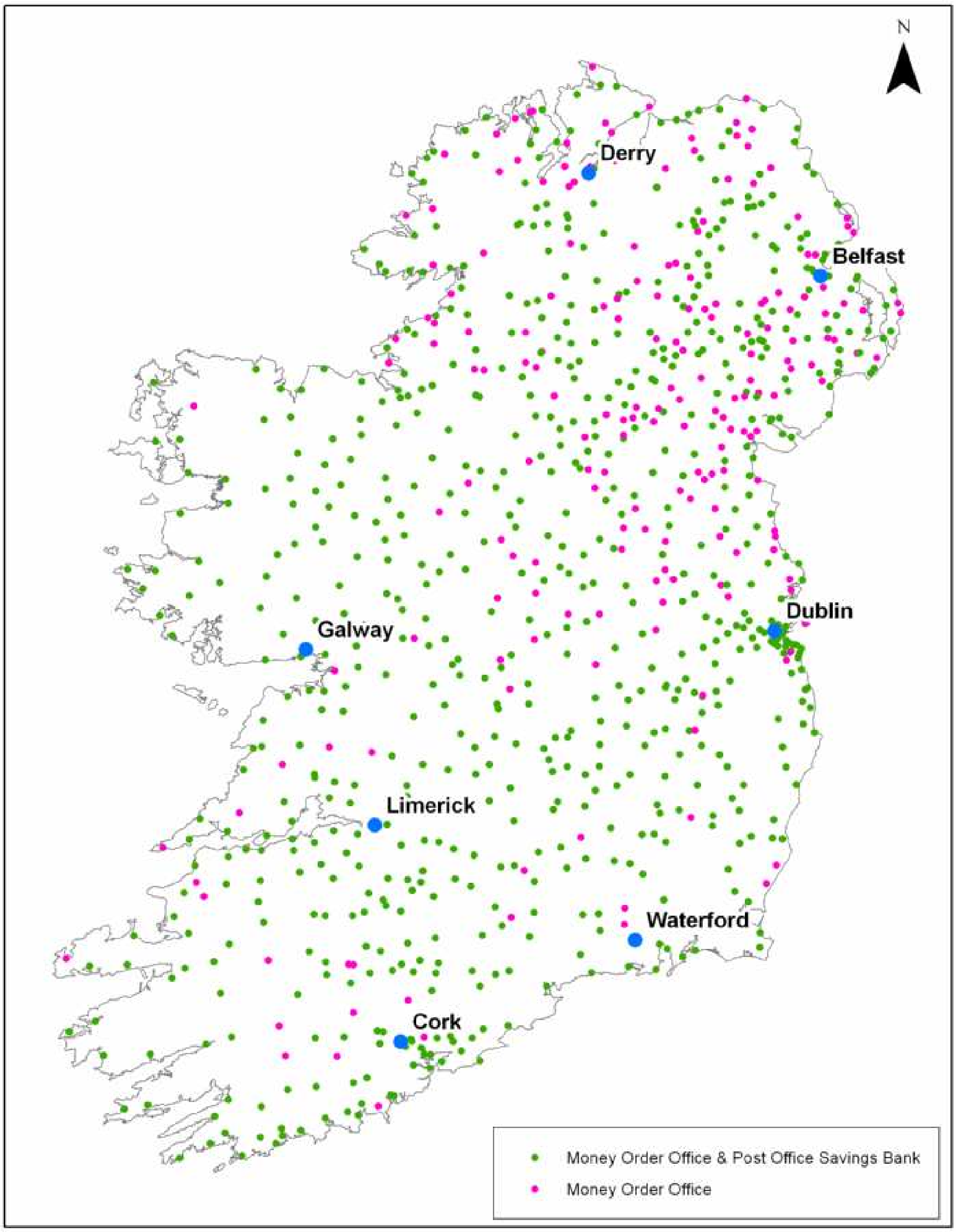
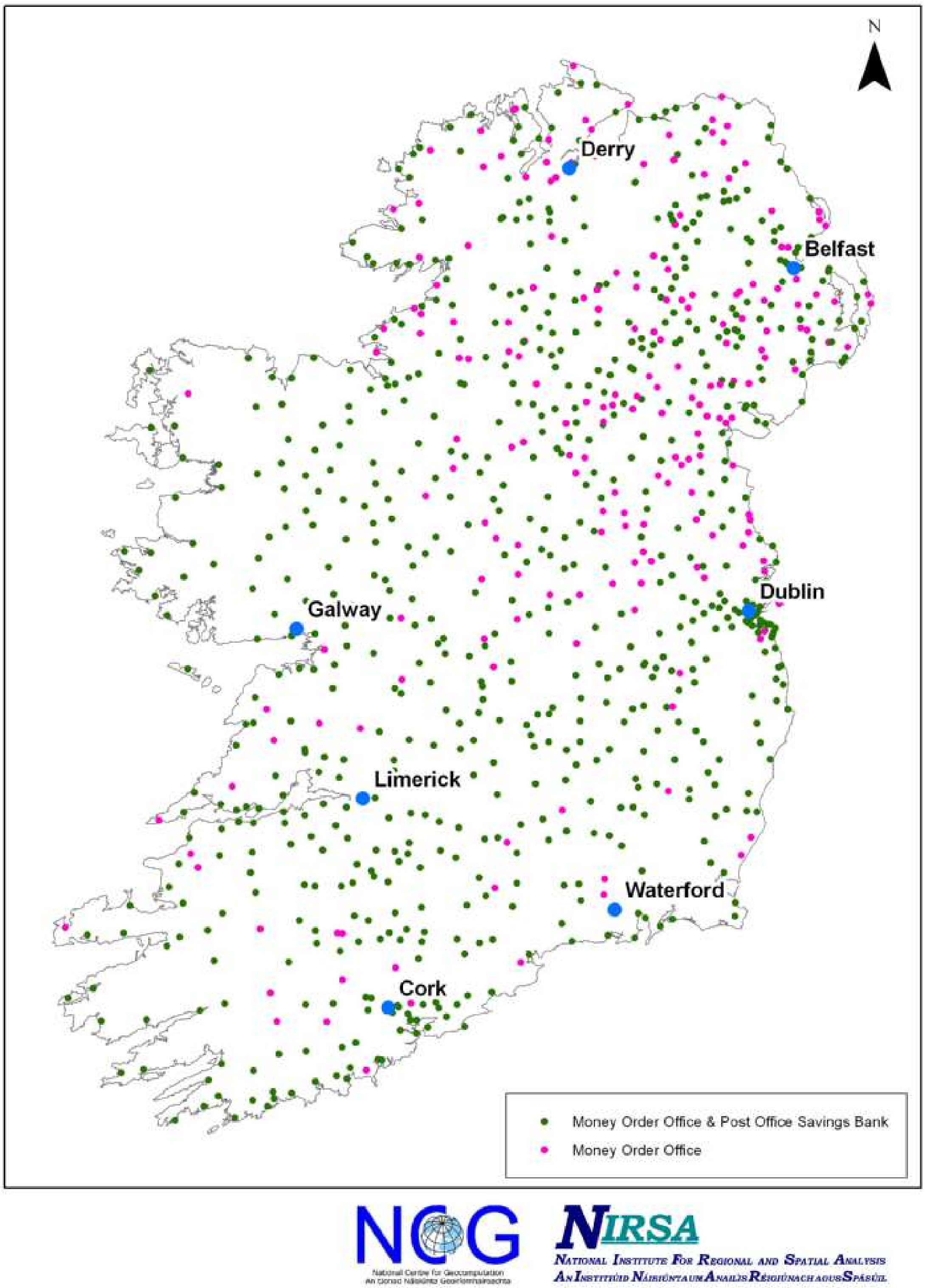
Map 8.7

Post Office Money Order Offices and Post Office Savings Banks, c. 1891



Map 8.8

Post Office Money Order Offices and Post Office Savings Banks, c. 1901



Map 8.9

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A: PRIMARY SOURCES

1. Legislation
2. Collections of private papers (manuscript)
3. Published collections of private papers
4. Newspapers and directories
5. Contemporary periodicals
6. Articles in contemporary publications
7. Memoirs and histories written by contemporaries
8. Publications of voluntary institutions
9. Official publications
10. Works of reference

B: SECONDARY SOURCES

1. General Histories
2. Special subjects
    a) Books
    b) Articles in periodicals, books
    c) Pamphlets
3. Internet sources

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Friendly Societies archive

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