

**Why Ireland needed the Marshall Plan but did not want it:**

**Ireland, the Sterling Area and the European Recovery Program, 1947 – 1948**

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In his book *Ireland since the Famine*, F.S.L. Lyons suggests that the Irish policy-making community recognised Ireland's economic interdependence through its involvement in the Marshall Plan<sup>1</sup>. This experience brought Ireland into close contact with other European states through the Organisation for European Economic Co-operation (OEEC). Over the coming decade, OEEC reports criticised the low productivity levels in Ireland, but this criticism opened "the possibility for change and improvement, opening the way for the genuine and sustained advance that came at the end of the 1950s."<sup>2</sup>

The literature on Ireland and the Marshall Plan paints a grim picture of Ireland's position in the emerging postwar world. At the same time, historians have noted that many foreign observers did not initially perceive the Irish economy as backward or as a particularly deserving case for economic assistance. In a seminal article, Bernadette Whelan portrays the postwar Irish economy as weak due to the dislocation of the Second World War. However, she points out that the American decision to include Ireland in the Marshall Plan was motivated not by the relative weakness of the Irish economy, but by different considerations. American policy-makers regarded

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<sup>1</sup> This article is an extended version of a paper presented at the Annual Conference of the Northern Economic and Social Historians in Manchester, 13 November 1999. I am grateful to the suggestions and comments from the audience, Michael Kennedy, Hilary Owen and Ruggero Ranieri. It will appear in the <Irish Studies in International Affairs> later in 2000

<sup>2</sup> F. S. L. Lyons, *Ireland since the Famine* (London: Fontana, 1973). 589-90.

Ireland as a potential supplier of much needed food exports to Britain and Western Europe, reducing their reliance on imports from the United States.<sup>3</sup> Raymond Raymond has similarly emphasised that American officials extended Marshall aid to Ireland in order to reduce the country's drawing on the dollar pool of the Sterling Area.<sup>4</sup> These accounts highlight the fact that American decision-makers remained singularly unimpressed by the arguments put forward by Irish ministers that the country would be unable to repay the dollar loans it received under the European Recovery Program (ERP) in the light of the considerable Irish sterling balances.<sup>5</sup> Despite setting out these rival interpretations of Ireland's postwar economic position, the existing accounts fail to resolve the contradiction between their own historical assessment of Ireland's relative weakness and that of contemporary American policy-makers of its relative strength.

This paper will show that both interpretations reflected different aspects of Ireland's economic position and influenced the government's foreign economic policy-making during the first twelve months of the Marshall Plan. By focusing exclusively on Ireland, most authors tend to overlook the fact that the Irish economy seemed remarkably strong compared to other Western European economies in the summer 1947. At the same time, international comparisons obscure rather than reveal the structural weaknesses of the Irish economic position. The first section draws on

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<sup>3</sup> Bernadette Whelan, "Ireland and the Marshall Plan," *Irish Economic and Social History* 19 (1992).

<sup>4</sup> Raymond James Raymond, "The Marshall Plan and Ireland," in *The Irish in America: Emigration, Assimilation and Impact*, ed. P. J. Drury (Cambridge: Cambridge University Press, 1985).

<sup>5</sup> For a balanced discussion, see Troy D. Davis, *Dublin's American Policy: Irish-American Diplomatic Relations, 1945-1952* (Washington: Catholic University of America Press, 1998). 95-121.

Ireland's submissions to the Committee on European Economic Cooperation as well as the contemporaneous analyses of the United Nations Economic Commission for Europe to assess Ireland's postwar economic position in the European context. The following section analyses Ireland's economic problems, which threatened to hamper further economic expansion in the immediate postwar period. In order to overcome its economic problems, Ireland needed to continue to import large quantities of coal and other essential supplies. The third section shows that Irish policy-makers tried to exploit the convertibility crisis to their economic advantage, but the renewal of Anglo-Irish trade agreements deepened the country's dependence on British markets. However, the fourth and final section demonstrates that this deepening of dependence on the British economy reflected a latent anti-Americanism among Irish elites. In this sense, this article argues that Ireland's involvement in the Marshall Plan did not break the mould of Ireland's prewar foreign economic policy inaugurated with the 1938 Anglo-Irish trade agreement.

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In their accounts, historians tend to suggest that Ireland was economically weak at the end of the Second World War. This assessment emphasises continued rationing, falling living standards, and frequent strikes as signs of deep-seated economic weakness. This section will challenge the notion that Ireland's economic weakness was self-evident to contemporary observers. Indeed, Irish living conditions compared favourably with conditions in most European countries in the immediate aftermath of the war. For example, Irish food consumption remained comparatively very high. According to a United Nations study, Irish food consumption in 1946/47

had slightly fallen compared to its pre-war level, but, with around 3,000 calories per day, it remained among the highest in the world. At the same time, food consumption throughout Europe had been reduced by more than 500 calories per day, or almost 20 percent, compared with its pre-war level (see also Table 1).<sup>6</sup>

In their first survey of postwar European economic development, the economists of the United Nations Economic Commission for Europe (ECE) highlighted how Western European industrial production had largely recovered to its pre-war level by late 1946.<sup>7</sup> As Table 2 shows, Irish industrial production exceeded pre-war levels in the spring of 1946. Compared with its pre-war level, the Irish index of industrial production remained higher than in any other European economy except Bulgaria. However, Irish industrial output stagnated for most of 1946 and experienced a sharp economic downturn as a result of the severe winter weather in early 1947. While textile production in other European countries declined, Irish output in 1946 had expanded by almost 30 per cent over 1938. The index of Irish engineering industry exceeded 140 in summer 1946; since then, however, output remained at the same level throughout the rest of 1946 and 1947. A similar expansion of engineering production occurred in Sweden and Britain. (Norway, on the other hand, experienced an even more remarkable recovery of engineering production during 1946 and 1947.)

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<sup>6</sup> United Nations. Department of Economic Affairs, *Post-War Shortages of Food and Coal* (Lake Success: United Nations, 1948). 4-5, Tables 1 and 2.

<sup>7</sup> United Nations. Economic Commission for Europe. Research and Planning Division, *A Survey of the Economic Situation and Prospects of Europe* (Geneva: United Nations. Department of Economic Affairs, 1948). 3-10.

In this positive picture of Irish economic recovery, the only notable exception was the level of building and construction, which remained below its 1938 level in 1946 and 1947. On aggregate, Irish production of investment goods remained just above the 1938 level. However, the positive development

**Table 1: Estimated Calorie Levels in European Countries, 1934-38 & 1946/47** (in descending order based on 1946/47 calorie levels)

	1934-38	1946/47
Denmark	3,291	3,068
Ireland	3,109	3,059
Sweden	3,105	3,033
Iceland	3,018	2,940
United Kingdom	3,042	2,854
Switzerland	3,035	2,810
Norway	3,026	2,729
Netherlands	2,937	2,649
Luxembourg	2,953	2,613
Czechoslovakia	2,600	2,593
Finland	2,911	2,506
Turkey	2,619	2,504
Belgium	2,848	2,438
France	2,714	2,424
Bulgaria	2,712	2,341
Portugal	2,222	2,235
Spain	2,601	2,217
Greece	2,523	2,128
Italy	2,659	2,085
Hungary	2,683	2,030
Austria	2,841	2,013
Soviet Zone	(2,921 pre-war Germany)	1,980
Poland	2,554	1,948
Yugoslavia	2,760	1,922
French Zone	(2,921 pre-war Germany)	1,854
Bizone 1946/47	(2,921 pre-war Germany)	1,844
Rumania	2,592	1,694

Source: Food and Agricultural Organisation, Draft Report: European Programmes of Agricultural Reconstruction and Development (Washington 1948), p. 47-51, Table 9.

of Irish industrial production had been largely due to difficulties of importing manufactured goods from other countries during the Second World War. In this sense, the production indexes masked the fact that Ireland remained relatively under-industrialised in this period. Therefore, Irish policy-makers expected that Irish industrial production would contract, as international trade relations were restored. The point is that Table 2 created a deceptive picture of the likely development of the Irish economy in the light of the rapid recovery of other European economies.

In contrast to industrial production, the same ECE report highlighted how, in most European countries, agricultural output remained below the pre-war level. Indeed, agricultural production declined rather than increased in 1947, because the severe cold weather in the spring adversely affected crops in

many places. As Table 3 shows, the level of Irish agricultural output exceeded its pre-war level, comparing favourably to the level of agricultural production elsewhere in Europe. The ECE economists based their estimates of national agricultural production on net output taking into account the reduced input of fertiliser and other agricultural supplies. In the case of Ireland, this method of estimation shows a slight increase in the level of agricultural production rather than the slight drop in gross output reflected in the official Irish index of agricultural production. As in other European countries, the reduced availability of imports of food and fertilisers during the war forced Irish farmers to shift from livestock production for export to the cultivation of wheat and coarse grain. Cut off from foreign supplies, the government exhorted farmers to produce for the domestic market. Despite the increase in

domestic food production, Ireland fell back into a semi-subsistence economy, as farmers themselves consumed an increased proportion of the domestic food

**Table 2: The Level of Industrial Production in European Countries***Index Numbers – 1938=100*(in descending order based on index number for 1<sup>st</sup> quarter 1946)

	% of 1938 total European production	1946				1947		
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter
Ireland	0.41	103	112	107	114	104	110	113
Sweden	3.56	101	100	102	104	101	100	103
United Kingdom	21.62	101	102	100	115	103	110	109
Bulgaria	0.33	95	109	139	134	105	135	149
Denmark	1.61	93	86	97	100	99	100	108
Norway	0.94	93	103	95	110	113	119	106
Total excluding Germany		80	87	88	98	93	100	99
Belgium	3.24	77	85	93	99	99	106	102
France	10.80	75	88	82	94	95	104	96
Poland	2.53	71	77	80	90	93	100	104
Czechoslovakia	3.39	70	70	83	87	96	101	93
Finland	1.22	65	64	72	79	86	81	81
Netherlands	3.12	62	68	76	83	81	88	91
Greece	0.75	44	55	61	67	64	71	71
Italy	7.24	34	55	65	61	49	65	76
Germany (3 Western zones)	16.62	22	26	31	31	24	33	37

Source: United Nations. Economic Commission for Europe. Research and Planning Division, A Survey of the Economic Situation and Prospects of Europe (Geneva 1948), 3, Table 1.

output.<sup>8</sup> As a consequence, other domestic consumers suffered from severe food shortages, which contributed to a decline in living standards among the

<sup>8</sup> James Meenan, "Production in Transition," *The Banker*, July 1947, 41-2.

urban population.<sup>9</sup> This wartime development, it should be added, mirrored the situation in many other European countries.

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<sup>9</sup> Cormac Ó Gráda, *A Rocky Road: The Irish Economy since the 1920s* (Manchester: Manchester University Press, 1997). 6-21.

**Table 3: The Level of Agricultural Production in European Countries***Index Numbers – 1935-8=100*

	Percentage of pre-war total European production	1945/46	1946/47
Turkey	2.33	119	119
Ireland	1.50	111	108
United Kingdom	5.80	106	106
Portugal	0.91	80	95
Denmark	1.93	87	94
Spain	5.39	49	92
Norway	0.62	75	87
Switzerland	1.38	90	87
Sweden	2.08	98	87
Netherlands	2.58	56	79
Greece	1.21	41	77
Italy	8.42	79	77
Finland	1.02	73	76
Total excluding Germany		62	76
Bulgaria	1.54	49	73
Czechoslovakia	3.75	56	73
France	15.72	50	73
Belgium	2.09	58	72
Germany (3 Western zones)	10.61	68	65
Austria	1.63	56	63
Rumania	3.57	34	57
Yugoslavia	3.42	50	57
Hungary	2.45	54	55
Poland	9.36	33	45

Source: United Nations. Economic Commission for Europe. Research and Planning Division, A Survey of the Economic Situation and Prospects of Europe (Geneva 1948), 3, Table 1.

The slight increase in overall production coincided with an increase in the size of the population due to a significant fall in emigration during the Second World War. As a consequence, Irish *per capita* income fell, albeit slightly, as compared to its pre-war level. While Irish *per capita* income levels

remained almost unchanged, income levels dropped significantly in most western European countries with the exception of Switzerland and Sweden. The consequence of this can be seen as Ireland moved up considerably in the European income league table on the eve of the Marshall Plan (see Table 4). While Irish income per head remained almost unchanged relative to Britain, the gap between Ireland and the United States widened significantly, as did that with the leading European countries at the time.<sup>10</sup>

**Table 4: Income per person in 1938 dollars**

1938		1947		1948	
United Kingdom	378	Switzerland	451	Sweden	441
Switzerland	367	Sweden	413	United Kingdom	413
Sweden	367	United Kingdom	363	Switzerland	401
Germany	337	Denmark	276	Norway	307
Netherlands	323	Belgium	255	France	287
Denmark	316	Norway	248	Ireland	278
Belgium	275	Ireland	247	Netherlands	253
Norway	255	Netherlands	219	Belgium	250
Ireland	252	France	207	Czechoslovakia	228
France	236	Czechoslovakia	165	Poland	195
Austria	179	Finland	151	Germany	173
Finland	178	Germany	125	Denmark	160
Czechoslovakia	176	Poland	114	Hungary	141
Italy	127	Italy	100	Finland	130
Hungary	112	Austria	96	Italy	105
Poland	104	Hungary	82	Austria	98
Greece	80	Other	70	Greece	73
Other	72	Greece	58	Bulgaria	66
Bulgaria	68	Bulgaria	51	Other	62

Source: United Nations. Economic Commission for Europe. Research and Planning Division, Economic Survey of Europe in 1948 (Geneva: United Nations. Department of Economic Affairs, 1949), 235.

<sup>10</sup> United Nations. Economic Commission for Europe. Research and Planning Division, *Economic Survey of Europe in 1948* (Geneva: United Nations. Department of Economic Affairs, 1949). 224-8.

Contemporary statistics, in other words, portrayed the Irish economy as remarkably strong compared to its European neighbours. While doing better economically than most other countries, the Irish economy, on the whole, simply conformed to the general picture elsewhere in Western Europe.<sup>11</sup> After the deprivations of the war years, Irish policy-makers disagreed with the favourable assessment of the ECE survey fearing that the report would lend weight to “the erroneous impressions entertained abroad concerning the degree of prosperity of this country.”<sup>12</sup> Since this perception might weaken Ireland’s case for Marshall aid, the inter-departmental ERP committee called for a detailed statistical study of Irish living standards in order to dispel this notion of relative prosperity. The memorandum drafted by Kenneth Whitaker, a senior official in the Irish Department of Finance, argued that the FAO figures about the average calorie intake of Irish citizens exaggerated the actual food consumption by Ireland’s urban population. Citing the figures of the 1946 National Nutrition Survey, he emphasised that city dwellers consumed only slightly more calories per day than the average English person. Indeed, the writer went on to say that the results of the survey showed:

“consumption in Dublin, in which one-third of the non-agricultural population of Ireland resides, averaged 2,640 calories in 1946/47. It is important to emphasise that this figure is properly weighted to represent the occupational distribution of the city as a whole. It is estimated further that about 65 % of the population of the city have a standard below this low average.

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<sup>11</sup> On this point, see Alan S. Milward, *The Reconstruction of Western Europe, 1945-51* (London: Methuen, 1984). 7-19.

<sup>12</sup> NAI, DFA 305/57/15: Minutes of a Meeting of the Inter-Departmental E.R.P. Committee held in the Department of External Affairs, 12 June 1948.

These figures are surely remarkable for the capital city of an agricultural country."

Nevertheless the irony was lost on the writer that the average food consumption of 2,640 calories per day in Dublin was still considerably higher than the average calorie intake of most Europeans in 1947. Therefore, the implication of this memorandum, that the Irish were not comparatively well fed by European standards, was unlikely to cut any ice with foreign aid officials. Moreover, the memorandum claimed that Irish average income per head "... was indeed amongst the lowest of the sixteen countries participating in E.R.P." This conclusion seems to be based on pre-war figures taking into account a perceived drop in economic output during the war. Based on this statement, Whitaker argued that Irish living standards would decline further unless the country received increased imports of animal feed and fertiliser.<sup>13</sup> However, this analysis is contradicted by contemporary GNP estimates. As Table 4 shows, Irish GNP *per capita* in 1947/1948 was more than 3 times the level in Greece, 2.5 times the level in Italy and Austria and substantially higher than in Denmark, Germany, and the Netherlands. Therefore, Whitaker's memorandum hardly provided a convincing case for Ireland receiving additional Marshall aid. Indeed, a later document based on Whitaker's memorandum did not contain the passages on Irish living standards.<sup>14</sup>

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<sup>13</sup> NAI, DFA 305/57 I: "Ireland's relation to E.R.P.", memorandum by Whitaker, 29 June 1948.

<sup>14</sup> NAI, DFA 305/57 I: "General Considerations on Ireland's Position in relation to the European Recovery Program.", undated (August?) 1948.

This discussion reveals a marked difference in the perception of Ireland's economic position in 1947/1948 between foreign observers and Irish policy-makers. Based on available statistical information, most outside observers argued that Ireland had largely recovered from the war and did not suffer from deprivation of food and other necessities. On the other hand, Irish officials believed the country to be a deserving case for Marshall aid, because it was a predominantly agricultural economy and therefore a relative underdeveloped country, whatever the international comparisons of living standards may have suggested. While protesting that international comparisons distorted the true picture of the country's position, Irish officials, nevertheless, compared living standards with the most developed countries in Europe rather than with those that had suffered the most due to the fighting. The reaction of Irish officials to the different assessment of the country's economic position abroad also reflected a certain mindset among Irish government officials that Ireland was entitled to aid as an underdeveloped country (and as a victim of the war or past wrongs). Given this world-view, the Irish government remained undecided whether or not to accept Marshall aid on the terms offered. Arguably, Irish officials misunderstood the purpose of Marshall aid in the sense that the American aid programme was primarily aimed at restoring intra-European trading relations and facilitating the re-integration of the West German economy, rather than at assisting the reconstruction of national economies.

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Despite their concerns about some aspects of the ECE survey, Irish policy-makers thought that its findings should nevertheless be used to bolster Ireland's case for more assistance since they highlighted that throughout

Europe the recovery of agricultural production lagged behind the revival of industry. However, the problem remained that the available international statistics revealed little about the prospects for further expansion of the Irish economy. On closer inspection, the available statistics failed to pinpoint the real weakness of the Irish economy, its dependency on foreign supplies of coal and fertiliser. Both commodities were subject to international allocation respectively through the International Emergency Food Council (IEFC) and the European Coal Organisation (ECO) – a fact that prevented the Irish government from purchasing sufficient supplies on the world market. Ireland, due to its wartime neutrality, lacked sufficient clout in these organisations to obtain larger allocations. For this reason, Irish policy-makers enlisted the Irish lobby in the American Congress to press for an increase in the allocations of fertilisers and animal feed to Ireland.<sup>15</sup> While other countries received additional coal shipments to increase their domestic production of fertiliser, Ireland continued to suffer from severe shortages of fertiliser due to its pariah status in the immediate postwar period.<sup>16</sup>

As Table 3 shows, Irish agricultural output compared extremely favourably with other European countries, despite the shortage of fertilisers leading to a significant drop in the yields of most arable crops. In 1945, Irish net agricultural output rose by almost 17 per cent over its pre-war level. In the following five years, however, it started to drop. Arguably, this paradoxical development shows that Irish agriculture did not depend so much on

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<sup>15</sup> On this point, see Bernadette Whelan, "Integration or Isolation? Ireland and the Invitation to Join the Marshall Plan," in *Essays in Irish Foreign Policy, 1912-66*, ed. Michael Kennedy and John Skelly (Dublin: Four Courts Press, 2000).

<sup>16</sup> David Wightman, *Economic Co-Operation in Europe: A Study of the United Nations Economic Commission for Europe* (London: Stevens & Sons, 1956). 107-8.

additional inputs of fertilisers and machinery as much as on inputs of land and labour. Thus, the wartime improvement in agricultural production was due to the increased input of labour and increased tillage of land at the expense of permitting a certain degree of soil depletion. Indeed, Raymond Crotty emphasises that the wartime experience revealed the underdeveloped state of Irish agriculture.<sup>17</sup> On the whole, Irish policy-makers did not help their case for aid as they argued for increased food and animal feed imports in order to return agricultural production to its traditional export-oriented pattern.

In contrast to the fertiliser shortage, the coal shortage had even more immediate consequences for the Irish economy and therefore created a sense of real economic crisis in the spring of 1947. Despite increased domestic production of coal and turf, available supplies restricted coal consumption to less than sixty percent of the pre-war level in 1946.<sup>18</sup> As a consequence, the country lacked sufficient coal stocks and depended on constant imports in order to maintain the electricity supply and the transport system. When supplies failed to materialise due to the severe cold weather in February and March 1947, the country ground to a virtual standstill for five weeks. In the aftermath of the fuel crisis, the Minister for Industry and Commerce, Seán Lemass, announced the purchase of \$20 million American coal.<sup>19</sup> Indeed, the purchase of American coal was largely responsible for the massive increase in

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<sup>17</sup> Raymond D. Crotty, *Irish Agricultural Production: Its Volume and Structure* (Cork: Cork University Press, 1966). 158-62.

<sup>18</sup> United Nations. Department of Economic Affairs, *Post-War Shortages*. 21-2, Tables 13 and 14.

<sup>19</sup> "Ireland - In the Economic Crisis," *Roundtable 37* (1947).

"Mr. Lemass on Expansionist Foreign Trade Policy and Exclusion of British Trade Intervention - Large Coal Purchase in U.S.A.," *Keesing's Contemporary Archive*, 31 May - 6 June 1947.

Irish dollar exports from just under \$32 million in 1946 to over \$116 million in 1947.<sup>20</sup> Nevertheless, Irish coal consumption dropped by another 5 percent in 1947 due to limited availability of coal throughout Europe. Indeed, despite the allegedly severe coal shortages in most countries, Ireland was the only European country in which coal consumption actually fell during 1947.<sup>21</sup>

Ireland's economic problems largely arose from the breakdown of its trading relationship with its large neighbour, because British import controls and bulk purchasing of agricultural products excluded many Irish exports. During the Second World War Britain had continued to purchase agricultural products, but at the same time it had curtailed coal exports to a trickle, starving Ireland of its established source of supply. Following the war, Britain did not resume imports of live cattle nor did it resume exports of coal. As a consequence, Irish exporters tried to find alternative markets for their agricultural products on the Continent. However, this search proved difficult despite the general shortage of food, because Ireland offered mainly meat, whereas most European countries sought to import grain and other staple foods. Given the imperatives of national reconstruction, most governments regarded meat imports as an expendable luxury and imposed restrictive import controls in order to preserve their dollar reserves to purchase vital supplies and machine tools from the United States. As a consequence, most European governments conducted their trade with other European countries on a strictly bilateral basis. Under such bilateral trading arrangements, countries tried to balance their imports with their exports, rather than using

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<sup>20</sup> On this point, see Milward, *Reconstruction*. 26–36.

<sup>21</sup> United Nations. Department of Economic Affairs, *Post-War Shortages*. 21, Table 13.

their hard currency reserves. This created particular problems for Ireland since most potential trading partners did not offer the goods Ireland needed. Furthermore, like the rest of Europe, Ireland faced problems in importing vital machinery needed to improve both its agriculture and its fledgling industry – such imports could only be obtained from the United States in return for scarce and valuable dollars.

These difficulties led to a growing awareness among Irish policy-makers of Ireland's dependency on foreign supplies and export markets. To overcome this problem, Irish ministers favoured a return to the reciprocal trading arrangements of coal-cattle pacts encapsulated in the Anglo-Irish trade agreement of 1938, which had been suspended by wartime controls in both countries. While Irish politicians demanded unhindered market access for their agricultural exports to the British market, they also insisted on discriminating against imports of British manufactured goods to Ireland.<sup>22</sup> Despite acknowledging the need for economic co-operation, the Irish government favoured the continuation of an international trade regime based on bilateral preferential agreements, which most policy-makers outside Ireland rejected as a sound basis for the post-war international economic order.<sup>23</sup>

As shown above, contemporary international statistics obscure the fact that the potential for further expansion of the Irish economy was restricted by problems of obtaining vital imports of coal and fertilisers from a range of possible trading partners. On the eve of the Marshall Plan speech of June 1947, Ireland faced the peculiar problem of a potential economic collapse due

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<sup>22</sup> On this point, see "Ireland after Twenty-Five Years," *Roundtable 37* (1947).

<sup>23</sup> G. A. Duncan, "Eire's Balance of Payments Problem," *The Banker*, February 1949, 118.

to a shortage of key supplies, rather than because of an inability to pay for her essential imports, as was the case with other western European countries.<sup>24</sup> Even though the Irish government could afford to purchase on the world market, it could not obtain sufficient supplies of either coal or fertilisers.

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Like most other Western European countries in the immediate post-war period, Ireland faced the problem of financing increased imports from the dollar area. Prior to the Second World War, Ireland paid for its trade deficit with significant invisible earnings from tourism, emigrant remittances and overseas investment income. However, Ireland's invisible earnings recovered only slowly after 1945. Despite these difficulties, Ireland was better placed than most European countries, because the country continued to be one of a small number of European creditor nations after 1945.<sup>25</sup> Ireland's accumulated sterling balances increased considerably during the war and amounted to more than £400 million in October 1947.<sup>26</sup>

Throughout the spring and summer of 1947, Irish policy-makers assumed that Ireland would continue to be able to continue to draw on its accumulated sterling balances to finance its trade deficits for the foreseeable

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<sup>24</sup> Milward, *Reconstruction*. 1-55. On the concept of the dollar gap, see also Till Geiger, "Reconstruction and the Beginnings of European Integration," in *Western Europe since 1945: Economic and Social Change*, ed. Max-Stephan Schulze (London: Longman and Economic History Society, 1999), 27-30.

<sup>25</sup> Ireland had already been one of few European creditor nations during the interwar period; see Colin Clark, *The Conditions of Economic Progress* (London: Macmillan, 1940). 56.

<sup>26</sup> Ireland's sterling balances increased by £163 million during the period between 1940 and 1946. The figure of £400 million is based on the official sterling balances on 20 October 1947, but does not include private holdings; see NAI, DFA 394/74: Letter Cremin - de Lalaing, 27 October 1947. This letter reveals that the Irish government did not know precisely the scale of Ireland's sterling balances in this period. This figure is confirmed by Patrick Lynch who puts the Ireland's sterling balances at £430 million in 1946; see Patrick Lynch, "The Irish Economy since the War, 1946-51," in *Ireland in the War Years and After*, ed. Kevin B. Nowlam and T. Desmond Williams (Dublin: Gill and Macmillan, 1969), 196.

future. Therefore, Irish policy-makers ignored early warnings that the Attlee government might have to restrict or even suspend foreign drawings on the Sterling Area dollar pool. During the preliminary discussions of the American Marshall Plan proposals in July 1947, Irish officials maintained that Ireland did not require Marshall aid.<sup>27</sup> However, Ireland's position changed radically at the end of August 1947, when the British government suspended the convertibility of sterling. As a consequence, the Irish government effectively lost its right to draw on its accumulated sterling balances for the duration of the Marshall Plan. The unilateral British decision to suspend sterling convertibility left the Irish government only one option: to seek closer economic co-operation with its larger neighbour. After initial talks with their Treasury counterparts, Irish officials warned ministers that:

"To assume that Britain must give us all the goods we need or, alternatively, supply us with equivalent purchasing power abroad, because she owes us so many millions of sterling, is to ignore the realities of the present crisis."

Indeed, senior British officials warned that Irish non-co-operation might lead to the imposition of controls over the use of Ireland's sterling holdings, unless the Irish government tightened Irish exchange controls in order to prevent the outflow of sterling through Dublin. Non-compliance would lead to the severing of links with the Sterling Area, leaving Ireland in an even worse position. Moreover, Irish officials feared British market power

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<sup>27</sup> NAI, DFA 305/57 I: Report of 19th July on Work of Co-operation Committee by F.H. Boland, 19 July 1947.

on non-dollar markets might force Ireland to purchase goods on dollar markets.<sup>28</sup>

In the wake of the 1947 convertibility crisis, Irish policy-makers realised the full extent of the country's interdependence with its European neighbours.<sup>29</sup> During their crisis meetings with British Treasury officials, the Irish delegation realised that the country now required Marshall aid to finance its dollar import requirements for the foreseeable future. Confronted with the British demands for austerity measures, a high-level delegation of Irish government ministers went to London in late September 1947.

Both sides agreed that a bilateral trade agreement might benefit both countries in the current exchange crisis. Speaking for the British government, the Minister for Economic Affairs, Stafford Cripps, pointed out that the sterling crisis was the reason why the Attlee government had been forced to abandon its traditional support for multilateral trade and to seek bilateral trade agreements. In contrast to Cripps, de Valera and Lemass tried to capitalise on the current predicament insisting on the continued protection of domestic Irish industry. Britain should not expect to regain its pre-war market for manufactured goods in Ireland. At the same time, Lemass emphasised the importance of raw material deliveries for Irish industry and the potential political implications for the Fianna Fáil government, if the availability of consumer goods had to be reduced even further.<sup>30</sup>

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<sup>28</sup> NAI, DFA P 130: Memorandum Department of External Affairs - de Valera with attached note on "The Direction of Irish Workers to the British coal mines", 16 September 1947.

<sup>29</sup> NAI, DFA 305/57 I: Report received from Mr. Boland, 30 August 1947.

<sup>30</sup> NAI, DFA P 130: Letter Archer - McCauley communication the British minutes on "Discussion with Eire Ministers", 19 September 1947, 23 September 1947.

Left with no other option, during the autumn of 1947, Irish ministers negotiated a preferential trade deal, which partly restored the traditional exchange of coal and cattle between the two countries. In return for increased deliveries of coal, raw materials, machinery and fertilisers, the Irish government agreed to adopt more stringent austerity measures and impose tighter currency controls. De Valera and his ministers also accepted that Ireland would curtail its drawing on the dollar pool of the Sterling Area and no longer be able to draw on its sterling balances when Marshall aid became available in spring 1948.

In a speech to the Daíl in November 1947, de Valera presented the Anglo-Irish agreement as an example of European self-help and mutual assistance, which the American policy-making community had called for when they extended the Truman's administration offer of financial aid to Western Europe in June 1947. In closing his speech, de Valera announced that the government was considering whether or not to join the International Monetary Fund and the International Bank for Reconstruction and Development.<sup>31</sup> De Valera's rhetoric convinced some observers that the Irish government would end its policy of economic isolationism and in future participate fully in the world economy.<sup>32</sup> Despite these benign interpretations, however, the Anglo-Irish agreement violated the multilateral objectives of

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<sup>31</sup> "Agreement on Increased British Coal, Raw Materials and Machinery Supplies to Eire and Larger Food Exports to Britain. - Irish Restrictions on Petrol Consumption, Foreign Exchange for Travel, and Commodity Purchases in Hard Currencies," *Keesing's Contemporary Archive*, 15-22 November 1947.

<sup>32</sup> "Eire faces Dollar Crises," *Economist*, 4 October 1947.; Nicholas Mansergh, "The Implications of Eire's Relationship with the British Commonwealth of Nations," *International Affairs* 24 (1948): 11-2.

Marshall aid and was only tolerated by the Truman administration as a temporary measure to shore up the Sterling Area.<sup>33</sup>

A close reading of de Valera's statement suggests that the Irish government saw the Anglo-Irish agreement as the beginning of a longer-term bilateral relationship for mutual benefit of both countries. In contrast to the Irish government, British policy-makers entered the agreement in response to the dollar crisis as it provided a way of reducing imports from the dollar area and stopping the outflow of sterling from the Sterling Area via Dublin. As Cripps indicated to Irish ministers in September, the British government saw the Anglo-Irish trade agreement as a temporary departure from a long-term objective of multilateral trade liberalisation. Indeed, the British government rejected Irish demands for increased deliveries of cotton yarn and fertilisers as well as cutting down on Irish requests for increased steel and coal exports.<sup>34</sup> In response to Irish protests, Cripps<sup>35</sup> insisted that the British government was

“anxious to go as far as possible in direction of economic integration and that only the existing difficult circumstances, and not any lack of willingness, had made them unable to accept all the suggestions made by the Eire Government.”<sup>36</sup>

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<sup>33</sup> Department of State, ed., *Foreign Relations of the United States, 1947, volume iii: British Commonwealth, Europe* (Washington: Government Printing Office, 1972). 81-3. (hereafter: FRUS 1947 iii, 81-3): Memorandum Nitze - Lovett, 10 October 1947; FRUS 1947 iii, 90-3: Memorandum Reber - Lovett with enclosed undated memorandum Gross and Ness - Lovett.

<sup>34</sup> NAI, DFA P 130: British minutes of "Discussion with Eire Delegation", 28 October 1947, 28 October 1947.; NAI, DFA P 130: British minutes of "Discussion with Eire Ministers", 3 November 1947.

<sup>35</sup> Between the two ministerial meetings in September and November 1947, Stafford Cripps moved from the Board of Trade to head a new created Ministry of Economic Affairs (29 September 1947), before being appointed Chancellor of the Exchequer (13 November 1947); see Kenneth O. Morgan, *Labour in Power, 1945-1951* (Oxford: Oxford University Press, 1985). 345-58.

<sup>36</sup> NAI, DFA P 130: British minutes of "Discussion with Eire Ministers", 3 November 1947.

While facilitating the re-integration of the Irish and the British economy, the 1947 Anglo-Irish agreement deepened the dependence of Ireland on the British market. Even though the British government failed to increase its exports of vital materials to Ireland, the Inter-Party government, which succeeded de Valera's Fianna Fáil administration in March 1948, agreed, in August 1948, to direct at least 90 percent of agricultural exports to Britain.

This raises the interesting question of why Irish policy-makers were prepared to surrender to the British so much power over their economy. At one level this was related to the importance of the Irish agricultural lobby. Irish policy-makers sought to improve the income of the domestic agricultural sector by demanding an increase in the prices for Irish live-cattle exports to Britain. During the war, the British government had used strict import controls to pay significant lower prices for food imports from Ireland than to domestic farmers. The dollar crisis now provided the Irish government with considerable leverage to demand the narrowing price differential between prices paid to British farmers and imports from Ireland, because the Attlee government needed Irish co-operation over exchange controls and needed to reduce its own dollar imports, by buying more food from within the Sterling Area.

At the same time, Irish policy-makers seized the option of closer ties with Britain for two reasons. First, the alternative strategy of obtaining imports from other European countries, which the Irish government had pursued in the 1930s, no longer seemed a promising one, because of the continued shortages of coal and fertilisers in most continental countries. While Ireland had diversified the sources of its imports in the 1930s, it had

failed to reduce the dependence on the British market for its exports, giving Britain considerable economic power over Irish economic policy during the war.<sup>37</sup> Moreover, British officials dissuaded their Irish counter-parts from increasing Irish imports from continental Europe, pointing out how most European governments preferred to keep their sterling balances down in the wake of the convertibility crisis.<sup>38</sup> To some extent, the Anglo-Irish monetary union and membership of the Sterling Area limited the policy options of the Irish government. Nevertheless, there was a more profane reason for its foreign economic policy: economic integration within the British system of agricultural protection satisfied the agricultural export sector and could be achieved without discontinuing protection for domestic industry.<sup>39</sup>

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<sup>37</sup> Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945), 108–9.

<sup>38</sup> NAI, DFA P 130: Record of a discussion of Hogan and Murray with Brooks at the Treasury on 8 September, 8 September 1947.

<sup>39</sup> Brian Girvin, "Irish Agricultural Policy, Economic Nationalism and the Possibility of Market Integration in Europe," in *The Green Pool and the Origins of the Common Agricultural Policy*, ed. Richard T. Griffiths and Brian Girvin (London: Lothian Press, 1995), 245–6.

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During the following twelve months, the Irish policy-making community invariably drew on their own various interpretations of Ireland's position in the context of European recovery. On the one hand, they emphasised that Ireland needed the Marshall aid only because the convertibility crisis of sterling in August 1947, which meant that the country could no longer sustain its existing trade deficits despite being a creditor nation.

"Inability to convert sterling into dollars is, therefore, the fundamental cause of Ireland's present dependence on dollar aid from the U.S.A."<sup>40</sup>

On the other hand, the Irish government argued that outside observers overestimated the relative development of the country and therefore wrongly assumed Ireland did not require economic aid. Irish policy-makers suspected this latter assessment informed the American decision in April 1948 that Ireland would receive Marshall aid as a loan rather than a grant. In response, the Irish government launched a campaign to overturn that decision, arguing that a dollar loan would undermine Ireland's future economic development. In setting out the Irish case, officials argued that it would be difficult for Ireland to repay a dollar loan, given its limited dollar-earning capacity. In reply to this line of argument, American aid administrators pointed out that

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<sup>40</sup> Department of External Affairs, *The European Recovery Programme: Long Term Programme (1949-1953)*, P. No. 9198 (Dublin: Stationery Office, 1948). 8.

given its sterling balances Ireland would be able to repay the loan as soon as convertibility of sterling would be achieved as a result of the ERP.<sup>41</sup>

The Truman administration still faced an up-hill battle for the ERP in Congressional hearings and therefore lacked any room for major concessions to the Irish government. Indeed, the House of Representatives Appropriations Sub-Committee questioned the rationale for the envisioned aid allocation to Ireland particularly since the other wartime neutrals (Sweden, Switzerland, and Portugal) were not to receive any financial aid under the ERP. Criticisms by the sub-committee particularly focussed on several items of the Irish import programme such as petroleum, canned fish, and agricultural machinery, because the members felt that the Irish government was trying to finance domestic economic expansion, rather than simply reconstruction. In this context, the Committee members repeatedly referred to Ireland's limited wartime damage, relative high living standards and speedy postwar recovery. US government officials tried to counter these criticisms by arguing that Ireland needed ERP aid because of its relationship with the sterling area.<sup>42</sup> The Truman administration, at least publicly, justified ERP aid to Ireland as a contribution to European recovery, because the financial assistance would ease the strains on the sterling area and on intra-European payments.

On the whole, historians have rejected the explanation that Marshall aid to Ireland was primarily motivated by economic reasons, and have argued that Ireland received an ERP loan rather than a grant because of its wartime

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<sup>41</sup> NAI, DFA 305/57 I A: Meeting in Mr. McElligott's Room, Department of Finance, on Tuesday, 1st June 1948, at 11:30 a.m., 1 June 1948.

<sup>42</sup> NAI, DFA 305/57 I A: Ireland's Case for ERP Aid Before the House Appropriations Committee, 17 June 1948.

neutrality.<sup>43</sup> While there may be some truth in this suggestion, Troy Davis argues that historians have uncritically accepted the Irish government's line that the country could not repay a dollar loan. He proceeds to show that the ERP loans were given on extremely favourable conditions and, therefore, hardly imposed an onerous burden on a country with substantial foreign assets. Moreover, he argues that Irish historians have ignored the fact that Congress insisted a fairly proportion of ERP aid be given as loans rather than grants, which left American aid administrators with awkward choices to make. All factors considered, Davis suggests that the Irish case for grant aid was extremely weak.<sup>44</sup>

On the last point, Davis follows the assessment of the ERP Administrator, Paul Hoffman, who told the Irish minister to Washington, J. D. Brennan, most emphatically "that if Ireland could not service a loan, after recovery, then no country could service one." As this statement indicates, the Irish government's memorandum threatening to reject an ERP loan and insisting on grant aid clearly irritated Hoffman and other Economic Cooperation Administration (ECA) officials, who, based on economic considerations, thought of Ireland as essentially a loan-country.

Hoffman emphasised that if Ireland should reject the loan offered to it in the current quarter, this might well mark the end of ERP aid to Ireland, as other OEEC countries might take up the loans now allocated to Ireland.

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<sup>43</sup> For example, see Raymond, "Marshall Plan," , 299–300.; Dermot Keogh, *Ireland and Europe, 1919-1989: A Diplomatic and Political History* (Cork: Hibernian University Press, 1990). 223–4. A similar point is made by Milward, *Reconstruction*. 183–4.

<sup>44</sup> Davis, *Dublin's American Policy*, 108–15. A potential weak point of Davis' case is the fact that at the time of the aid allocation the terms of the ERP loans had yet to be announced; see NAI, DFA 305/57 I A: Meeting in Mr. McElligott's Room, Department of Finance, on Tuesday, 1st June 1948, at 11:30 a.m., 1 June 1948.. Given this uncertainty, the apprehension among Irish officials regarding accepting ERP loans is at least understandable.

While willing to discuss the terms of the loans, Hoffman insisted that the ECA base its decision on allocating aid as grants or loans on economic rather than political considerations.<sup>45</sup> To some extent one could argue that Hoffman statement was disingenuous given that the allocation of Interim Aid to some Western European countries (France, Italy and Austria) in December 1947 revealed the existence of political and strategic considerations behind American financial assistance.<sup>46</sup> At the same time, the fact, that the Irish government considered rejecting the ERP aid on offer, revealed that Ireland did not require the aid as urgently as other countries.<sup>47</sup>

Given the inconsistency of the Irish position, the new Minister of External Affairs, Sean MacBride, failed to persuade the Truman administration that Ireland could not repay a dollar loan at the end of Marshall aid, with international convertibility restored. Rather than concentrating to negotiate favourable terms for Ireland's ERP loans, MacBride argued that the allocation of ERP aid as a loan rather than as a grant would present the Irish government with a political problem, because this would treat the two parts of the country differentially. He argued that if the United Kingdom were to receive grant aid, Northern Ireland would benefit from such grants, while the rest of the country would be lumbered with an increased national debt. However, the Truman administration

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<sup>45</sup> DFA 305/57 I A, "letter Brennan - Boland," (NAI, 1948).

<sup>46</sup> William Adams Brown, Jr. and Redvers Opie, *American Foreign Assistance* (Washington: Brookings Institution, 1953). 139-41.; Michael J. Hogan, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe* (Cambridge: Cambridge University Press, 1987). 83-4.; and Milward, *Reconstruction*. 86.

<sup>47</sup> In May 1948, the Irish government decided not to seek an ERP loan in the first quarter of ERP aid allocations, but leave the door open to accept ERP aid at a later stage; see NAI, DFA 305/57 I A: letter O Muimhneachain - External Affairs, 14 June 1948.

rejected this argument, because they regarded the issue of partition as essentially a domestic matter between the two countries.<sup>48</sup>

While Davis' interpretation redresses the balance of argument, he, as other historians, focuses on the loan-grant issue at the expense of examining several other facets of this Irish-American spat. First, historians of Ireland's involvement in the Marshall Plan have overlooked that the timing of the Irish intervention in May 1948 was unhelpful in persuading the Truman administration of their case. Irish policy-makers seemed oblivious to the severe difficulties faced by their American counterparts in gaining Congressional approval for the ERP. American officials feared that MacBride's attempts to enlist the Irish lobby in Congress might potentially undermine the support for whole aid package given the considerable criticism of aid to countries such as Ireland on Capitol Hill as well as in the press.<sup>49</sup>

If the Irish government had hoped for a last minute change in American thinking after Brennan's interview with Hoffman, their case was further undermined in late June 1948 by a British refusal to submit a national import programme or enter into any payments agreements with other OEEC countries "... 'without first knowing the loan/grant ratio' contemplated in the aid allocation to the United Kingdom." In the same way as the Irish policy-making community had insisted in May, the British government now argued that all ERP recipient countries had the right to reject all or part of any aid package offer to them. The British obstructive interjection prompted ECA top man Averell Harriman to state categorically that recipient countries could not

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<sup>48</sup> Keogh, *Ireland and Europe*. 222-3.

<sup>49</sup> Milward, *Reconstruction*. 183-4.

retain their right to a grant if they rejected the loan element of a national aid package.<sup>50</sup> Irish officials had told their British counterparts in early June 1948 that their government was contemplating not to take up the ERP loan offered by the ECA and instead floated the idea of receiving Marshall aid indirectly through the Sterling Area.<sup>51</sup> There is no evidence in Irish diplomatic records that the two interventions were related, but it is conceivable that the Irish approach over the loan-grant issue inspired the British submission. Since the launch of the Marshall Plan, officials of both governments frequently discussed their positions on the American proposals. Indeed, the Irish Department of Finance would have preferred even closer co-ordination of the response of both governments and seemed to favour one joint aid allocation to the entire British Isles because of the monetary union between the two countries. While sharing these sentiments, Boland opposed this move, because he felt that the Irish Department of Finance officials ignored the considerable animosity of the American policy-making community against the Sterling Area. As a result of such animosity, he argued, the primary objectives of the Irish government in their negotiations with the Truman administration might have been jeopardised.<sup>52</sup>

It appears, therefore, that the Irish policy-making community resented having to borrow dollars from the United States because of the inconvertibility of sterling. By focusing on the loan-grant issue, historical

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<sup>50</sup> Imanuel Wexler, *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective* (Westport: Greenwood Press, 1983). 211-2.

<sup>51</sup> NAI, DFA 305/57 I A: Memorandum to McElligott (copy), 14 May 1948. The Irish Department of Finance suggested in February 1948 that ERP aid to Ireland should be given indirectly through the Sterling Area in order to protect the country's right to draw on the Sterling Area's dollar pool; see Ronan Fanning, *The Irish Department of Finance, 1922-58* (Dublin: Institute of Public Administration, 1978). 411-23.

<sup>52</sup> NAI, DFA 305/57 I A: Memorandum Boland - Minister, 27 April 1948.

accounts reflect this resentment and thereby create the impression that Ireland was unfairly treated over the allocation of Marshall aid. For example, Lee cites the a letter by Sean McBride to an ECA official based in Dublin claiming that because of the large ERP grant to Britain “the feeling in Ireland was that, in comparison to other European countries, it did not get a square deal.”<sup>53</sup> In this context, he also seizes on a sardonic remark by a State Department official during MacBride’s visit to Washington in May 1948, that “the Irish case ‘suffered from the absence of a communist movement in Ireland ...’”, to press the government’s claim about unfair treatment by the Truman administration.<sup>54</sup>

Such interpretations, however, take no account of the fact that Ireland received proportionally the third largest share of financial aid during the first fifteen months of the ERP (see Table 5). Only ERP allocations to Austria (14.0 percent of GNP) and the Netherlands (10.8 percent of GNP) were larger than the extra 7.8 percent of GNP received by Ireland. Indeed, Ireland’s ERP aid was more than 3 times as large as a percentage of GNP than the economic assistance to the United Kingdom in the same period.<sup>55</sup> In this sense, Ireland may have benefited from the fact that the ECA had to allocate a substantial proportion of aid as loans, Ireland being one of a few countries that could be reasonably expected to repay a loan. This finding strengthens Davis’ claim that Ireland received American financial assistance mainly because the

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<sup>53</sup> As cited by Joseph J. Lee, *Ireland, 1912-1985: Politics and Society* (Cambridge: Cambridge University Press, 1989). 304.

<sup>54</sup> As cited by Lee, *Ireland*. 304. Lee relies on Fanning’s study of the Department of Finance for this remark, which in the original reads: “the Irish case ‘suffered from the absence of a communist movement in Ireland and from propaganda about our tourist trade and good living conditions in Dublin.’”; see Fanning, *Department of Finance*. 420-1.

<sup>55</sup> Milward, *Reconstruction*. 95-6.

Truman administration wanted to help Britain indirectly by relieving the pressure on the dollar pool of the Sterling Area.<sup>56</sup>

In subsequent years, Ireland no longer qualified for such a large relative share of aid, because American aid officials thought that the country's economy had largely recovered from the displacement during the war and no longer needed to expand investment. Like Belgium, administrators thought Ireland needed to adjust its trade balance in order to enable the country to finance its

**Table 5: Percentage of national income represented by net ERP aid after operation of drawing rights, 1 July 1948 to 30 June 1949 American aid**

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Austria	14.0
Netherlands*	10.8
Ireland	7.8
France*	6.5
Norway	5.8
Italy	5.3
Iceland	5.0
Denmark	3.3
Western Germany (3 western zones)	2.9
United Kingdom	2.4
Belgium/Luxembourg*	0.6
Sweden	0.3

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Note: \* Including aid to overseas territories.

Source: Bank for International Settlements. *Nineteenth Annual Report, 1st April 1948 - 31st March 1949*. (Basle: Bank for International Settlements, 1949), p. 20.

dollar gap in the future. Both countries continued to receive a declining share of Marshall aid in an attempt to re-establish multilateral trade and payments

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<sup>56</sup> Davis, *Dublin's American Policy*. 113.

in Western Europe.<sup>57</sup> In this context, the Irish government resisted an American plan, drawn up in February 1949, to allocate some of its financial assistance as conditional aid in order to expand Anglo-Irish trade. Through conditional aid, Britain would have been able to draw a proportion of Irish aid into its own coffers by increasing its imports of Irish produce. Therefore, conditional aid might have assisted Ireland to widen its share in the British market. Nevertheless, the Irish government felt that sharing its ERP aid allocation with Britain through conditional aid was politically unacceptable. At the same time, Irish policy-makers refused to enter into the intra-European payments agreements proposed by the ECA preferring instead to conduct international payments through the Sterling Area mechanism.<sup>58</sup> Indeed, Irish officials never contemplated an independent participation in the liberalisation of intra-European payments under discussion in Paris or later in the European Payments Union.<sup>59</sup> By resisting American pressure, the Irish government deepened its dependence on the monetary union with Britain, while at the same time refusing to expand bilateral trade with Britain more rapidly. Arguably, this obstinate attitude made American policy-makers even less inclined to increase dollar aid to Ireland.

This development reveals how, from the very beginning, the Irish government remained ambivalent about the Marshall Plan and about American pressure for the liberalisation of intra-European trade. Having negotiated a preferential trade deal with Britain, the Irish government did not

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<sup>57</sup> Hardley Arkes, *Bureaucracy, the Marshall Plan and the National Interest* (Princeton: Princeton University Press, 1972). 243.

<sup>58</sup> NAI, DFA 305/57/205/2/1: Department of External Affairs Memorandum for the Government with two attached memoranda, 10 February 1949.

<sup>59</sup> Fanning, *Department of Finance*. 411.

seek to expand its trade with continental countries after the autumn 1947. While the continued shortages of coal and fertilisers hampered economic expansion, the Irish government failed to address these underlying problems in its *Long Term Programme* submitted to the ECA and the OEEC in the summer of 1948. In order to expand exports, the government's economic recovery strategy called for increased imports of animal feed, fertilisers and machinery. These additional inputs, financed with American financial aid, would enable the agricultural sector to return to its traditional production pattern of livestock and animal products for export. While most European countries aimed to increase the production of basic foodstuffs for domestic consumption, the Irish Long-term Programme proposed a reduction in the production of bread-grain and animal feed.<sup>60</sup> Since British deliveries of fertilisers proved insufficient, the Irish government explored the possibility of exempting the imports of Dutch fertilisers from the duties protecting their domestic fertiliser industry.<sup>61</sup> However, this deal became unstuck in 1953, because of the terms of the existing Anglo-Irish trade agreements.<sup>62</sup>

Such measures tinkered with the problem rather than addressing the comparatively low agricultural productivity in Ireland over the medium term. While the Department of Agriculture supported measures to increase productivity in the farming sector, it opposed MacBride's proposal for creating an Irish deep sea fishing fleet, because it might destroy the livelihood

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<sup>60</sup> Department of External Affairs, *Long Term Programme*.

<sup>61</sup> NAI, DFA 305/57 I A: Meeting in Mr. McElligott's Room, Department of Finance, on Tuesday, 1st June 1948, at 11:30 a.m., 1 June 1948.

<sup>62</sup> NAI, DFA 314/10/4/6: Aide-Memoire by Legation of the Netherlands, 5 January 1956.

of country's inshore fishermen.<sup>63</sup> In similar fashion, the Department of Finance was opposed to MacBride's scheme of economic expansion, preferring to use the Counterpart Funds from Marshall aid to repay the national debt.<sup>64</sup> Thus, given the positions taken by major government departments, *Ireland's Long Term Programme* focused almost exclusively on increasing agricultural exports, while assuming that there was only a limited potential for industrial expansion through ERP funding. At the same time, the government proposed to continue building new manufacturing facilities in order to substitute imports with domestically produced goods ranging from aluminium pots to wool combs. Arguably, the export potential of these new industrial concerns would be rather limited and in no way would it alleviate the need to go on protecting domestic industry.<sup>65</sup> In this sense, *Ireland's Long Term Programme* reflected a rejection by the Irish policy-making community of the growth ideology embraced by other European states at the time.<sup>66</sup>

This rejection reflected the growing isolation of the Irish policy-making community in the postwar world. In contrast to other western countries, politicians and officials remained locked into the mindset of the interwar period favouring bilateralism and economic nationalism, which other governments renounced after the experience of Nazi New Order. Whereas

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<sup>63</sup> NAI, DFA 305/57 I A: European Recovery Programme, Memorandum for the Government by Department of Agriculture, 12 May 1948.

<sup>64</sup> Fanning, *Department of Finance*. 434–42.

<sup>65</sup> Department of External Affairs, *The European Recovery Programme: Basic Documents and Background Information*, P. No. 8792 (Dublin: Stationery Office, 1948). 20. On this point, see also Brian Girvin, *Between two worlds: Politics and economy in independent Ireland* (Dublin: Gill and Macmillan, 1989). 171–9.

<sup>66</sup> Girvin, *Between two worlds*. 171–2.

most governments saw economic prosperity as the key to stable international relations, de Valera and many Irish policy-makers openly rejected the materialism underlying the American model stressing Ireland's uniqueness as a western democracy and its deep-rooted belief in Catholic values.<sup>67</sup> Such sentiments are reflected in a government memorandum on the Marshall Plan submitted to the American ambassador in Dublin at height of the loan-grant dispute:

"Ireland's approach to political and economic problems is not based on materialism; basically Ireland is moved by a genuine desire to serve the ideals in which she believes. These ideals are the democratic way of life, Christian social and economic principles, human liberty, the right to national self-determination and family life. Rightly or wrongly, Ireland believes in a policy based on idealism rather than materialism."

On the other hand, the Irish government appreciated the need for urgent material aid to war-torn Europe. Indeed, the memorandum listed examples of Irish aid shipments to Western Europe and the Italian Christian-Democrats during the election campaign in the spring of 1948. While stressing the affinity between American and Irish policy on material assistance, the memorandum conveys a certain unease about the potential implications of American aid for Irish "idealism".<sup>68</sup>

An unattributed memorandum dated 4 September 1947 openly voiced such fears arguing that any unwarranted interference of the dominant world

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<sup>67</sup> On this point, see also Brian Girvin, "Why did Ireland not benefit from the Marshall Plan? A Comparative Approach" (paper presented at the 'Ireland and the Marshall Plan' conference, Institute of European Affairs, Dublin, 29 January 1999); and Gary Murphy, "Persuading the Americans?: The Irish Administrative and Political Response to Marshall Aid" (paper presented at the 'Ireland and the Marshall Plan' conference, Institute of European Affairs, Dublin, 29 January 1999).

<sup>68</sup> NAI, DFA 305/57 I: General Considerations on Ireland's Position in relation to the European Recovery Program, undated (August ?) 1948.

power threatened western European recovery and democracy. According to the memorandum's author, the discussions of the Marshall Plan proposals raised at least the spectre of American economic domination reducing Western European countries to mere satellites of the United States. The author hoped that the Truman administration would agree to cover the balance of payments deficits of Western European governments without imposing any pre-conditions. Only on such terms would Marshall aid provide the basis for an equitable and stable postwar international order. On the other hand, the author regarded making closer European economic co-operation a condition for American aid, as no less than bullying on the part of what was then the world's only nuclear power. Consequently the memorandum ruled out any far-reaching reduction in national sovereignty by recipient countries and rejected any suggestion of importing the American model to Europe and particularly to Ireland.<sup>69</sup>

Such attitudes were by no means an isolated case. For example, the head of the government's statistical service, Richard Geary, argued that the ECA proposals for recovery planning on the basis of annual programmes would be incompatible with a free economy as the Irish one, because firms could not be required to supply the necessary statistical information. Ireland would have to radically alter its economic policy regime from a free market economy to one with substantial planning (or programming) of imports and exports. As Geary argued:

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<sup>69</sup> NAI, DFA 305/57 I: How best America can aid Europe, 4 September 1947. The memorandum is included in the Department of External Affairs' file, which contains Boland's correspondence to Dublin during the CEEC in summer 1947. It is discussed at greater length in Till Geiger, "The enthusiastic response of a reluctant supporter: Ireland and the Committee for European Economic Co-operation in summer 1947," in *Essays in Irish Foreign Policy, 1912-66*, ed. Michael Kennedy and John Skelly (Dublin: Four Courts Press, 2000).

"The fundamental question is this:- Can a programme in quantitative terms be drawn up and adhered to (within limits, of course) without a national plan? To say the least, it seems doubtful."<sup>70</sup>

In the end, Irish officials decided to proceed with drawing up a Long Term Programme as well as an annual programme in order to obtain American aid, but in hindsight they tended to regard these exercises as essentially cynical.<sup>71</sup> The whole episode reveals just how reluctant the Irish policy-making community had become to take up the new ideas about liberal economic planning and policy, which had emerged during the Second World War.<sup>72</sup> After all, during this period, a number of western countries adopted some form of liberal economic planning on the basis of national income forecasting techniques (i.e. Britain, France, the Netherlands, Norway, the United States).<sup>73</sup> At a more fundamental level, the reservations of Irish policy-makers about American materialism were shared by the Catholic hierarchy and by elites in other European countries such as Italy and Portugal.<sup>74</sup> This analysis lends weight to the suggestion that postwar Ireland increasingly belonged to a circle of catholic underdeveloped societies (i.e. Italy, Portugal

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<sup>70</sup> NAI, DFA 305/57 I A: European Recovery Programme, Some Aspects of Annual programmes in A Free Economy, Memorandum prepared by Dr. Greary, 11 May 1948.

<sup>71</sup> Fanning, *Department of Finance*. 406.

<sup>72</sup> Lee, *Ireland*. 562-82.

<sup>73</sup> Till Geiger, "Strumento analitico o modello di crescita? L'influenza americana nell'elaborazione delle statistiche europee sulla crescita economica dopo la seconda guerra mondiale," *Nuova Civiltà delle Macchine* 17 (1999): 24-40. The paradox remains that Ireland was one of the first countries to publish an official national income estimate in 1944. However, these efforts were abandoned after this pioneering effort.

<sup>74</sup> Girvin, "Why did Ireland not benefit from the Marshall Plan? A Comparative Approach"; but see also P. P. D'Attore, "Americanism and Anti-Americanism in Italy," in *Shaping Postwar Europe: European Unity and Disunity, 1945-1957*, ed. Peter M. R. Stirk and David Willis (London: Pinter, 1991), 46-9.; and Nuno Severiano Teixeira, "Between Africa and Europe: Portuguese Foreign Policy, 1890-1986," in *Modern Portugal*, ed. António Costa Pinto (Palo Alto: The Society for the Promotion of Science and Scholarship, 1998), 78-9.

and Spain) rather than to the group of small, economically advanced, neutral democracies (i.e. Switzerland and Sweden).

Historians have hitherto ignored that this latent anti-Americanism among the Irish policy-making community made the restoration of the preferential trading relationship with its neighbour a more attractive proposition. Under the aegis of the Anglo-Irish trade agreements, Ireland could maintain its protection of domestic industry and continue its economic development strategy based on import-substitution. In this sense, the Irish government adopted a defensive strategy sheltering under Britain's wing against the aggressive American demands for trade liberalisation and European economic integration. After the run on sterling, in September 1947 the Attlee government welcomed the Irish approach, because it seemed beneficial given similar pressures from the Truman administration on Britain. Therefore, a contemporary comment about the 1938 Anglo-Irish trade agreement could equally be applied to Ireland's postwar economic policy:

"What made us sane at last? Hitler. That's the answer. The bully remains a bully until he is frightened by a bigger bully."<sup>75</sup>

Arguably, the only difference was that the Irish policy-making community perceived the new bully (the United States) as threatening the country's idealism more directly than Hitler.

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In conclusion, Ireland, like Sweden or Switzerland, did not require Marshall aid as long as it could draw on the Sterling Area dollar pool in

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<sup>75</sup> Cormac Ó Gráda, *Ireland: A New Economic History, 1780-1939* (Oxford: Oxford University Press, 1995). 416.

order to finance its imports of fertiliser and coal. In the absence of sterling convertibility, Ireland needed Marshall aid to close its dollar gap and continue its postwar recovery. Marshall aid eased the constraints on much needed supplies of these essential materials, of which Ireland had been deprived under international allocation before the inception of the ERP. Indeed, the inflow of American monies led to fairly rapid economic growth until the suspension of aid following the outbreak of the Korean War.<sup>76</sup> However, Irish policy-makers remained apprehensive about Marshall aid and the American growth ideology. To counter this perceived threat to Irish idealism, the Irish government sought to renew its preferential trading relationship with Britain by reviving the 1938 Anglo-Irish Trade Agreement. After having achieved its primary objective, the Irish government's support for economic collaboration on a European scale became even more half-hearted. Given their outlook, Irish officials never explored alternative policy options such as closer Anglo-Irish economic relations within the framework of a European common market or the participation in European payments schemes. After all, the example of Iceland shows that membership of the Sterling Area did not rule out a more independent economic strategy.<sup>77</sup>

The strategy chosen by the government prevented Ireland from benefiting from a potential for catch-up growth and from the virtuous

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<sup>76</sup> Kieran A. Kennedy and Brendan R. Dowling, *Economic Growth in Ireland: The Experience since 1947* (Dublin: Gill and Macmillan, 1975). 3–10.

<sup>77</sup> When the European Payments Union was formed in July 1950, Ireland was included in the monetary area of the United Kingdom. In contrast, Iceland joined the European Payments Union as an independent member; see Jacob Kaplan and Günther Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s* (Oxford: Clarendon Press, 1989). 91.

expansion of intra-European trade.<sup>78</sup> Given their perception of Ireland's relative under-industrialisation, but in the absence of political pressure for radical change due to the country's relatively high living standard, policy-makers under-estimated the potential for future growth and the need for investment. They, therefore, failed to develop an economic strategy to overcome the bottlenecks inhibiting further growth and more importantly to close the productivity gap with the leading European economies. Arguably this lack of vision failed to create the optimism needed for a continuation of the postwar boom and for sustained economic growth in the 1950s.

This analysis suggests a different interpretation to that of Roy Foster, shared by many other historians. Roy Foster has argued:

"Ireland's involvement in Marshall Aid, however, meant by implication involvement in Europe, as well as an admission of interdependence with the British economy; by the early 1950s, to some American observers at least, the extent of Ireland's economic dependence on British markets made nonsense of Irish 'sovereignty'. Even from Fianna Fail, there was a more and more open acceptance that the economic policies of Ireland and Britain would have to be 'dovetailed' (de Valera's word, *mirabile dictu*) for mutual advantage."<sup>79</sup>

In contrast this study has argued that Irish policy-makers "shaped the pattern of economic interdependence to suit their own national objectives", just as other European countries.<sup>80</sup> However, the Irish policy-making

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<sup>78</sup> Cormac Ó Gráda and Kevin O'Rourke, "Irish economic growth, 1945–88," in *Economic growth in Europe since 1945*, ed. Nicholas Crafts and Gianni Toniolo (Cambridge: Cambridge University Press and Centre for Economic Policy Research, 1996), 389.

<sup>79</sup> R. F. Foster, *Modern Ireland, 1600-1972* (Harmondsworth: Penguin, 1989). 577–8.

<sup>80</sup> Milward, *Reconstruction*. xvi.

community remained extremely apprehensive about integration into the European or world economy, beyond deepening the country's economic relations with Britain. This policy choice offered short-term gains, but left Ireland outside the creation of a new international economic order for Europe. In a sense, Ireland's foreign economic policy did not change after 1947, but remained in the mould of the 1938 Anglo-Irish trade agreement. It reflected an attempt to protect an idealised Irish community from the challenge of Americanisation. Arguably this proved to be a futile undertaking, because - as Sean O'Faolain pointed out in 1969 - modernisation became unstoppable in the 1950s, when rural electrification destroyed this idyll by bringing television and the temptations of modern society in by the backdoor.<sup>81</sup>

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<sup>81</sup> Sean O'Faolain, *The Irish* (Harmondsworth: Penguin Books, 1969). 161-9.