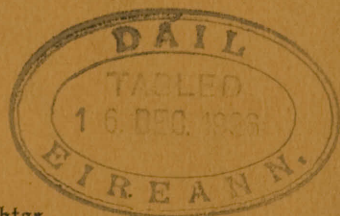


BANKING COMMISSION, 1926.

SECOND, THIRD AND
FOURTH INTERIM REPORTS

ON

AGRICULTURAL CREDIT;
BUSINESS CREDIT; AND PUBLIC
FINANCE.



Presented to Both Houses of the Oireachtas.

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Banking Commission.*

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BANKING COMMISSION.

WARRANT OF APPOINTMENT AND TERMS OF REFERENCE.

The Minister for Finance hereby APPOINTS A COMMISSION to consider and to report to him what changes, if any, in the law relative to Banking and note issue are necessary or desirable, regard being had to the altered circumstances arising from the establishment of Saorstát Éireann.

The Commission will consist of the following :—

Professor HENRY PARKER-WILLIS of Columbia University, U.S.A., Chairman.

Senator ANDREW JAMESON, Director of the Bank of Ireland.

J. J. O'CONNELL, Esq., Director of the National Bank.

FRANCIS J. LILLIS, Esq., Director of the Munster and Leinster Bank.

LIONEL SMITH-GORDON, Esq., Managing Director of the Industrial Trust Company of Ireland.

C. A. B. CAMPION, Esq., late of the Commonwealth Bank of Australia.

R. K. L. GALLOWAY, Esq., Director of the Ulster Bank.

J. J. McELLIGOTT, Esq., Department of Finance.

J. L. LYND, Esq., of the Department of Finance is appointed to act as Secretary to the Commission.

Given under the Seal of the Minister for Finance, this
8th day of March, 1926.

(Signed)

L.S.

SEOSAMH UA BRAONAIN.

*Secretary of the Department of
Finance.*

BANKING COMMISSION.

SECOND INTERIM REPORT.

To

The Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin.

Agricultural Credit.

In the First Interim Report of the Banking Commission transmitted to you on April 17th, attention was called to the fact that the Commission had early in its discussions recognised several different branches of investigation which might be treated separately. That Report dealt with the most pressing of these topics; banking and currency. The present or Second Interim Report is intended to deal with a second :—Agricultural Credit. In analysing this subject the Commission has made full use of the findings of the Departmental Committee on Agricultural Credit in Ireland (1914) and of the Reports of the Commission on Agriculture (1922-23); while it has also investigated the subject directly, and has heard a considerable number of witnesses partly before a Committee and partly before the full Commission. Much additional testimony has been received in written form, and individual members have also devoted time to special inquiries.

By Agricultural Credit is meant ordinarily that type of monetary accommodation which is designed to assist the farmer in carrying out agricultural operations. These operations, as in the case of other kinds of business enterprise, may be classified under two main headings—the acquisition and development of the productive capital, including the necessary working capital; and the provision of adequate and properly financed machinery of marketing. In this report attention will be given first of all to the question of means for furnishing the basic or productive capital required by the farmer. Later in the report brief attention will also be given to marketing.

1. *Purchase and ownership of land* :—

In Saorstát Eireann there has been for many years continuous discussion of the question of land ownership and transfer. The subject has received a degree of attention and public study probably not exceeded in any other country. As a result, there has grown up an extensive system of legislation designed for the purpose of passing the land of the country into the hands of actual owners or cultivators, of assuring them of the permanency

of their ownership or tenure, and of enabling them to pay off on easy terms the obligation which they have incurred in connection with the acquisition of the soil; thus providing them with what the business man would ordinarily describe as his "plant" or "capital." We may refer specially to the following Acts in which provision is expressly made for this reform of land tenure and for financing it; and we note with satisfaction that there is in Saorstát Eireann to-day no reason whatever why an industrious man should not become the proprietor of land, when available, upon comparatively easy terms of payment, and under conditions which will enable him to become the absolute owner of the soil as the result of saving extended over a series of years:—

Landlord and Tenant Acts, 1870 and 1872.

Land Law (Ireland) Act, 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.

After careful consideration we are of the opinion that there is to-day in the Saorstát no reason whatever for any new plan or provision designed to furnish the buyer or owner of land with credit for, or means of financing, his purchase. This is true not only of those who buy with the aid of advances from the State but also of those who are required to produce capital from private sources to purchase land. These requirements are now well provided for and accordingly call for no attention on our part.

2. *Bank Lending.*

In addition, in cases where an owner of land has bought from or sold to another on a basis of instalment payments or annuities, our investigation leads us to believe that ample resources are to-day available and are readily supplied by the Banks. There seems to be no reason to doubt that the Banks are quite able and willing to finance such transactions by the provision of loans on reasonably satisfactory terms. This view does not rest entirely upon our own investigation or opinion, but is amply borne out by the earlier conclusions arrived at by the Departmental Committee on Agricultural Credit in Ireland above mentioned. We may refer especially in this connection to Section 1, paragraphs 32 to 101, and also to Section 8, paragraphs 652 to 687. From a study of these Sections, it appears clear that, except for the smallest farmers, the provision made for loans upon land for purposes here under discussion was apparently adequate to the

conditions existing at that time. Since then, much more extensive provision has been made for the acquisition of titles and the financing of land purchase obligations, so that the generally favourable conclusion reached by the Departmental Committee of 1914 would unquestionably be very much emphasised, if that Committee were in existence to-day.

The Commission is of the opinion that there is no need for any further legislation at the present time looking to the more extended or more easy financing of purchase operations by would-be owners of the land.

3. *Building Loans.*

Somewhat apart from the question of Agricultural Credit of the long term variety designed to bring about individual ownership of land is the question of credit or loan funds designed to provide for buildings and permanent improvements or for other facilities. This subject, like that of land ownership, has also had a very substantial amount of study from the Government in the past, with the result that there exists to-day on the Statute Books a considerable amount of legislation regarding it. The following list of Acts relating to this subject will furnish detailed support of the statement just made :—

The Congested Districts Board Acts comprising,
 Land Purchase Act, 1891, Part II;
 Public Works Loans Act, 1892, Section 4;
 The Congested Districts Board Acts, 1893 and 1894;
 Land Act, 1896, Part IV;
 The Congested Districts Board Acts, 1899 and 1901;
 Land Act, 1903, Part II; and Land Act, 1909, Part III;
 and part of the Land Law (Commission) Act, 1923.
 Labourers Acts, 1883 to 1919, etc.
 Miscellaneous provisions in other Acts already cited.

We do not, of course, regard the present system of loans for building and permanent improvements as by any means perfect. We think that, despite recent attempts at improvement, it is still costly, and characterised by an unnecessary amount of bureaucratic formality. We recommend that the system be reviewed with a view to eliminating its administrative faults, but we feel that, when due recognition has been given to this aspect of the case, the plan it represents is likely to provide practically everything in the way of general public aid that is called for, so far as the Joint Stock Banks themselves do not individually provide it, to solvent borrowers who are sufficiently able to finance themselves.

4. *Position of the large Farmer.*

In addition thus to recognising the reasonably satisfactory character of the legislation now in existence relating to the pur-

chase of land, and the improvement of holdings by the construction of buildings, etc., we are of the opinion that the large farmer—meaning by that term the farmer who owns and operates 200 acres or more—is on the whole fairly well provided for by existing banking machinery. The Departmental Committee was of the opinion in 1914 that the Joint Stock Banks were better adapted to the needs of the large farmer and were far better able to assist him than they were to provide for the smaller cultivator. There has been no material change in this regard during the past 12 years except that as time has gone on the Joint Stock Banks have naturally tended to become more and more efficient and better adapted to the task of financing the larger customer, whoever he may be. There may be, and undoubtedly are, cases of hardship or insufficiency of banking credit and accommodation, in which even the large farmer desiring to borrow fails to obtain his just requirements, or to secure sufficient credit to enable him to obtain the best results. Isolated instances of this kind are almost inevitable in any country, but in the main we are satisfied, as already stated, that the needs of the large farmer are fairly well met.

5. *Needs of the Majority.*

But the majority of Irish farmers are not “large” in the sense already defined. The Minister for Agriculture states to us that “there are about 300,000 landholders holding more than one acre of whom about 9,000 hold more than 200 statute acres and about 2,000 hold more than 500 acres. Of the farmers who hold less than 200 acres between one-third and one-fourth would own, say about 15 acres of fair land, and the average holding of the remaining two-thirds or three-fourths would be between 30 and 50 acres.” It was the opinion of the Departmental Committee that the credit requirements of these smaller farmers were not adequately provided for by existing machinery, and that they were very often quite unable to obtain the funds they needed, or at all events to obtain them at rates which would enable them to use the proceeds of such loans to advantage. This was partly due to the high cost of small advances referred to, and partly to other elements in the situation. The position as it stood in 1914 has not been materially altered. Whatever the cause may be, a large percentage of the agricultural population of the Saorstát on the smaller holdings is not now fully provided for through ordinary banking machinery, or finds such machinery too costly, or by the Government credit facilities, and must seek support elsewhere. While in some measure the requirements of these small farmers are being met by the co-operative movement they are by no means thus fully financed. There exists also in many parts of the country a special type of requirement or need particularly affecting small farmers, which grows out of the fact that epidemics of disease reducing the amount of stock on the land, or other

temporary and sporadic causes of disaster or suffering, have made themselves felt.

6. *Agricultural Enterprise.*

In addition to the individual farmer or cultivator there are in existence a substantial number of agricultural enterprises best typified perhaps by the Co-operative Creameries. These are undertakings which are in many respects to be classed rather as an industrial than as an agricultural type of organisation, but which, by reason of their close relationship to the agricultural population, must be thought of distinctively as farm enterprises. Hence we must consider them in any study of agricultural credit. To these the Commission has therefore thought necessary to devote a substantial amount of attention. Allied with these creameries are in many cases Co-operative Trading Societies, which operate a number of stores or shops, in which the individual farmer is able to supply his needs for sundry essential commodities. Co-operative organisations for the marketing of poultry and eggs are also more or less numerous. It may thus be stated that in addition to his agricultural operations the Irish farmer has developed a considerable organisation for production, which is typified by some 350 co-operative creameries and by a considerable number of marketing organisations. While these co-operative societies and organisations of various kinds differ somewhat among themselves, we find that in a large number of cases they are either unable or indisposed to furnish the capital they require, except in small part. In a good many cases the banks have furnished such capital, and in not a few found the business thus developed profitable and satisfactory. It is the testimony of competent bankers in such cases that upward of ten years is required to enable the banker to recover out of profits the capital which he has advanced to a co-operative creamery or other institution of a similar sort. He is naturally warranted in regarding such operations as being in no sense banking loans in the strict use of the term, although it is to be stated that the banks are now carrying a considerable number of such loans on their books. But any survey of Irish agriculture will show that the amount of capital which is thus devoted to agricultural enterprises is insufficient; and any consideration of banking from the scientific standpoint will show that the banks ought not to be called upon, even if willing, to make a great increase in the amount of long term funds which they provide for agriculture without any prospect of getting back the moneys which they have thus advanced, except over a long period running probably to ten years or even more.

7. *Co-operative Credit Societies.*

It is not necessary to enlarge upon the banking organisation of the country or to enquire into its general adequacy or sufficiency. On this subject we refer to the Report of the Agri-

cultural Committee of 1914, which affords an excellent and thorough survey of available banking machinery and points out its merits and defects from the standpoint of the farmer. For the purpose of such a survey we may make special reference to Sections I.-VII. and particularly to page 37. It is, however, well to make special reference also to one element in the existing banking mechanism of the country, namely, the Co-operative Credit Societies, which have been organised for the purpose of affording a means of obtaining credit suitable to the requirements of those whose unit of loan is so small as not to be acceptable to the ordinary bank, or whose available security would be unsatisfactory to such an institution. While the general organisation of these Co-operative Societies is undoubtedly familiar, we may quote from the Report of 1914 the following passage which is as applicable in principle to-day as at the time it was written, and which furnishes a general statement of the basis of these associations :—

“ The following extract from a Memorandum issued by the I.A.O.S. some years ago sets out the main principles of the constitution and procedure of the Irish Raiffeisen Societies :—

“ (1) The area of the Society is limited so that all its members may be acquainted with each other.

“ (2) Loans are made for productive or economical purposes only—the object being to enable the borrower to realise a profit, or effect an economy, which will enable him of itself to repay the money borrowed.

“ (3) The period for which the loan is granted is regulated by the object of the loan, and is always calculated to fulfil this condition.

“ (4) Applicants for admission are admitted to membership if known to be sober, honest and industrious. Poverty, so long as it does not result from the absence of these qualities, is no bar to membership.

“ (5) Members on admission become jointly and severally liable for all the debts of the bank, i.e., for loans granted to themselves or other members, and for all sums of money either deposited in or lent to the bank for the purpose of being re-lent to its members.

“ (6) Borrowers must comply with the following conditions :—

(a) They must be members.

(b) The purpose for which the loan is required must be stated, also the term for which the loan is granted.

(c) They must find two sureties who will join them in a Bond guaranteeing the repayment of the loan and interest thereon, and who will further bind themselves to repay the loan in the event of its misapplication.

“ (7) The management of the bank is vested in a chairman and a committee elected by the members.

“ (8) No profits earned by the bank may be divided among its members by way of bonus or dividend, or otherwise disposed of; they must be allowed to accumulate as a reserve fund, which may be used to augment the capital of the society, and which, being free of interest, will in time enable the society to reduce the rate of interest charged to borrowers.

“ (9) While provision has been made for payment of secretaries, voluntary service is the almost invariable rule, the office of Secretary being discharged in the majority of cases by National teachers, and sometimes by the local clergy. Where payment is made for such services it is, as a rule, merely nominal.

“ (10) The usual rates of interest on loans are from 5 per cent. to 6½ per cent. Interest is generally regulated by the rate at which capital can be obtained, a margin of about 2 per cent. between the rate of interest paid by the bank and that charged by it to borrowers being usually aimed at. Thus, if a Bank borrows at 3 per cent., it will lend at 5 per cent.

“ (11) Capital is derived mainly from three sources :—

- (a) From the joint stock banks, which grant advances in the form of overdrafts at a fixed rate of 4 per cent., irrespective of the fluctuations of the bank rate.
- (b) From individuals who deposit cash, at rates varying from 3 to 4 per cent.
- (c) From the Department of Agriculture, or the Congested Districts Board, for limited sums varying from £50 to £150 and, in a few cases, £200, at 3 per cent.

“ (12) These societies are registered under the Friendly Societies Act, and are described as ‘ Specially Authorised Societies.’ The power to borrow capital from sources outside their own membership was conferred upon them by the ‘ Societies Borrowing Powers Act,’ promoted by Sir Horace Plunkett.

“ (13) Their accounts are audited annually—in the case of about 80 per cent. of them—by the audit staff of the I.A.O.S., which is under the supervision of a Public Auditor who holds his appointment from the Treasury. Returns, embodying the particulars contained in their balance sheets, are furnished by each bank to the Registrar of Friendly Societies in accordance with the Act. The minimum fee for an audit of the accounts of one of these societies by an independent Public Auditor would be £1 1s. The I.A.O.S. merely charges a nominal audit fee, and bears the entire expense in such cases where the society is unable to pay anything.

“(14) Their accounts are open to inspection by any person or body having an interest in their funds, e.g., the Department or the Congested Districts Board.

“(15) In so far as its limited resources permit, the I.A.O.S. periodically inspects, instructs and advises these societies. At the formation of every such society, the I.A.O.S. organises, advises and instructs the Committee and Secretary in their duties, and printed instructions in a simple but suitable system of book-keeping are issued for their guidance. The I.A.O.S., moreover, supplies these societies with Rules and all necessary books and forms at cost price. The societies are encouraged to refer any questions in which they are in doubt to the office of the I.A.O.S., and a heavy correspondence, which is always promptly dealt with, results. Where a reply by letter does not appear adequate, a competent organiser is sent.”

“ SIR HORACE PLUNKETT'S DESCRIPTION OF THE AIMS OF CREDIT SOCIETIES.

The following is a description by Sir Horace Plunkett of the aims and *modus operandi* of these Credit Societies :—

“ 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. The constitution of these bodies, which can, of course, be described only in broad outline here, is somewhat startling. They have no subscribed capital, but every member is liable for the entire debts of the association. Consequently the association takes good care to admit men of approved character and capacity only.

“ It starts by borrowing a sum of money on the joint and several security of its members. A member wishing to borrow from the association is not required to give tangible security, but must bring two sureties. He fills up an application form which states, among other things, what he wants the money for. The rules provide—and this is the salient feature of the system—that a loan shall be made for a productive purpose only, that is, a purpose which, in the judgment of the other members of the association as represented by a Committee democratically elected from among themselves, will enable the borrower to repay the loan out of the results of the use made of the money lent.

“ Raiffeisen held, and our experience in Ireland has fully confirmed his opinion, that in the poorest communities there is a perfectly safe basis of security in the honesty and industry of its members. This security is not valuable to the ordinary commercial lender, such as the local joint stock bank. Even if such lenders had the intimate knowledge possessed by the committee of one of these associations as to the character and capacity of

the borrower, they would not be able to satisfy themselves that the loan was required for a really productive purpose, nor would they be able to see that it was properly applied to the stipulated object. One of the rules of the co-operative banks provides for the expulsion of a member who does not apply the money to the agreed productive purpose. But although these 'Banks' are almost invariably situated in very poor districts, there has been no necessity to put this rule in force in a single instance. Social influences seem to be quite sufficient to secure obedience to the association's laws."

8. *Present Credit Situation.*

Having thus briefly sketched the character of the problem of agricultural credit, which has presented itself to this Commission and which may be briefly defined as a necessity for machinery or arrangements which will meet the credit requirements of the small agricultural producer, and provide for the capital requirements of joint agricultural enterprises, with incidental provision for the needs of other elements in the community, we think it worth while to give brief attention to the actual credit situation in Saorstát Eireann at the present moment. Let it be stated at the outset that we have met with the most conflicting statements of opinion as regards the actual basis of this credit situation. On the one hand, we are advised by bankers in whose judgment and sincerity we have absolute confidence that they know of no case in which a reasonable application on the part of the farmer or the farm enterprise for credit has been refused, and that the banks are at present sedulously careful not to put any undue pressure upon the farmer for the repayment of the advances he has already received. One large bank asserts that the farmer has as much credit as he ever had, and that to-day 24 per cent. of all farm bills are overdue as compared with 11 per cent. in 1920. On the other hand, we are advised by farmers and farm interests that the banks at the present time are extremely reluctant to advance any more funds in aid of agriculture, and particularly reluctant to advance such funds upon the security of land, while we are also assured that they are unduly meticulous in their demand for liquid security, insisting upon the giving of short dated bills accompanied by an unnecessary number of personal sureties, and that there is constant pressure from bank managers for the reduction of the principal sum of loans which in themselves are not and cannot be substantially reducible for a considerable time, and which the banker himself must have known, when he made them, could not be early lessened. We are assured by bankers in whom we have the utmost confidence that the published rates of the joint stock banks are rigidly adhered to, and that it is rarely indeed a farmer is called upon to pay more than 6 or 6½ per cent. for his advances. On the other hand, we are assured by farmers and farm representatives that they are

obliged frequently to pay as high as 10 or 15 per cent. for their accommodation, and that they find themselves oppressed by excessive rates of interest and charges. Strange as it may seem we have found it possible to accept in good faith all of these conflicting statements as being absolutely within the truth. The high rates paid by the farmer at the present time undoubtedly exist. They are not paid directly to the banks, but they consist in part of incidental expenses which he must incur in obtaining his co-signors—expenses which must naturally be added to his 6 or $6\frac{1}{2}$ per cent. of bank interest in estimating the actual cost of the money to him. Since under existing practice Irish banks deem it necessary to maintain the banking convention of short term paper running three months or a little longer, the farmer must repeat the process of obtaining endorsement or guarantee at quarterly intervals with corresponding cost to himself. It is undoubtedly true that the banks of the country are desirous of finding employment for their funds at as good rates as possible, and that any well secured and safe loan to a farmer can be obtained from them. They are, however, naturally indisposed to attempt new or untried projects, or to advance money under conditions which either do not protect their depositors sufficiently, or which cause undue expense and annoyance to the personnel of the bank, thereby affecting the profitableness of the undertaking. All this is no necessary criticism upon the banks themselves, but is merely a statement that since they are organised as deposit banks they are charged with a certain kind of responsibility; and it is their primary duty to discharge that responsibility. They are, moreover, concerned with the shareholders' demand for a profit, and, like other private enterprises, they naturally feel it a duty to promote the interests of their owners to the utmost degree that is honourably possible. Irish banks, like banks in other countries, undoubtedly made unduly heavy loans to farmers and farm interests during the inflation period after the war. At that time land values were high and rising, and there was a prevailing belief all over the world that they would be maintained. Since then they have in many cases shrunk by 50 per cent., and bank loans which in 1920 appeared to be protected by ample margin are now of questionable value. Certainly many such loans can be paid off only slowly, or, in other words, they have assumed a "frozen" character. That banks in such cases should be reluctant to increase their commitments on land or the security thereof is natural. That in such cases the farmer who desires to borrow upon what he considers good security should feel that the banks are unduly conservative or restrictive is equally natural. The fact remains that at the present time there is, in our opinion, a tendency towards extreme deflation in agriculture, and at the moment instead of drawing capital out of agriculture there is the need rather for the addition of new capital. We make the latter statement because of the well-known fact which has been convincingly

demonstrated to us that Irish farmers, like others, were during the war tempted by high prices to realise to a rather undue extent upon their stock and working capital, and thus depleted their productive resources. These they now find it essential to restore, but in a good many cases they either have not been able to retain the money which they realised through the sale of their property during the inflation years, or they have invested it in Stock Exchange securities, or placed it with the banks and are themselves as reluctant as the latter to let it go back into agriculture. Be the cause what it may, the fact remains that at the present time there is an inadequate supply of private capital or bank loans available for agricultural purposes in general; and this unfortunate position coincides with a time when the reorganisation of Irish agriculture has placed many men upon new holdings where they must provide the capital and equipment with which to make these holdings as productive as they should be. All this creates a situation which, in our opinion, calls for new measures specially designed to relieve existing difficulties, and later to furnish the basis of a permanent system of safe investment in Irish agriculture upon a footing which will leave the capital in use and will not require its constant turnover. Such a new system will, we believe, be as beneficial to the country at large and to the banks themselves as it will be to the farmer. It should relieve the banks of any undue pressure from the community for loans of a kind which they do not believe are in the best sense short-term banking accommodation, while it should enable the community to obtain funds for capital purposes without being subject to the constant requirement that they provide for early liquidation.

9. *How Can Situation be Improved?*

We believe that the needs of the present situation can be most effectively met by establishing an institution whose duty shall be, first of all, to finance the needs of Agricultural Co-operative Societies and enterprises. To this end we recommend the establishment of a central institution, for which we propose the name "Agricultural Credit Corporation," whose duty it shall be to obtain from the public the funds needed for agriculture and to lend those funds for agricultural undertakings. We think that this institution should be primarily designed to promote the co-operative movement. With that end in view, we recommend the following basic functions:—

(a) The institution should lend to co-operative credit societies the amounts that these societies legitimately need for the purposes of their membership. In effect this would be a re-discount function since the societies themselves are already lenders. Such a society, when in its most perfect form of course, obtains from those members who have saved money the funds which are

needed by other members who require accommodation. But there are comparatively few groups of farmers in which this perfect balance is found and, consequently, it is frequently true that a co-operative credit society must borrow the funds which it needs for its members' requirements. It then becomes in effect a plan whereby a number of users of capital become jointly responsible for all its advances to them individually. Such obligations are ordinarily not best placed with a bank, but we believe should be taken over by the central organisation or Agricultural Credit Corporation already suggested.

(b) Conversely, we recommend that all such credit societies, and indeed all co-operative organisations recognised by law, shall be required to deposit the major portion of their funds with a central institution. The effect of this system would be to place the savings of those concerns which are in funds at the service of those which need to borrow. In other words, the principle of co-operation in borrowing and lending would be applied upon a national scale instead of locally. It may well be that such co-operative organisations will need to maintain local bank accounts of nominal amount, but the major portion of their funds should be deposited with a central institution, and it should be given the general power of control over their relations with banks.

(c) In addition to the re-discount and re-deposit functions already sketched above, the central organisation should make direct loans to co-operative creameries and to co-operative enterprises generally, including both those of a productive and those of a marketing variety. Loans so made should be for any legitimate purpose which will result in increasing the productiveness of the land or the income of the farmer and should be carefully investigated in ways that will be hereinafter indicated.

(d) Besides thus lending direct to co-operative enterprises, we think the central agricultural organisation should be authorised at its discretion to deal directly with farmers. While it should undoubtedly endeavour to promote co-operative associations on the local basis, both for its own protection and because the principle of co-operation is beneficial in agriculture, we believe that the present situation in Sarostát Eireann is such that the proposed institution may do much good in individual cases by making direct loans for farm purposes and by taking over loans which at the present time are unsatisfactorily placed.

(e) As a further development of this latter function, we believe that the proposed institution should be specially authorised to take over or re-discount loans which have already been made to farmers or farm interests, and this for two purposes:—first, in order that any outstanding conditions of friction or dissatisfaction as between the banker and the farmer may be brought to a close by enabling the latter to transfer his loan if he so desires; and,

secondly, in order to enable any bank which so desires to obtain liquidation of long term loans. It should be carefully observed that, in the event of such transfer, the new institution would expect those who are already responsible for the loan to continue to guarantee it, unless, of course, some basis of adjustment could be found which would make it possible to effect a release. The new institution could obviously not undertake to assume any responsibility for losses possibly resulting from unwise loans heretofore made. It is proper to say at this point that in such cases as are here contemplated arrangements should, and no doubt usually would, be made for the continued management of details relating to the supervision of the loan by the bank which had originally made the local advance.

10. *Competition with Existing Banks.*

An institution such as has been recommended should not in any undue way be permitted to compete with existing banks. On the contrary, it should endeavour to strengthen the banks and to make their operations more secure and more liquid. The effect of its existence, if successful, should be a material aid to the banking system, and should promote the prosperity of banking institutions. The proposed institution should undoubtedly have the power of buying in open market bills and notes and of selling the same, but only to the extent that is incidental to its agricultural business. It should not undertake to interfere with the commercial business of the banks, nor should it, if the latter institutions find themselves able to enter the agricultural field, object to their doing so. On the contrary, it should regard such action on the part of the banks as a desirable supplement to its own effort. That the banks themselves should, with the aid of such an institution, endeavour to transfer to it all long term or capital requirement loans would seem to be the dictate of banking prudence, and should this type of adjustment be arrived at, there would be a desirable, although informal, division of field between the banks and the agricultural lending institution, whereby the latter would assume responsibility for all their long term or capital advances, while the banks would more and more confine themselves to a more strictly short term field. The matter is of such importance that we think it well to repeat that our conception of this institution is that it should act as an assistance to the banking organisation of the country, and that the result of its operations should be the strengthening of banking enterprise. We do not think of it as a competitor of the banks in any sense, although it is doubtless true that many loans of a long term nature, which are now being carried by the banks, will and should be transferred to the new enterprise, such transfer being in the interests of the banks quite as much as in that of the farmer.

11. *Government Responsibility.*

We have devoted serious attention to the question whether it is possible to obtain the capital for such an institution by merely offering it to the public in the belief that it will be subscribed and that the shareholders will take their chance of profit. It is the opinion of experienced bankers, whom we have consulted, that the nature of the enterprise is too new and unfamiliar to permit a reasonable expectation of such subscription. We, therefore, recommend that the Government should guarantee the capital and a moderate rate of interest thereon, and that the capital should be set at a sum which we have tentatively estimated at £500,000 sterling, to be issued as required, one-half paid up and one-half subject to call in instalments. We think that the capital thus provided should be offered to the public first of all, as we believe that it is more wholesome that the shares should be owned by a widely-distributed body of stockholders. We believe that the offer should be made generally throughout the country and should be widely brought to the notice of possible buyers. A suitable prospectus should be prepared descriptive of the enterprise and stating the character of its intended management, and a deliberate effort should be made to bring it to the attention of all those interested in the promotion of agriculture. On the basis of such effort and with the Government guarantee of moderate income, which we have referred to, it does not seem unreasonable to hope that the funds might be provided by popular subscription. If, however, they are not so provided within a reasonable period we think that the necessary capital should be furnished by the Government and the banks acting jointly upon a satisfactory basis. We need hardly say that the Board of Directors of the proposed undertaking should be thoroughly competent and representative, of outstanding reputation, including several members of trained banking experience. No director in his personal capacity should be permitted to borrow either directly or indirectly from the undertaking. The new enterprise, having had its capital definitely subscribed, should then be organised and started with a competent Board and staff, and should at once proceed to take over the business of the co-operative societies, to which reference has been made in an earlier section, and to develop such other business as it may obtain through active presentation of its aims and possibilities. Its efforts should be to place at the disposal of enterprising and able Irish farmers such assistance as they can obtain through the wise and conservative application of new capital to land. Ireland is an agricultural country, in which about 80 per cent. of the people are dependent directly or indirectly on the productive power of the soil. The maintenance of this productive power lies predominantly in the hands of small holders, and any measure which can be taken to increase the productivity of small holdings is of vital national significance. The Government

has taken the important preliminary step of converting practically all tenant farmers into landowners, subject to small annuities. The benefits of this measure, on which a great deal of money has been and will be spent, will, however, be largely lost unless the small landowners, thus created, are enabled to work their holdings to the best advantage. The new enterprise should seek to enable them to do this.

12. *Business Education of the Farmer.*

Success in its effort will obviously not be obtained by reckless loans, speculative undertakings or schemes designed to enable the agricultural "plunger" to skim off a profit. It will be attained by providing the capable farmer with all the funds that he reasonably needs for the purpose of making his farm give in return a better income, leaving him in the undisturbed possession of these funds as long as he is able to show that there is an economic use for them on the land. As things stand to-day, the Irish farmer is undoubtedly ultra-conservative in his methods and needs guidance and assistance in the development of his agricultural effort. Such guidance is being ably furnished by the Government through the Ministry of Agriculture. We wish specially to commend the work of the Agricultural Instructors. With their direct co-operation and supervision it will be possible for the new institution both to assure itself of safety in its advances and at the same time to stimulate the farmer to use new capital in the development of his land by methods which might otherwise seem to him hazardous or risky or unnecessary merely because he is unfamiliar with what is being done elsewhere under similar conditions and is inclined to plod along in a familiar rut without attempting to get out of it. A large and vigorous development of education along the wise lines which have already been happily undertaken is thus an essential element in the success of the plan which we are here recommending.

13. *Amount of Capital Needed.*

The Commission has devoted much time to the question how much capital is actually needed in this process of assisting Irish agriculture. It seems best to state frankly that we do not know how much is needed, and that the statements which we have received on this subject are so vague and conflicting that we do not presume to hazard a guess. Fortunately, although desirable, it is not altogether necessary to frame any such estimate. According to the official figures the acreage under crops in Saorstát Eireann for the year 1925 was about 3,836,000, and for the year 1924, 3,920,000. If we say that in round numbers the normal acreage of Saorstát Eireann devoted to agricultural crops is about four million acres we shall be substantially correct. We have no doubt, and those whom we have consulted do not hesi-

tate to say, that one pound sterling per acre applied to the improvement of this four million acreage would be an extremely moderate estimate of the sum which could to advantage be used in the Saorstát in improving the genuine productivity of the soil.

We do not wish it to be inferred that this is the sum total of the requirements of Irish agriculture in the matter of additional working capital. Such an inference would be quite erroneous. We have, as already stated, no data for defining precisely what these requirements are, but as reinforcing our argument that they exist and are very considerable, we may quote the following from the Report on Agricultural Credit recently issued by the Ministry of Agriculture and Fisheries of Great Britain, page 13, paragraph 23 :—“ Before the war, it was commonly considered that a farmer should possess working capital for ordinary purposes amounting to about £10 per acre. At the present time the corresponding figure is about £15 per acre.” We do not think that it can be contended that the average working capital at the disposal of farmers in Saorstát Eireann is anything like the figure of £15 here mentioned, though the higher percentage of tillage in Great Britain naturally calls for a greater amount of such capital.

In order to get this sum or anything like it for an institution, whose paid-up capital would be £250,000 sterling, the development of a very definite method of financing is called for. To this end we recommend the same method which has been employed in other countries—that of the issue of debentures or bonds based upon the assets of the agricultural institution. Briefly stated, the method suggested would be this : Whenever the Agricultural Credit Corporation had used up practically all its capital funds it would be authorised to issue bonds or debentures either upon its own general credit or else secured by assets of a specific character placed in the hands of trustees for the protection of the bondholders. In these circumstances it would issue and sell to the public bonds or debentures which would in effect be a claim upon its general assets or upon specifically pledged assets, so that the holder would be protected, first, by the obligation of the institution in general, and, second, by a segregation of assets for his particular benefit. Suppose, for example, that the Agricultural Credit Corporation lent £200,000 sterling against the obligations of co-operative creameries secured by the title to the buildings and machinery of these creameries and by the endorsement of the committees of management of such creameries, it would have been put in position to issue £200,000 of Credit Corporation creamery debentures, and the purchaser of each of these debentures would become a part owner in the underlying obligation of the creameries secured by corresponding lien upon plant and equipment. The satisfactory quality of his security would thus depend upon the general success of the Irish butter industry, or that part of it which is represented by the creameries whose

security he purchased. If these creameries were well selected and carefully distributed throughout the country, and loans were wisely made to sound and solvent institutions, this debenture ought to be a very satisfactory investment. The question whether it could actually be sold to the public is, however, a matter as to which experienced bankers express doubt, such doubt being due to their belief that the conservatism of the Irish investor is such that he would not be willing to hazard his funds in a new and untried enterprise of this sort. In order to give the undertaking the necessary impetus at the outset, we recommend that these debentures, when issued, shall be guaranteed by the Government to an amount not exceeding one million pounds sterling in any one year, unless the amount be increased by special direction of the Oireachtas, the latter body, of course, being in a position to suspend a further issue of guaranteed securities whenever, in its judgment, additional obligations ought not to be so guaranteed. Here again the question of Government support for agricultural credit will naturally be raised. The Commission regard such support as an unfortunate necessity, but one which has had to be faced in other countries, even in the United States, where abundance of loan capital exists, and where, if anywhere, farm credit should have been able to sustain itself unaided. In undertaking such a plan as is here proposed, therefore, the Saorstát will not commit itself to anything heterodox in the realms of finance, or to a scheme unknown or untried in other parts of the world, but will be following a well marked and beaten path.

14. *Strengthening Co-operation.*

Even with the fullest measure of assistance from the Government in the form of agricultural education, and even with the provision of abundant capital by the means already indicated, it is not likely that complete success can be attained by any such institution as we have recommended without the development of a strong, satisfactory, supporting mechanism. What that must be needs now to be discussed. Fundamentally it must be that of the co-operative societies, since it is chiefly through these that the central body will be able actually to come into contact with the farming community. In recent years various co-operative institutions throughout Saorstát Eireann have been somewhat loosely conducted, and in some cases failure or breakdown has taken place as a result of inefficiency or dishonesty. In all co-operative organisations an essential is the presence of an active, vigorous manager who is willing to give to the enterprise the time and effort necessary to make it a success. Unfortunately, men of the highest type are not more common in co-operative organisations than elsewhere, and consequently such organisations need constant inspection and examination. Such supporting supervision has been furnished in the past by the Irish Agricultural Organisation Society, and we believe that great assist-

ance may be rendered by that institution in the future. We think that the Agricultural Credit Corporation, which we have recommended, should co-operate closely with the Irish Agricultural Organisation Society, and that it may well require a co-operative association, which desires to obtain funds from it, to submit a certified statement furnished by Inspector of the Organisation Society and attesting its satisfactory management. It would probably not be wise to make the certificate of the Irish Agricultural Organisation Society an absolute essential or prerequisite to the granting of credit by the Corporation, or to preclude the latter institution from making its own inspections or examinations in its own way wherever thought fit, either through its own representatives or through certified accountants of standing, or otherwise. But the Irish Agricultural Organisation Society may be of great service in contributing to the efficient management of the Credit Corporation, and we think that every effort should be made to enlist and retain its assistance in this connection. We are informed also that the Ministry of Agriculture has under consideration the drafting of a new Co-operative Act which will provide for the proper control, inspection and audit of all types of co-operative societies by a central body. This proposal we heartily approve, and we recommend it as an auxiliary element in the plan which we now put forward. We think this kind of strengthening of the co-operative system in Saorstát Eireann absolutely essential to the success of agricultural loans, such as those which we are seeking to provide. To sum up, therefore, we urge the improvement and strengthening of legislation relating to co-operative societies, and through such legislation, through the efforts of the Agricultural Organisation Society, and through its own staff of Inspectors and Accountants, as well as with the assistance of specially trained outsiders, we recommend that the proposed Agricultural Credit Corporation shall do all that is possible to further the growth of co-operation and co-operative societies, and to insist upon their efficient management and their adoption of businesslike methods, with regularly published statements of accounts and balance-sheets.

15. *Other Credit Measures.*

As has been frequently stated in the early portions of this Report, we do not regard its proposals as in any way competitive with the banks, and we wish not only to emphasise this statement, but also to amplify the recommendations growing out of it. Considerable complaint has been heard as regards the character of the security which the farmer is able to offer at the present time for the protection of short term credit. In what has been said heretofore we have been careful to explain that the recommendations apply primarily to loans made for capital purposes. It is not always easy to separate capital purposes from short term advances, and because of this difficulty there has sprung up in a number of countries a kind of credit to which the term "inter-

mediate" is applied. By "intermediate" credit is ordinarily meant that which is furnished for the production of rather long period crops or for the fattening of cattle. In this field of credit it will probably always be true that the banks will and should play an important part, and that the operations of such a central credit corporation as we have recommended will be more or less secondary, although they should not be excluded. But in order to have the machinery of short term and intermediate credit functions as satisfactory as may be, it would seem desirable to introduce some changes into present legislation as affecting bank security. This subject has been carefully considered by the Ministry of Agriculture and Fisheries of Great Britain, which has recently issued a Report on Agricultural Credit, in which the following analysis of short term credit is offered, with special reference to the fairly long term advances which local tradesmen or storekeepers are in the habit of giving to their customers:—

"The Bill of Sale in this country is the counterpart of the American chattel mortgage, but the publicity attached to it destroys its utility as an instrument of credit. Publicity is fatal to any system of agricultural credit in Great Britain.

"It is therefore proposed:—

"(a) That the machinery of 'short term' credit should be concentrated in the hands of the banks where the cost of credit is known, and where the farmer can escape from the abuses which the tradesmen-credit system often involves. But to make the bank system as fully effective as possible the banks should be empowered to take a charge upon the wealth on the farm.

"(b) That legislation should be enacted enabling a valid charge in the form of a chattel mortgage in favour of the banks, to be given upon certain classes of farm produce (to be defined) ranking in priority to all other charges except those in respect of rent, rates and taxes, and to be used exclusively for the purpose of securing "short term" bank advances to farmers.

"(c) That as an alternative method, the banks should be empowered, instead of taking a specific charge by way of a chattel mortgage on certain defined property, to take a floating charge upon the liquid assets of a farm or of a co-operative marketing society, also ranking in priority to all other charges except those in respect of rent, rates and taxes. This arrangement might be specially applicable in the case of the latter, and might simplify the procedure.

"(d) That a central bankers' register should be established in which these chattel mortgages or floating charges could be registered, open to inspection by the banks,

but not open to inspection by the public. This would protect the banks and avoid the publicity about which the farmer is naturally sensitive.

“(e) That the mortgagor should be left free to dispose of produce which is subject to a chattel mortgage when he wishes, so that he may take full advantage of a favourable market, but that he should be required to notify the bank when he does so, and pay the proceeds to the bank up to the amount of the debt. Penalties sufficient to act as a reasonable deterrent should be prescribed for failure to comply with these conditions.

“The farmer would thereby be offered an inducement to borrow chiefly from the banks and to pay cash to the merchant, taking advantage of the discount for cash usually offered by the latter. The banks on their side would receive a much better security than under the present system.”

We regard these recommendations as being substantially applicable to conditions in Saorstát Éireann and we, therefore, recommend their adoption for the sake both of the banks and of the proposed institution of agricultural credit. We think that both the banks and the central institution would by such an arrangement be enabled with more confidence to make short term advances to farmers for “intermediate” purposes and would thus be placed in a position to accommodate the farmer more liberally as well as more safely.

16. “Moral risk” of Agriculture.

In this connection it seems wise to speak frankly about a question which has been repeatedly urged upon our attention by members of the banking community. As is well-known, Irish banks carry a large proportion of their funds in the form of British Government securities and of other investments in Great Britain. The question has often been asked why they do not invest more freely in loans to Irish enterprise. To this question two answers have been returned:—that it is necessary for the deposit banker to keep a substantial amount of his funds in an immediately realisable form which will enable him to liquidate them in order to meet the demands of his depositor when presented; and that loans made in Ireland at the present time, particularly on the security of agricultural land, are not even as liquid as such loans would be in other countries, because of the fact that foreclosure and sale are frequently out of the question, at least in many districts, due to the refusal of neighbours or residents to allow such land to be sold, or due to a kind of joint boycott carried out by such neighbours, and effectually precluding the getting of any offers for the land when put up for sale. In reply to questions as to whether it is not possible to enlarge the

amount of loans made by banks to farmers, the answer has been specifically made that such a result must be conditional upon the improvement of the "moral risk" of Irish agriculture. There would seem to be a considerable basis of truth in these assertions, and we do not hesitate, therefore, to say that whatever may be necessary in the way of a reform of public opinion on this question ought to be brought about at the earliest possible moment. It must not be overlooked that the farming community itself is in no small measure to blame for whatever reluctance exists on the part of the banks to extend accommodation to those in need of credit who can offer only land as security. There is quite a general feeling in the country that if a bank fails to realise its security it can well put up with the loss. Abortive sales are a matter of common occurrence and the tolerance with which what is tantamount to commercial dishonesty is regarded in rural areas is deserving of the severest censure and condemnation.

The State itself suffers seriously owing to this spirit of evasion of lawful debts as is evidenced by the following figures which we have obtained from the Land Commission, showing the results in the case of sales of farms advertised in certain years from 1912 onwards, the period being from the 1st April to the 31st March in each case.

YEAR.	Advertised for Sale.	Sold.	Settled.	Abortive.	Percentage of abortive sales.
1912-13	82	41	25	16	19.5
1915-16	75	42	27	6	8
1920-21	21	7	5	9	43
1925-26	51	20	2	29	57

The settled cases were settled after a sale which produced no purchaser, but having been settled are not recorded as abortive. Very few cases were put up for sale in 1920-21 and the figures do not accordingly afford a fair comparison with those of other years. Cases were held over in that year as it was realised that it was useless to try and effect a sale. From the table it will be seen that the percentage of abortive sales has recently increased at a somewhat alarming rate. We are aware that from the point of view of the defaulting annuitant many reasons, some of them excellent, may be urged in explanation of the default, but after making all possible allowance for every extenuating factor we are forced to the conclusion that in many cases there exists a strong disinclination to meet just and lawful obligations. This spirit seems to be of comparatively recent growth and, it may be pointed out, is not exceptional to this country. It apparently forms part of the wave of demoralization which has been so marked a feature of the post-war period. The revolutionary struggle that led to the attainment of self-government here has also naturally

had a disturbing effect on the economic position of the farming community, an effect which was further emphasised by the depression in agriculture after the Treaty of 1921, due to low prices, bad harvests and epidemics of disease.

These various causes have led to extensive default in the payment of land purchase annuities as the following table shows :—

Outstanding on dates below in respect of previous gale day.	Acts of 1891-96. £	Act of 1903 & Labourers' Acts. £	Act of 1909. £	Act of 1923. £	TOTAL. £
31st January, 1921.	—	128,636	9,958	—	138,594
31st July, 1921.	—	199,457	19,626	—	219,083
31st January, 1922.	—	264,562	19,744	—	284,306
31st July, 1922.	—	458,771	43,947	—	502,718
31st January, 1923.	—	481,178	54,290	—	535,468
31st July, 1923.	40,091	425,521	88,107	—	553,719
31st January, 1924.	37,279	343,540	36,045	—	416,864
31st July, 1924.	27,744	310,524	33,853	—	372,121
31st January, 1925.	26,729	293,595	33,189	—	353,513
31st July, 1925.	28,651	319,105	39,909	1,859	389,524
31st January, 1926.	27,392	287,930	37,874	7,038	360,234

The figure in the final column of the table refers, it should be noted, only to arrears in respect of the previous gale day. These arrears, it is only fair to point out, have been cleared to a large extent but on 27th October, 1925, the total accumulated arrears amounted to the substantial sum of £421,349.

The Commission unhesitatingly expresses its opinion that unless the existing outlook in these matters is completely altered the farming community should not expect, and certainly do not deserve, any amelioration in the conditions under which they can obtain credit. It will never be possible for any country or its inhabitants to borrow freely, unless there be full recognition of the justice of the debt so incurred, and full readiness to have the creditor take possession of the property and convert it to his own use, so far as legally applicable thereto, in the event that the debtor finds himself unwilling or unable to meet the terms of his agreement, and, after full and satisfactory opportunity of settlement has been offered to him, is still obliged to refuse a cash adjustment. Undoubtedly it is true that this process of education or improvement of moral standard will require time, but as a first step towards the improvement of the conditions complained of we think that assistance might be rendered by the Government through the adoption of legislation designed, so far as practicable, to provide more speedy and effective foreclosure proceedings, subject to as little expense on the part of the creditor as may be. We think that such legislation as may be prepared by the Government designed to simplify the procedure of collec-

tion or realisation in the case of defaulting annuitants might well be broadened so as to apply also to the case of defaulting debtors of the proposed central institution or of co-operative societies in general. The details of these changes must necessarily be carefully worked out by legal authorities thoroughly conversant with the conditions of land-holding in the Saorstát; but the general purpose to be served should be that which we have indicated in broad terms. In a word, everything possible should be done to bring about not only a more reasonable and businesslike view of the collection of debts secured on land or incurred by farmers, but also the greatest possible avoidance of delay and the greatest possible reduction of cost in collection or in realising upon agricultural security.

17. *Investment of Bank Funds.*

We have already adverted to the fact that Irish banks habitually invest a very large portion of their funds in English securities, and to the further claim that they would gladly invest much more freely at home if conditions permitted. One way in which this investment may be promoted has just been indicated—the improvement of the conditions of collection. Another method is also worthy of mention. We have proposed that the bonds of the new Credit Corporation shall be guaranteed by the Government of Saorstát Eireann, and we have expressed the opinion that they would in all circumstances be not only well secured but be a liquid investment suitable for purchase by private individuals. We think it proper to add that they would also be a suitable form of investment for bank funds, in reasonable proportion, particularly for those bank funds which represent the interest bearing or savings deposits of the community. Guaranteed by the Government of the Saorstát and representing investments, made after careful investigation, in the actual development of Irish agriculture, they should be at their best a type of banking investment not only safe and liquid, but also patriotic in character, and they should be readily taken up by Irish banks, particularly as these banks will, as the plan becomes more and more effective, be relieved of those farm loans which they have been carrying in a non-liquid form. In the last analysis, therefore, as the new plan becomes operative, it should result in transferring to the Central Credit institution long term capital investments in Irish agriculture and in shifting to the banks bonds or debentures issued by the central institution, protected by agricultural investments and guaranteed by the Government. The essential basis of the Government's income as also that of the banks themselves is, of course, Irish agriculture, and the working of this plan should be not only to improve Irish agriculture but thereby to increase the prosperity of the banks and to provide them with that safe form of investment in local enterprise for which they have asked. In view of the extensive help which would be required from the State in the event of the

recommendations of the Commission in regard to the Capital and Debentures of the proposed Agricultural Credit organisation being adopted we are of opinion that the utmost possible measure of assistance should be accorded by the Banks in financing the requirements of the new institution. The Banks should give their support in recommending to the public through the medium of the extensive organisation at their command any issues that may be made in connection with the institution.

It is presumed that the Banks will also be willing to regard as thoroughly suitable investments for permanent retention the securities of this new organisation and will accordingly make direct provision themselves in substantial measure of the necessary funds.

The success of these issues would be materially assisted if the Stock Exchanges of the country lent their hearty co-operation.

18. *Some Allied Functions.*

We have felt that a strong case was made out by some witnesses who urged that such agricultural organisation as may be established should take charge of the administration of funds intended to provide special relief for agriculture or to overcome the effect of disaster due to epidemic disease among cattle and the like. After carefully considering these suggestions, we are of the opinion that such new agricultural organisation as may be established, should be confined to credit operations. The new enterprise, when established, should be based distinctly upon business principles and should not undertake philanthropic or eleemosynary duties. There may be times in which co-operation between it and the Ministry of Agriculture for the distribution of relief funds may be desirable as a matter of emergency, but these should certainly be exceptional cases and not the rule. On the whole, therefore, we feel it necessary to take the view that such functions as may be necessitated by failure of crops or epidemic disease should normally be exercised by the Ministry of Agriculture, as heretofore, and not by any agricultural credit enterprise except, as we have said, as a matter of emergency. In this connection it is well to note that if the new corporation be established on the lines which we have indicated, it will normally have but little direct communication with the public. While, as already stated, it may have occasion to make loans to individuals here and there, this will not constitute the major part of its business. Most of its contact with the public will come through the co-operative societies. We think it well to emphasise that the Agricultural Credit Corporation, in order to be most successful, will early have to establish working relationships with local branches of the joint stock banks in order to ensure the prompt and economical transmission of funds to it, the payment of

cheques and the transaction of other local banking business. Alternative to the making of such arrangement would, of course, be the establishment of branches by the Credit Corporation itself, a step which would be costly and certainly not in the interests of the existing banks, and which should be avoided through the working out of a system of relationships, such as has been indicated. Incidentally we renew the recommendation of preceding Commissions that the public loan fund societies be converted into co-operative credit societies.

We realise that the adoption of our proposals in regard to Agricultural credit will impose serious obligations on the Government additional to the already very extensive liability which it has contracted in manifold ways towards agriculture. We desire to place on record our opinion that in no country in the world, so far as we are aware, is better provision made by the Government in the matter of direct and indirect assistance to agriculture. We may mention a number of illustrative instances in this country. At the present time the Government has undertaken to complete the process of Land Purchase involving an outlay of approximately thirty million pounds in addition to the substantial liabilities aggregating ninety million pounds already incurred. For the relief of rates on agricultural land £599,011 is provided annually. An examination of the estimates for Supply services for the current financial year reveals the fact that a sum of £599,011 is provided as a supplementary Grant for the relief of rates on agricultural land; £442,479 is provided in the original and supplementary Votes for the services of the Department of Agriculture; further grants amounting to £58,650 are made to that Department to be expended on agriculture, viz.; £40,650 from the Local Taxation (Customs and Excise Duties) Grant, £14,000 from the Church Temporalities Fund and £4,000 from the Estate Duty Grant; £693,600 is provided for the services of the Land Commission; £37,457 for the Forestry Fund; £75,000 for advances to Agricultural Credit Societies; £182,000 for advances from the Local Loans Fund for land improvement purposes; £152,000 for the Beet Sugar Subsidy; £93,000 in the Public Works and Buildings Vote for various drainage schemes of immediate advantage to agriculture. Further we are aware that considerable sums are expended on education designed specially to benefit agriculture, and on labourers cottages, etc., which are of considerable advantage to the agricultural community.

19. *Summary and Conclusion.*

In closing this Report it may be well to summarise briefly the general conclusions which we have already expressed at some length. We find in short the Saorstát well-equipped with banking institutions which are already extending a very considerable

amount of support to agriculture. We find the large farmer generally able to care for his own needs, but we feel that the small farmer, who constitutes the great bulk of the population, has need not only for more funds but for a type of loan rather different from that which is now being granted. We believe his requirements can be best met by the improvement and extension of the sound co-operative movement already implanted in the Saorstát, but to strengthen and develop this movement we recommend the organisation of an Agricultural Credit Corporation with a capital of £500,000 sterling, one-half paid up, and authorised to obtain more funds through the issue of bonds or debentures, such bonds or debentures, as well as the capital, to be guaranteed as to principal and interest by the Government. We recommend the legalisation of a form of Chattel Mortgage and the enforcement of penalties in cases of fraud on the lines indicated above; we recommend further the revision of the laws governing co-operative societies with a view to strengthening inspection, supervision and control, enforcement of periodical returns, and co-ordination with the Irish Agricultural Organisation Society, as well as the promotion of co-operative selling agencies, and the more faithful observance of contracts with creameries for the supply of milk now often diverted to competitive concerns. We urge the improvement of the farmers' business education on lines indicated above and that in the application of loan funds the aid and advice of the representatives of such education be constantly sought, and loan proceeds used for genuinely productive or capital purposes. We further urge the imperative need for improving the moral standard of the community with respect to agricultural indebtedness and for the betterment in technical details of the present law with respect to collection and foreclosure. We think that the changes thus introduced should afford the basis of a wholesome and more efficient agricultural system throughout the country and we earnestly recommend that they be taken into consideration at the earliest possible moment.

We think it well to emphasise at the same time that it should be possible, if and when the changes recommended by us in this Report are adopted and in working order, to curtail appreciably or dispense altogether with Government assistance to agriculture in a number of other directions. In particular it would seem that in view of our earlier recommendations the Agricultural Credit Societies and the Irish Agricultural Organisation Society should be able in a short time to dispense with direct Government assistance. The provision of loans for agricultural purposes through the medium of the Local Loans Fund or otherwise might be gradually discontinued. By adopting such a course the net aggregate burden falling on the State should at an early date not be any greater than it is at present, while the work in view would be more efficiently accomplished.

In conclusion we beg to call your attention to the annexed copy of Resolutions relating to this whole subject which have been adopted by the Commission.

Respectfully submitted.

(Signed)

H. PARKER WILLIS.

ANDREW JAMESON.

FRANCIS J. LILLIS.

LIONEL SMITH-GORDON.

C. A. B. CAMPION.

R. K. L. GALLOWAY.

J. J. O'CONNELL.

J. J. McELLIGOTT.

J. L. LYND, *Secretary*,

Dublin, this 8th day of June, 1926.

*Appendix to the Second Interim Report.*RESOLUTIONS ON AGRICULTURAL CREDIT ADOPTED BY
THE BANKING COMMISSION.

RESOLVED :—

1. "That the Commission recommend the establishment of an Agricultural Credit Corporation."
2. "That the Government shall guarantee the capital and a moderate rate of interest thereon, and that the amount of the capital shall be set at a sum which we have tentatively fixed at £500,000, sterling, one-half paid up, and one-half subject to call in instalments."
3. "That the capital shall be offered for public subscription, and any portion not taken by the public shall be divided between the Government and the Banks, in accordance with an arrangement to be made between them prior to issue."
4. "That the Government shall guarantee the principal of and interest on bonds or debentures to be issued by the Corporation to an extent not exceeding one million pounds in any one year, unless the amount be increased by the Oireachtas."
5. "That the Corporation shall act as a Clearing House for local Co-operative Credit Societies. Such Societies shall be organised by and affiliated to the I.A.O.S., and shall be subject to audit and inspection by the Corporation. The Corporation and the I.A.O.S. to exchange reports and information on these Societies."
6. "That the Corporation shall deal directly with Co-operative Creameries and other types of Trading Societies of a definitely agricultural nature, and may promote federations for marketing purposes, and generally assist in the financing of the manufacture and sale of agricultural products."
7. "That the Corporation may make loans to individual farmers, or groups of farmers, for productive purposes, or for the improvement in any way of holdings, buildings, and equipment, and may take such security as seems best."
8. "That the Corporation may rediscount bills and may purchase and sell bills and other securities in the open market in so far as such procedure is necessary or desirable for the conduct of its business."
9. "That the Corporation may administer any scheme for special relief to agriculture submitted to it by the Government."
10. "That the Government initiate legislation designed to provide speedy and effective foreclosure proceedings subject to as little expense as may be."

11. "That such legislation as may be prepared by the Government simplifying procedure in the case of defaulting tenant purchasers shall be so broadened as to apply also to the proposed central institution."
12. "That we approve of the suggestions embodied by the Ministry of Agriculture and Fisheries in Great Britain in its recent report on agricultural credit designed to improve the existing state of legislation in respect of Bills of Sale and Chattel Mortgage."
13. "That the Commission recommend the passing of a new Co-operative Act, which will provide for the proper control, inspection and audit of all types of Societies by a Central Body."
14. "That, in the opinion of the Commission, the existing Loan Fund Societies should be converted into Co-operative Credit Societies, as already recommended by the Agricultural Commissions of 1914 and 1923."
15. "That all Co-operative Societies shall transact their current financial Banking business through the Agricultural Credit Corporation, which will use the Agencies of the Joint Stock Banks for the purpose, as may be expedient from time to time, and which will approve of the terms on which the business of the respective Co-operative Societies shall be transacted."

11. That such legislation as may be prepared by the Government for the purpose of giving effect to the provisions of the said Act shall be laid before the House of Commons as soon as may be after it has been so prepared.

12. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

13. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

14. That in the execution of the provisions of the said Act the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

15. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

16. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

17. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

18. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

19. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

20. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

21. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

22. That the Government shall cause to be prepared and laid before the House of Commons as soon as may be after it has been so prepared a report in respect of the progress made in the execution of the provisions of the said Act during the year ending on the 31st day of March next.

Houses of the Oireachtas

BANKING COMMISSION.

THIRD INTERIM REPORT.

The Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin.

SIR,

Business Credit.

In former Reports this Commission has submitted to you its views on the general question of currency, banking and note issue, and also on agricultural credit. This Third Interim Report is intended to indicate our views on the general question of long term credit as applied to business, and to advise you of the conclusions at which we have arrived regarding the relation of the Government to the support of business enterprise, a subject in which its recent policy has shown an interest.

1.—*Business and Agriculture.*

It seems well at the outset to explain that, in the opinion of the Commission, a sharp distinction should be drawn between long term credit in agriculture and long term credit designed for the support of industrial or business enterprise. The Commission has, in fact, adopted, as a basis for its work, a resolution definitely taking the view that whatever may be done with respect to the re-organisation or support of business or industrial credit shall be kept quite separate from any action that may be taken with respect to agricultural or farm credit. There are several reasons for this fundamental distinction. In the first place there is, as we have already pointed out in our Second Interim Report, no such predominating place to be assigned to business or commerce in the Irish Free State as is assignable to agriculture. If agriculture be regarded as representing 80 per cent. of the material interests of the Saorstát, other forms of business are relatively only one-fourth as important. Secondly, as is generally the case, the business man is in a better position to protect himself and his own interests than the farmer, certainly the small farmer, usually can be, and whatever argument may exist for special aid to the farmer can seldom be said to exist in the case of the merchant or manufacturer. Finally, experience has shown that it is usually unwise to have mercantile or industrial credit administered by a concern which is engaged in granting agricultural advances. Bonds which are issued to the public with underlying protection composed partly of agricultural security and partly of business security are not as a rule favourably regarded. It is desirable that such debentures shall have, as nearly as may be, a uniform type of underlying protection.

2.—*Attitude of Business Community.*

It is also worth while to note that such evidence as the Commission has been able to obtain is to the effect that the business community as a whole does not feel that there is occasion for much in the way of special action designed to promote long term industrial or commercial credit. Apparently it is their view that the active business man is quite able to supply himself with funds, either from the banks, or through the usual method of sale of securities to investors. On this point the following testimony offered by a special Committee of the Associated Irish Chambers of Commerce may be cited :—

“The present system of banking meets the requirements of business people for ordinary commercial credit. There is no evidence of a general demand for long term credits in business”

3.—*New or Struggling Industries.*

Nevertheless we recognise that Saorstát Éireann is passing through a transition stage in the early development of its business and credit system. It is not yet certain how far the country may desire to attempt industrialisation. Some industries have undoubtedly felt themselves exposed to difficulties arising from the change in the economic and fiscal position consequent upon a separate national existence. For all these reasons we recognise that for a brief period to come it may be deemed necessary that some special provision in the way of credit facilities should be continued for the assistance of new or struggling industries, which otherwise could not succeed in attaining a firm basis of operation.

4.—*The Trade Loans (Guarantee) Acts.*

A policy of assistance to business credit seems to be favoured by the Government itself, as is shown by the adoption of the Trade Loans (Guarantee) Act of 1924, and the subsequent extension thereof. The Act in question is now about to expire, and the question whether the Government desires to continue this partial measure of support to business credit in the way indicated in that Act, or in some other similar way, thus becomes pressing. We feel that the Government should, as soon as practicable, withdraw from that field and terminate its guarantees, but we recognise that, as stated above, there may be reasons for continuing the support already extended over a short period in order to carry out commitments or policies already initiated. We believe, however, that it is desirable that this support so long as continued shall be placed upon as effective and business-like a basis as may be, and that it shall be as helpful as conditions will permit.

5.—*The Industrial Trust Company of Ireland.*

It is worthy of special notice that the Government has within the past few months taken an active part in promoting the Industrial Trust Company of Ireland, one of whose functions it is to facilitate the financing of enterprises which have received advances in the form of guarantees under the Trade Loans (Guarantee) Acts. The Industrial Trust Company has a paid-up capital of about £163,000, of which £50,000 is held by the Government itself, £50,000 by the banks, £50,000 by American subscribers, and about £13,000 by directors, their friends and associates. The Government and the banks are thus holders of nearly two-thirds of the Stock of the Industrial Trust Company, and it would seem that the public quality of the concern is thus well safeguarded.

It would appear, therefore, that the Company would be a suitable medium through which Government efforts in support of business credit should be made effective. In support of this view, we may quote the following considered statement made to us by the Associated Chambers of Commerce:—

“Arrangements for any long term credits should be made through the Industrial Trust Company of Ireland or some other similar Institution.”

Our enquiries go to show that no similar institution exists at present and there does not appear to be any likelihood that one will be established in the near future. We therefore recommend that under existing conditions, Governmental support to business credit should be administered through this Company in the manner which we now proceed to outline.

We take it for granted, of course, that should the Government think fit to bestow upon the Trust Company the functions we suggest, the Company would obviously have to obtain the approval of its shareholders for its assumption of the responsibilities herein indicated.

6.—*Method of Guarantee.*

The method of guaranteeing the obligations of concerns which are deemed in need of help has thus far been that of giving to them the direct guarantee of the Government after careful survey of their applications by public authority. When the concern was assured of a guarantee, it had to arrange the actual financing of the loan where it could, the Government guarantee in itself being no assurance that money would be immediately available. In this way, according to our information, slightly more than £200,000 sterling of corporate obligations has been guaranteed, while applications for about £400,000 have been favourably recommended. This method we believe to be unsatisfactory and unduly dilatory. We, therefore, recommend

that it shall be discontinued, and that in future such guarantees as the Government may be disposed to make shall be direct guarantees of the bonds of the Industrial Trust Company, that Company being then left to advance funds to such enterprises as it may think fit under the conditions hereinafter imposed, while the Government endorses its bonds up to an amount equal to the sums so advanced. Obviously the main effect of this readjustment will be to alter the method of making loans, to render it more prompt and effective, and to put the Industrial Trust Company in the foremost place as issuer of bonds, while the position of the Government would be a secondary one as their guarantor. The change would not alter the eventual responsibility of the Government.

7.—*Amount of Bonds to be Guaranteed.*

The Commission has had the same difficulty in getting accurate information as to the amount of credit needed for Industrial purposes as it had when investigating a like problem on the agricultural side of its work. Its feeling has been, as already stated, that the amount of assistance to be extended to business should be as small as is consistent with actual necessities, and that it should last only for the shortest possible time.

Such a generalisation, however, does not provide a working guide to legislation, and the Commission has, therefore, been at pains to obtain evidence on the subject from the Ministry of Industry and Commerce, as well as from other sources. After full discussion of the data so made available, it believes that a sum of £1,000,000 in addition to commitments under existing legislation should fully accomplish the purposes aimed at in this temporary policy of industrial relief, and it therefore recommends the authorisation of that amount of guarantees subject to the application of the most careful supervision and examination that can be devised in the granting of each such guaranteed loan.

8.—*Changes of Method.*

The change of method which has been suggested above necessarily places a heavy responsibility upon the Industrial Trust Company and its directors, as well as upon the Government, and it would seem desirable that this responsibility should be carefully specified and adequately safeguarded. For this purpose the Commission has adopted a series of suggestions relating to the policy and business management of the Trust Company, which are as follows :—

- (1) That the Trades Loan (Guarantee) Acts should not be renewed, and that an Act should be substituted therefor giving the Government power, on such conditions as may

seem advisable, to guarantee bonds to be issued by the Industrial Trust Company up to an amount not exceeding one million pounds: Provided, however, that the assent in writing shall first be given by the Minister for Finance to any loan in relation to which a Bond issue guaranteed by the Saorstat is proposed to be made.

(2) The money realised by the sale of such bonds shall only be lent for the purpose of capital undertakings (or purchase of articles manufactured or produced in Saorstat Eireann required for the purposes of any such undertaking) by companies which are carrying on or propose to undertake business which is calculated to give employment in and promote the general prosperity of the country.

(3) Loans shall not be made out of these funds to businesses which in the opinion of the Directors should be able to obtain the necessary capital without recourse to Government assistance.

(4) The Government shall appoint two trustees for the Bondholders who shall have power at any time to examine the books and securities of the Industrial Trust Company and to determine whether the moneys derived from the sale of Bonds have been properly used in accordance with the provisions of Paragraphs 2 and 3 above. The Trustees shall report to the Minister for Finance if any breach of these conditions has taken place, or if they have satisfied themselves, after investigation of any report made by the Government Directors, that the affairs of the Company are being mismanaged, and may recommend the Minister to cease to issue any Guarantee until the matters complained of are set right.

(5) The Government shall be represented on the Board of the Trust Company by two directors, who shall call the attention of the Trustees to any mismanagement or breach of agreement on the part of the Trust Company.

(6) Repayments received in respect of loans for which guarantees have been issued by the Government shall be applied by the Industrial Trust Company to the service of the loan by the retirement of Bonds or carried to credit of a special account, the funds of which are to be specifically invested as against maturing bonds. A similar course shall be pursued in respect of interest received on loans which shall be earmarked as against interest accruing on Bonds.

Subject to these requirements as to method, the Commission is of the opinion that the business in question will be transacted fully as safely and much more expeditiously through the Industrial Trust Company than through the methods at present in vogue.

9.—*Kind of Industry to be aided.*

Some attention has been given to the question what should be the character of industry to be aided through this type of guaranteed credit. The Commission is of the opinion that the industries which are entitled to such assistance should be only those of a basic character whose existence is calculated to afford direct employment to Irish citizens and to add to the legitimately productive power of the country. It is, in general, entirely in sympathy with the restrictions imposed by the original Trade Loans Guarantee Act, Section 1, and recommends that these restrictions shall be carefully and rigidly insisted upon. It does not believe that the capital so obtained should be used for speculative purposes, but considers that it should be carefully applied to the support only of *bona-fide* industries whose products are obviously likely to be in demand and whose operations will, as already stated, afford a desirable field for the energies of citizens. The selection of industries for assistance of this kind should be made with an unusual degree of circumspection.

10.—*Conclusion.*

If the recommendations of this and the Second Interim Report are adopted, the Government would be left with two official or semi-official institutions of long term credit in existence—the one the proposed Agricultural Credit Corporation, the other the Industrial Trust Company of Ireland. Of these, the latter has already private stockholders and the former might (and we hope will) have such stockholders. Both, however, are or may be official in the sense that the Government has a stockholding interest in them, and in a further sense that it would be guaranteeing their bonds. Through two channels, therefore, the one agricultural, the other industrial, the Government would be giving its support to provide credit on the grounds of public necessity or emergency. The conditions and problems would be different in the two cases, but the underlying relationship with the Government would be very similar. In both cases Government support should be withdrawn as soon as reasonably feasible, but we think this outcome very much nearer and more likely to develop in the case of the Trust Company than in that of the Agricultural Credit Corporation.

Respectfully submitted.

(Signed) H. PARKER-WILLIS.
 J. J. McELLIGOTT.
 C. A. B. CAMPION.
 ANDREW JAMESON.
 R. K. L. GALLOWAY.
 LIONEL SMITH-GORDON.
 FRANCIS J. LILLIS.
 J. J. O'CONNELL.

J. L. LYND, *Secretary.*

1st July, 1926.

BANKING COMMISSION.

FOURTH INTERIM REPORT.

MAJORITY REPORT.

The Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin.

Public Finance.

PART I.

SIR,

Government Accounts and Government Stock.

In former Interim Reports, this Commission has submitted to you its views on currency and banking, on agricultural credit, and on the use of credit in business. It now desires in this Fourth Interim Report, to outline some considerations with respect to Government finance and public banking business, which it believes to be essential to any complete survey of conditions in the Saorstát. This portion of our work has been indicated to us on several occasions as being a needful element in our discussion of the matters included in the terms of reference, and was referred to by us in our First Interim Report as one of the phases of the subject to which we intended to give special attention.

1.—*Scope of Work.*

There are many aspects of public finance that might from some points of view be included in our survey of the subject, but we have felt that we should confine ourselves to the narrowest scope that seemed consistent with our general purposes. In this Report, therefore, we shall limit our attention to the following topics:—

- (a) Holding of public deposits and distribution among the banks.
- (b) Interest or earnings to be derived from public funds.
- (c) Inscription and transfers of public stock.
- (d) Public borrowing.
- (e) Status of the National Land Bank.

These various matters will be considered chiefly as they affect the general subject of banking and currency in the Saorstát, rather than in their broader aspects.

2.—*Basis of Work.*

The Commission has been fortunate in including within its membership an Officer of the Ministry of Finance, and two Directors of the National Land Bank, as well as several representatives of Commercial banking institutions. Very early in its work it appointed a Committee consisting of several of these specially informed members, and this Committee obtained information as to the present practices and methods of the Government in keeping its funds, while it also consulted the various banks as to their wishes.

The present situation as thus ascertained is as follows :—

- (a) The Government now carries its accounts with the Bank of Ireland and the National Land Bank, while the Registers of its stock are also carried in these two institutions.
- (b) The active accounts of the Treasury are all with the Bank of Ireland, and show a free balance of cash running in a representative year from a maximum of £1,362,000, to a minimum of £325,000, computed on a monthly basis.
- (c) The Government also carries many individual accounts, some large and some small, with the Bank of Ireland, and a few with the National Land Bank.
- (d) Some of the accounts which are thus carried are governed by special statutory provisions which require them to be kept at a particular institution, or under a particular heading as a separate bank account, while others may be shifted at the order of the Department of Finance and their form may be changed or altered at will.
- (e) Interest is paid to the Government at the regular deposit rate, which is at present $2\frac{1}{2}$ to 3 per cent., on those funds which are carried on deposit account. Open accounts bear no interest.
- (f) The expenses of management of stock registers allowed by the Government to the Bank of Ireland are £425 per million pounds. The allowance to the Land Bank has not yet been finally determined.

3.—*How should Funds be held.*

A majority of the Committee to which reference has already been made reached the following conclusions :—

- (a) The present service of the Bank of Ireland is entirely satisfactory, has continued since the organisation of the Free State, and furnishes no reason for any change.
- (b) Such changes ought not to be undertaken except for very positive reasons.

- (c) The distribution of Government business among several banks is inconvenient, likely to be more costly and less efficient.
- (d) The exception to this general attitude, however, is, and should be, made in the case of the National Land Bank, for the reason that that institution is owned by the Government, and needs the support which is furnished by a share in the Government's business.

On the other hand a minority in the Committee differs essentially from this point of view. In general, its attitude may be briefly presented as follows:—

- (a) There is no reason why some distribution of Government funds at least could not be made as between different banks.
- (b) This fact is attested by the Government's action in giving a portion of its accounts to the National Land Bank. If it can take such action in one case, it can take similar action in others.
- (c) The other commercial banks are desirous of having a share in the Government's accounts, not only because of the possible profit which is connected with them, but because of the unquestionable prestige or recognition which comes from a designation as a public depository.
- (d) The Government, when in need of new financing, consults the standing committee of Irish Banks, or in some other way appeals to all banks, thereby asking them to share the duty and responsibility of Government financing. An acceptance of such an attitude seems to imply a correlative share in the regular transaction of Government business.

There are thus two very distinct points of view in our Committee, and we believe among the banking community itself. The Land Bank and the Bank of Ireland desire to retain their present exclusive control of Government business, while the other banks desire to share it. The undersigned members are of the opinion that such distribution could, and should, be made, while, as already stated, others see no reason for making a change in the present arrangements. Obviously the matter is one which must be decided by yourself, and undoubtedly will be decided by you after weighing all of the facts and considerations on either side of the case, and we need do no more at this time, therefore, than to put before you the facts in the situation.

4.—*Earnings from Funds.*

The undersigned members are agreed that the distribution of Government funds should be made upon a basis which will

yield a maximum return to the Government in convenience and in monetary income. The question, therefore, whether there is any means by which the Government can obtain a larger return than the present, is well worthy of consideration. It might do so by one of the following methods :—

- (a) By placement of its banking business as the result of bids or tenders to be competitively made by the various banks, such tenders to include a careful description of the services to be rendered and a statement of the interest to be allowed on balances under specified conditions. It has been objected that this plan would lead to frequent shifts and changes, a contention, which, of course, could be set at rest by fixing the period for which the bargain was made at a sufficient term of years, say five or ten. It has further been argued that inasmuch as a bank must develop an expert staff to deal with Government business, great inconvenience would be caused by shifting from one bank which had the business at a given time to another bank which was without an expert staff. This, of course, is a matter for the banks themselves to consider, the Government's sole interest being to receive assurance that the business will be properly looked after.
- (b) By placing a reasonable proportion of the Government's funds on loan in the short term capital market. We have carefully considered this matter, and are of opinion that the project is entirely feasible and that by its use the Government could, with money at 4 per cent. add probably about £125,000 or more to its present annual income. This handling of Government funds would require some skill, and we think it could be carried out by the Currency Commission, recommended in our First Interim Report, should such a body be established, inasmuch as that Commission will be busied with the work of investing large sums, some of them probably in short term securities.

5.—*Public Financing.*

It seems necessary in this connection to say a few words on the general subject of public financing. We do not, of course, know, and cannot anticipate, the probable needs of the Saorstát for borrowed funds in the early future. We understand, however, that it is quite likely that new loans must be floated from time to time as is the case with other Governments. We have ourselves in other reports made recommendations which, if carried out, will necessitate substantial dealings. The Government will in the early future need to call upon the banks of the country for aid in financing its requirements. In those countries where

central banks exist such central banks are generally the agency of the Government for carrying out financing of this kind. They often re-deposit the Government's funds with the other banks, or, where they do not pursue that plan, the other banks are given the benefit of the funds of the Government through the re-discounting process, or through the purchase of bills in the open market which places the funds at the disposal of the other banks as needed, and at a very low rate of interest. In the Saorstát the Government must rely for such services upon its own banks, and since the banks now in existence are all competitive institutions having no special money market functions, it would seem that the Government must have the aid of all in carrying through any large projects of finance. It is undoubtedly true that all banks should, and will, recognise a distinct duty as members of the community to assist by every means in their power the legitimate objects of the Government. It will be well, however, to add to this general application the more specific duty which grows out of the acceptance of the relationship of banks to the Government, and such a result can be obtained by giving to all banks the opportunity of sharing in the Government's business, either through bidding for, or getting it competitively.

6.—*Inscription of Stock.*

There is one technical matter to which we think attention should be given in this Report before leaving the general subject of public business. This is the inscription of the stock of the Saorstát. At the present time the Registers relating to such stock are kept by the Bank of Ireland at a fee of £425 per million pounds. The Registers relating to the new Land Purchase Stock will, we understand, be kept with the National Land Bank at a fee to be determined. As to this whole subject we think it sufficient to say that the keeping of such Registers appears a technical matter involving the services of skilled men and requires the development of a careful organisation to deal with it. In spite of this fact it is a kind of work which is currently handled at a very moderate charge. The rate of remuneration to Banks for the management of Government Stocks was fixed by the Bank Act of 1892. In the case of the Bank of England the rate of remuneration was £325 for every million pounds up to five hundred million pounds, and £100 for every million pounds over that figure. In the case of the Bank of Ireland the rate was £425 for every million pounds up to 30 million pounds, and £300 for every million pounds if the stock exceeded 30 million pounds. There was a proviso in the case of the Bank of Ireland that the total remuneration in any one year should not be less than £8,000. There are several institutions which have reduced this charge to a figure of £100 to £150 for Dominion Government Registered Stocks. We think that a considerably lower figure than £325

might be established for the Saorstát, but at any rate we believe that an effort should be made to see what could be done in that direction. The task of keeping these registers is of a routine nature, and might very well be entrusted to the Currency Commission, recommended in our First Interim Report, should such a Commission be established. In that event the work could be done at approximately cost and charged to the Government at its exact figure of outlay. We recommend such a course to the Government; or in the event that the Currency Commission should not come into being, we recommend that effort should be made to obtain a lower rate through the presentation of the matter to banks which might be interested in competitive bids.

Respectfully submitted.

(Signed) H. PARKER-WILLIS.
 C. A. B. CAMPION.
 *LIONEL SMITH-GORDON.
 FRANCIS J. LILLIS.
 R. K. L. GALLOWAY.
 J. J. O'CONNELL.

J. L. LYND, *Secretary*.

1st July, 1926.

* Signed subject to reservation in note below.

Note by Mr. Smith-Gordon.

I am in general agreement with the contents of this report, but I do not consider that it is practicable at this time to distribute the Exchequer Balance among a number of banks, and I therefore dissent from the following words in Paragraph 3: "The undersigned members are of the opinion that such distribution could and should be made." With the further suggestions in the report that this matter is one which might at any time be considered, I do not see any reason to disagree. It appears to me to be a matter of expediency rather than of principle.

PART II.

SAVINGS AND SAVINGS DEPOSITS.

There is one phase of this whole question of Government business which calls for some very special attention. This is the present situation of the Post Office Saving System of the Saorstat. In order to get the facts with regard to this matter definitely before the Commission, the whole subject was referred to our Secretary, Mr. J. L. Lynd. Mr. Lynd has prepared a memorandum as to the present status. The Commission finds that the present situation is as follows:—

- (a) The Saorstat is at present operating a Post Office Saving system which includes deposits of about £2,500,000.
- (b) These deposits are invested in Saorstat and British Government Securities, but roughly speaking about one-third of the total was at a recent date carried as “ways and means advances.” All deposits when received from the Post Office are placed to the separate credit of the Savings Bank Fund, though they may be borrowed from that Fund under the authority of the annual Appropriation Acts. Interest at the rate of 5 per cent. per annum has been allowed on all moneys borrowed from the Fund. The fact that annual accounts of the Fund have to be presented to the Oireachtas should ensure that the Fund will be properly managed.
- (c) Saorstat depositors are still carrying in the British Postal Savings Banks about £5,700,000.
- (d) Six Trustee Saving Banks, with a total amount of deposits of close to £1,000,000 exist to-day in the Saorstat, and their funds are largely invested in British Government Securities.

The Commission thinks that this state of affairs is unsatisfactory, and with a view to its correction, it has adopted Resolutions as follows:—

- (1) “In the opinion of the Banking Commission it would be desirable to encourage by every possible means the withdrawal from the British Post Office Savings Bank of the sums of money amounting to approximately £6,000,000 at present lying therein to the credit of Free State depositors.

(2) "The legal position of the Post Office Savings system should be definitely cleared up as soon as may be through consolidation and revision of the Savings Bank Acts, and an official statement made of its existing position, including an account of the securities held and expenses incurred, and other necessary data."

The Commission notes with approval that a preliminary statement for 1923 and 1924 has been published.

(3) "The Free State Government should explore the possibility of merging in the Free State Post Office Savings Bank the business of the Trustee Savings Banks and the taking over of deposits and corresponding assets."

The British Government will not, we understand, transfer these deposits without the written consent of the depositors. There is a possible 15 per cent insufficiency of assets to meet liabilities in the case of the Trustee Savings Banks.

While all of us are agreed as to the foregoing measures, several of us also are of opinion that further action may well be taken. The undersigned members of the Commission recommend the following, some features of which, as will be noted, have already been adopted by the Commission as a whole in resolutions, as set forth above:—

(1) That Savings Bank Commissioners be appointed by the Saorstat to receive and administer all funds available from Deposits, to invest same in securities of the Government of the Saorstat, or securities of the British Government, in such proportions as the Commissioners may deem prudent from time to time.

(2) That the Commissioners proceed as they deem advisable to attract to the Irish Free State Post Office Savings Bank the steady re-transfer of the deposits now aggregating about £6,000,000—held by the British Government on behalf of Saorstat Savings Bank depositors.

(3) That the Commissioners be empowered to revise deposit rates from time to time in view of the existing value of money, and the earning power of the investments held by the Commissioners.

(4) Also that limitations as to aggregate deposits of any one individual or otherwise be fixed by the Commissioners.

(5) Any other regulations providing for the conduct of the business controlled by the Commissioners may be revised by them as they may consider necessary, and as may be assented to by the Saorstat Finance Minister.

(6) That the operations of the Commissioners and securities

held by them shall continue to be subject to the examination and report of the Auditor-General of the Saorstat.

(7) That quarterly statements of deposits and investments shall be published by the Commissioners.

(8) That the deposits of the Trustee Savings Banks shall within two years be merged in those of the Saorstat Post Office Savings Bank.

(9) That the Currency Commission shall act as Savings Bank Commissioners until otherwise directed by the Saorstat.

By way of comment upon these last-named suggestions, it seems proper to say that they are essentially based upon the thought of a separation between the administration of the Treasury on the one hand in its current function as a collector and disburser of money, and the Treasury on the other hand in its function as a trustee for the depositor. After careful discussion of the whole subject, we feel that the practice of many modern states in effecting such a separation is wise, eliminates the possibility of misunderstanding or criticism which might otherwise exist and most truly safeguards the interests of the depositor. It has been objected that the management of Savings Bank deposits by a Board of Commissioners or other official organisation involves the creation of a new body with salaries for members and other expenses. To this most of us do not agree, as we believe that this work of investing Savings Bank funds might well be entrusted to the Currency Commission which has been recommended in our First Interim Report. That Commission is entrusted with large duties of investment and the addition of the management of the funds of the Post Office Savings Bank would not be onerous.

Respectfully submitted.

(Signed) H. PARKER-WILLIS.

C. A. B. CAMPION.

LIONEL SMITH-GORDON.

R. K. L. GALLOWAY.

J. J. O'CONNELL.

FRANCIS J. LILLIS.

J. L. LYND, *Secretary*.

1st July, 1926.

PART III.

THE NATIONAL LAND BANK.

We have reserved to the last the general question of the National Land Bank and its probable future. The members of the Commission think it well to state that they have made no inquiry into the affairs of the National Land Bank, or of any other institution in the Saorstát. They neither had the power to make such an inquiry, nor had they any request to include it in their investigations or discussions. They have no information as to the details of the business of any Saorstát institution, and have sought none. What they say here has to do solely with institutions and organisations (and the Land Bank among them) as such, and is the expression of an opinion regarding their institutional service or character, not a criticism upon, or an endorsement of, their management or *personnel*.

As you are aware, the National Land Bank is owned by the Government and operated by a Board representing the Government. You are also aware that the institution was established under conditions which now no longer exist, and that it exercises no functions whatever to-day in connection with the financing of land. It is, as we understand, doing a small commercial business, and is to that extent a competitor in a minor way of the other banks. To this function it adds, as we have already said, the holding of a moderate amount of Government funds and the management of the Register of Land Purchase Stock. After careful survey of the whole situation from every angle, most of us are of the opinion that the existence of the National Land Bank should be brought to a close as soon as arrangements to that end can be properly consummated.

In speaking of note currency in our First Interim Report, we made an allocation which recognises the Land Bank as a note issuing body to the extent of £55,000. Should the Land Bank be continued in existence, and should our proposed plan of note issue be acted upon, we suppose that this allocation of notes would hold good in favour of the Land Bank—provided, of course, that it was able to show its possession of liquid advances to an equal amount. We think, however, that unless the Government is definitely determined to continue the Land Bank in existence as an active commercial institution for a definite period of years to come, the Land Bank should not begin the exercise of the function of note issue, but should abstain from

taking out any such notes. Their issue could be warranted only on the assumption that the Government had come into the position of a commercial banker and expected to continue in it, or that it had definitely taken over the Land Bank with a view to converting it into a central bank. Neither of these latter courses of action would, in our opinion, be wise or feasible at the present time.

Respectfully presented.

(Signed) H. PARKER-WILLIS.

C. A. B. CAMPION.

ANDREW JAMESON.

J. J. O'CONNELL.

FRANCIS J. LILLIS.

R. K. L. GALLOWAY.

J. L. LYND, *Secretary.*

1st July, 1926.

Note by Mr. Smith-Gordon.

I did not see my way to sign this Report at the time when it was drawn up, and subsequent events make it unnecessary for me to express an opinion on the matter. I am in general agreement with the views expressed in the last paragraph of Mr. McElligott's note.

(Signed) LIONEL SMITH-GORDON.

MINORITY REPORT.

PUBLIC FINANCE.

PART I.

To The Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin.

Government Accounts and Government Stock.

We disagree with the recommendation of the Majority Report that a distribution of Government Accounts should be made amongst the various banks, especially as it is not indicated whether all banks, irrespective of the situation of their head office, should share in such distribution. Neither do we agree that Government appeals to the banks to assist in Government financing necessarily call for a partition of regular Government business between them. Apart from the fact that the banks have taken very little share in the "duty and responsibility of Government financing," as they have not been asked to do so, any assistance which they have been or will be asked to give, has been, or will be paid for, and lays the Government under no further compliment. In any case no country has adopted the principle that an obligation exists to distribute Government accounts amongst the different banking interests, and all considerations of economy and efficiency in the use of funds and the financing of Government requirements point to the undesirability of such a course.

We may add that in our view it is only right that banks which receive deposits and draw profits from the country should, in the country's interests and in their own, meet the reasonable demands of the Government for financial aid, especially as such aid has not been and is never likely to be gratuitous.

We consider that Government balances can be utilised so as to yield a higher average rate of interest than at present. The matter has, we understand, been engaging the attention for some time of the Minister for Finance. With the view of the Majority that in order to obtain a higher return, Government banking business should be offered to competitive tender, we do not agree—for the reasons stated in the Majority Report—nor do we accept the idea that the Government should use its funds in making short-term loans. Apart from the fact that there is no

short loan market in this country, the suggestion that the Government should entrust its funds for investment to an outside body, such as the Currency Commission, bearing none of the responsibilities of Government, is, to our minds, quite indefensible.

We consider that the Currency Commission, owing to its constitution and its functions, is not a suitable body for managing the Registers of Government Stock. The natural and proper place for keeping such Registers is with the Bank holding the Exchequer Account or Government balances, as this facilitates arrangements in regard to interest and sinking fund payments, drawing and cancellation of bonds, and other operations incidental to stock management.

PART II.

Savings and Savings Deposits.

We are in agreement with the recommendations of the Majority that the legal position of the Post Office Savings Bank should be more clearly defined, that the existing Trustee Savings Banks should, with the consent of the depositors, be merged in the Post Office Savings Bank, and that Saorstát depositors should be encouraged to transfer to this country the sum of, approximately, five and a half million pounds lying to their credit in the British Postal Savings Bank.

Apropos of the Majority comment on the point, we may mention that, in compliance with statutory provisions, official accounts are published of the Post Office Savings Bank here showing the deposits received and paid during each year, the liability of the Government to depositors, the nature and amount of the securities held by the Minister for Finance to meet these liabilities, the interest accrued in respect of the securities so held on account of the Savings Bank Fund, the interest paid, and credited to depositors, and the expenses incurred in the management of the Bank during each year.

No case is made out in the Majority Report for the establishment of a body of Savings Bank Commissioners. No demand for such a body came from any quarter to the Commission. The idea behind it is, apparently, to increase the security for the depositor, but, as matters stand at present, the depositor deliberately lodges his money with a Government Department. To set up another body to which the Government will hand on the money is clearly not expected by him. Moreover, the Government is responsible for the repayment of the deposits, and cannot divest itself of this responsibility, and to ask it to vest the control

of the assets in an outside body while it retains the liability is unreasonable. To adopt such a course might entail serious consequences from the financial point of view, as the Government are by law bound to make good deficiencies in the income of the Savings Bank Fund.

We do not agree that the separation from the Treasury of trust functions in regard to Savings deposits is the practice of many modern States. Where such segregation is carried out, the function is usually not vested in an outside body, as is recommended by the Majority Report, but in another Government Department. The National Debt Commissioners in Great Britain are a case in point, and their functions have, by the Ministers and Secretaries Act, been transferred to the Minister for Finance. For reasons which we need not elaborate, we consider it undesirable to set up another Government Department to discharge functions which, up to the present, have been satisfactorily discharged by the Treasury here. All the security that can be conferred on the depositor is conferred by statute, which imposes much more rigid limitations than in the case of ordinary banking. The character of the accounts published annually is laid down in the Savings Bank Acts, and the statements, we may point out without desire to criticise, are more complete than those published by the Joint Stock Banks. Further, the funds can by law be invested only in gilt-edge securities, and the Savings Bank Fund here is in a thoroughly solvent condition. These various reasons are, we think, conclusive against adopting any of the changes recommended by the Majority.

ANDREW JAMESON.

J. J. McELLIGOTT.

J. L. LYND, *Secretary*.

25th August, 1926.

NOTE BY MR. J. J. McELLIGOTT.

My views on Parts I. and II. of the Fourth Interim Report of the Banking Commission on Public Finance are set out in the foregoing Minority Report, which has been signed by Senator Jameson and myself. I would like to add in regard to Part I. that the annual fee of £425 per million pounds stock paid to the Bank of Ireland for keeping the Registers of Government Stock

was fixed by the Bank Act, 1892. This fee has been adopted by the Government of Saorstát Éireann in regard to National Loan only, and is undoubtedly reasonable in view of the small quantity of stock involved—£10,000,000—decreasing annually owing to the operation of the Sinking Fund. It may be said for the Bank of Ireland that they consented, without being asked, to waive the minimum remuneration of £8,000, prescribed by the Statute of 1892. According as the Stocks of the Saorstát Government increase in quantity, the charges for keeping the Registers will possibly allow of reduction, and existing arrangements with the Bank of Ireland should then be considered with a view to revision.

With reference to the figures of £100 to £150 per million pounds of stock quoted in the Majority Report for the management of Dominion Government Registered Stocks, I may point out that these figures relate to quantities of stock many times greater than those to which the figure of £425 agreed with the Bank of Ireland, relate. The comparison is, therefore, of little value.

In regard to Part III. of the Majority Report, which relates to the National Land Bank, I declined, in view of my position as a Director of that Bank, to sign the recommendation "that the existence of the Bank should be brought to a close as soon as arrangements to that end can be properly consummated." Since the Report was signed, the Bank has been purchased by the Bank of Ireland, and it is not necessary to deal with the matter any further.

(Signed) J. J. McELLIGOTT.

25th August, 1926.

Houses of the Oireachtas

Houses of the Oireachtas