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Banks and the Economy: Evidence from the Irish Bank Strike of 1966

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Banks and the Economy:

Evidence from the Irish Bank Strike of 1966*

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Abstract

This paper studies the macroeconomic impact of the Irish bank strike of 1966, which led to the closure of the major commercial banks for three months. We collect a variety of new evidence, such as high-frequency macro data, economic forecasts, micro data and narrative sources. Our findings suggest that the bank strike was associated with a shortfall in economic activity that punctuated a decade of robust growth. The qualitative evidence depicts the struggles of households and firms managing a credit crunch, a liquidity shock and rising transaction costs. This case study highlights the importance of banks for economic performance.

Keywords: Banks, Ireland, macroeconomy, post-war.

JEL Classification: E32, E44, G21, N14, N24.

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1 Introduction

At 3 p.m. on 5 May 1966, the doors of the major commercial banks in Ireland closed (*Evening Herald*, 5 May 1966). Having grown slowly and steadily over centuries (McGowan, 1988), the banks that had supplied liquidity and credit to the Irish economy effectively disappeared overnight, remaining shut until 5 August due to a dispute over pay between the banks and their staff. The standstill led to the closure of 829 of 836 or more than 99% of commercial bank branches for three months (*Bankers' Almanac and Year Book*, 1966). What were the macroeconomic consequences of the bank strike?

Answering this question is not straightforward, as the shock is a one-off, economy-wide event, leaving little time-series or cross-sectional variation to work with. As a result, we build the case by assembling and analysing a large and varied body of evidence. First, we explore quantitative information, such as high-frequency macroeconomic data, economic forecasts, bank balance sheets and micro data on output, employment and productivity and retail sales. Second, we investigate narrative accounts, which are largely sourced from contemporary newspapers. Together, this evidence sheds light on the aggregate effects – and underlying mechanisms – associated with the Irish bank strike.

We find that the bank strike was a significant macroeconomic shock. Our quantitative evidence suggests that it coincided with a sudden underperformance of the Irish economy relative to where it had been in the recent past and where it was forecast to be. When we focus on the micro data, the statistical signature is consistent with a breakdown in financial intermediation. Our narrative evidence shows that the bank strike resulted in a shortage of cash and credit, which raised transaction costs and impaired the functioning of markets. In the absence of formal credit intermediation through banks, there was some substitution to micro credit via cheques, which possibly prevented a larger macroeconomic disaster.

There is a puzzling disconnect between general interest – with coverage in broadsheets (*Financial Times*, 3 July 2015; *Independent*, 12 July 2015), radio programmes (*BBC Radio 4*, 11 November 2022) and popular textbooks (CORE, 2017) – and the limited scholarship on the strike. The popular narrative is that the Irish economy "survived" without banks. The

textbook treatment is similar: "Did Ireland fall off a financial cliff? To everyone's surprise, instead of collapsing, the Irish economy continued to grow much as before" (CORE, 2017). Our findings challenge this interpretation. Surviving is a low bar for an economy that was thriving.

The pioneering academic work is by Murphy (1978), whose paper remains the classic account of the Irish bank strikes of 1966, 1970 and 1976.[1] Murphy (1978) highlights that the money supply, as measured by M2 (currency and bank deposits) dropped by more than 80% in each of the strikes. Focusing on the strike of 1970, he discusses the "alternative money structure" that emerged during the shutdown to ameliorate the economic impact. Overall, he finds that retail sales dropped significantly below an estimated counterfactual during the strikes. A recent study by Krueger (2018), also concentrates on the strike of 1970, concluding that the effects were limited but that the absence "of a proper settlement mechanism implied that risks were rising for almost all transactors."

This paper also connects to other strands of historiography. First, it relates to Bernanke's (1983b) work on how banks lower the cost of credit intermediation through their "accumulated expertise, information and customer relationships." Second, it somewhat speaks to the literature on the macroeconomic effects of banking crises (Jalil, 2015; Baron et al., 2021; Kenny et al., 2021). However, although there is some overlap, a bank strike and a banking crisis are slightly different: a strike leads to closures that are temporary not permanent and is total rather than partial. Third, a stronger thread is to the literature on bank holidays, which are also temporary, total shutdowns, such as those during the Great Depression (Awalt, 1969; Jaremski et al., 2025).

The paper is structured as follows. Section 2 sets out the historical context. Section 3 explores the economic costs of the bank strike. Section 4 provides narrative evidence. Section 5 concludes.

[1]There was also a bank strike over the Christmas of 1950 and new year of 1951. We focus on 1966 rather than the earlier or later strikes for several reasons. First, 1966 is the first strike for which there is a significant evidence base. Second, 1966 has not received as much attention in the existing literature as the later strikes. Third, although two or three additional strikes might give us more variation to explore, a handful of observations does not open up any new methodological possibilities. Fourth, our approach of taking a deep dive into a single strike, bringing together a wide range of information, could become unwieldy if we extend it to multiple episodes.

2 Historical Context

A The Economy

The economic outlook was more promising in the early 1960s than at any time since political independence (Ó Gráda and O'Rourke, 1996; Honohan and Walsh, 2002). Between 1961 and 1966, net emigration was lower than in any inter-census period since 1922 (Ó Gráda and O'Rourke, 2022). Consumer price inflation was moderate at 4.2% per year between 1960 and 1965 (Central Statistical Office, 2023). Average unemployment reached a post-war low of 5.6% in 1965 (Department of Industry and Commerce, various).[2]

By the Census of 1961, 37% of the Irish labour force were still employed in agriculture, while industry and services employed 23% and 40% respectively. The decade up to 1971 saw the biggest decline in the share of agricultural labourers since independence. Between 1946 and 1971, there was a great convergence of Ireland's regional economies, driven by productivity improvements and structural change (de Bromhead and Kenny, 2024).

Turning to the financial system, the Irish banking sector had been a "byword for stability" (Ó Gráda, 2012), having experienced no major crisis between the Munster Bank failure in 1885 and the Global Financial Crisis in 2008. Monetary stability was also a consistent feature of the Irish economy. Since political independence in 1922, the Irish pound had remained within the sterling zone, fixed at parity to the British pound under a de facto currency board that lasted until 1979. As well as contributing seigniorage, the currency board provided financial and macroeconomic stability (Honohan, 1994).

Despite these positive trends, the 1960s saw a marked deterioration in industrial relations. 1966 suffered the highest number of work days lost to strikes since 1937 (Brannick et al., 2000). On this metric, the bank strike was the most substantial strike in 1966 by some margin. It involved 7,800 workers and accounted for between 67-75% of the days lost to strike action in commerce and between 37-45% of strike days in all sectors.[3]

[2] Proxied by mid-month percentages of insured persons on the live register.

[3] The upper bound of these estimates assumes that the bank strike accounted for all lost work days in the commercial sector. The lower bound assumes that the bank strike accounted for 90% of all lost work days in the commercial sector.

B The Bank Strike

The origins of the strike extend back to December 1964, when the Irish Bank Official Association (IBOA), which represented bank employees, rejected the pay award recommendations of an external arbitration board (Fogarty, 1971, pp. 147-148). This raised the likelihood of a strike and the suspension of banking services, resulting in "heavy withdrawals" of deposits (*Irish Times*, 3 December 1964). The panic lasted for several days around the country (*Irish Examiner*, 5 December 1964).

However, the subsequent "announcement that settlement talks had been arranged in the bank officials' pay dispute brought an easement of the general situation" (*Irish Press*, 5 December 1964). The agreement created "new dispute machinery in the form of a Joint Industrial Council (JIC) to replace the negotiations, conciliation and arbitration procedure," between the IBOA and the Irish Banks Staff Relations Committee (IBSRC), the negotiating body of the Associated Banks.

During the first months of 1966, the IBOA continuously lobbied for a 22% salary increase at entry level (*Irish Examiner*, 30 April 1966) and an all-round status increase of 7% in the Republic and 11% in Northern Ireland (*Irish Times*, 22 April 1966). The IBOA stated that the objective of the demand was "to restore their [bank officials] position in the community" (*Irish Independent*, 23 April 1966), emphasising that the current starting salary was inadequate for bank officials who may have to live away from home. When talks broke down, strike action was endorsed on 21 April by the IBOA and two weeks' notice was served to the Associated Banks. On 29 April 1966, the Irish Banks' Standing Committee (IBSC) and the Northern Ireland Bankers' Association (NIBA) published a notice to all customers on both sides of the Irish border that strike action would likely "come into effect on and from Friday, 6th May 1966." It continued that "if the threatened strike takes place, the Banks will be unable to provide banking services and will be compelled to close." While neither the strike notice served by the IBOA nor the customer warning issued by the Associated Banks guaranteed a strike, it was clear in the first week of May that "the difference between the IBOA and the IBSRC remains so wide that it would be virtually impossible to bridge it today or tomorrow" (*Irish Times*, 4 May 1966).

The Associated banks affected by the strike were Bank of Ireland, Belfast Banking Company, Hibernian Bank, Munster and Leinster Bank, National Bank of Ireland, National City Bank, Northern Bank, Provincial Bank of Ireland, Royal Bank of Ireland and Ulster Bank (*Irish Examiner*, 29 April 1966; *Belfast Newsletter*, 29 April 1966). Accounting for 829 commercial bank branches in Ireland in 1966, the Associated Banks were the major intermediators of credit to households and firms (*Bankers' Almanac and Year Book*, 1966). The non-Associated banks, "an amalgam of merchant and North American banks" (Murphy, 1978), had 7 branches (*Bankers' Almanac and Year Book*, 1966), were not organised by the IBOA (Fogarty, 1971, p. 106) and remained open during the strike.

The dispute of 1966 was initially referred to as a "selective strike" (*Irish Times*, 21 April 1966) as it primarily concerned employees who had entered service after 1 January 1959 (those with less than seven years of service). However, as the IBSC acknowledged, "as 3,400 officials out of a total of 7,800 are in this category, a complete disruption of business must inevitably and immediately follow" (*Irish Examiner*, 29 April 1966). Contemporary observers recognised that while bank salaries were "high for the senior officials, for the first eight years of service salaries are not high" (*Irish Times*, 21 April 1966). Nonetheless, these salaries compared well to other clerical starting salaries at the time and recent pay increases "at the lower end had been proportionately much higher than the cost-of-living increase and the proportion increase at the higher end" (*Irish Times*, 21 April 1966). While the remaining 4,400 workers were instructed by the IBOA to attend to their duties as usual, the banks fully closed and attempted to lay off the remaining workers not on strike (*Irish Examiner*, 4 May 1966). This caused a further dispute, as the IBOA questioned the legality of this move, claiming that willing workers had been "locked out" and dismissed with insufficient notice according to their employee agreements (*Irish Examiner*, 4 May 1966).

C Resolution

The strike in Northern Ireland was resolved relatively quickly – within a month – as Stormont intervened in the dispute. In the Republic, however, responsibility for resolving

the dispute between the IBOA and the IBSRC remained with the JIC (as established by the agreement of December 1964). The contrast in outcomes resulted in persistent political pressure from opposition in the Dublin parliament (Dáil) to override the official procedure, which the government consistently resisted (Dáil Éireann Debates, 17 May 1966; 7 June 1966; 14 June 1966). The Minister for Industry and Commerce, Dr Patrick Hillery, referred to the fact that "negotiations are in progress: these should be let run their course" (Dáil Éireann Debates, 14 June 1966).

By late July, there was hope that the bank strike was coming to an end. On 20 July, the IBOA met and decided to put the proposals that emanated from Labour Court negotiations between the two parties to a membership ballot (*Irish Times*, 20 July 1966). Two days later, the IBOA and IBSRC met at the Labour Court to discuss "a number of relatively small points [...] that would arise normally following a resumption of work" and it was "generally felt that the strike is now nearly over" (*Irish Times*, 22 July 1966). Though the IBOA voted in favour of the proposals, it was by a narrow majority, with particular opposition coming from junior members (*Irish Press*, 30 July 1966). The settlement was announced by the IBSC Secretary, Richard Brennan, on 29 July 1966 (*Irish Press*, 30 July 1966). The IBOA instructed its members "who serve in the Republic of Ireland to resume duty on Wednesday August 3rd at the usual starting time" (*Irish Times*, 30 July 1966). The banks reopened to the public with limited opening hours on 5 August and normal service returned from 10 August (*Evening Echo*, 29 July 1966).

The agreement resulted in the introduction of new salary structures and a percentage increase that exceeded the raise of "the £1 of the 10th round" [national wage agreement] (Fogarty, 1971, p. 148). Bank officials received an immediate salary increase of at least 7.5% in all cases with a further 3.5% from 1 April 1967, as well as "improved promotional prospects for women and junior officials" (*Irish Press*, 30 July 1966). The major structural change flowing from the settlement was that salary scales were revised into six separate and transparent stages, classified by seniority and occupation. Ironically, those who "fared worst were the most junior officials, who were the most deeply involved" (*Irish Times*, 30 July 1966). However, the promotional prospects for junior officials were "dramatically

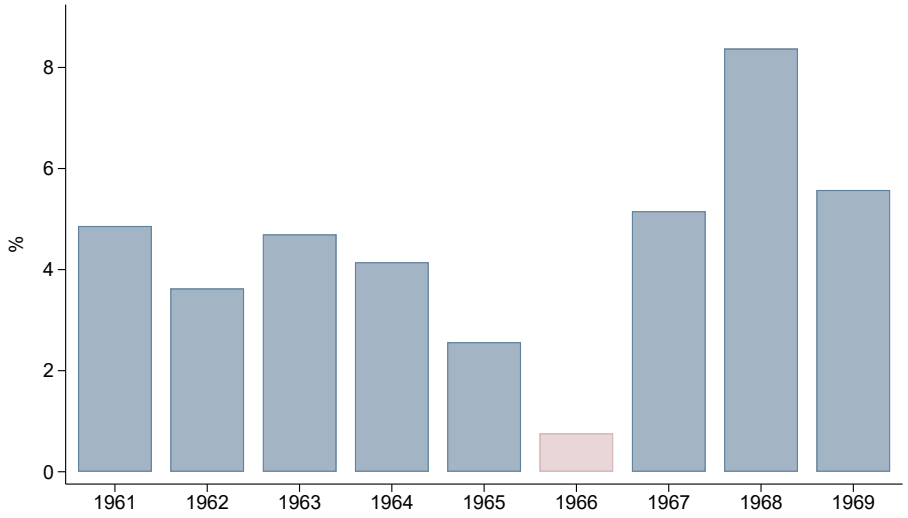
improved" (*Irish Times*, 30 July 1966). The senior officials who had been locked out in May received between 67% and 80% of their usual salary, depending on entitlement to overtime (*Irish Times*, 30 July 1966). The terms achieved in the Republic were also offered to bank staff in Northern Ireland (*Irish Times*, 30 July 1966).

3 Quantitative Evidence

We now turn to an assessment of the economic fallout associated with the bank strike of 1966.

Figure 1 presents a simple plot of GNP growth at constant prices, which shows that growth averaged 4% between 1961 and 1965 but dropped to 0.8% in 1966. After the strike, there was growth of at least 5.2% a year throughout the rest of the 1960s. 1966 was therefore the worst year in an otherwise strong decade of economic growth.

Figure 1: *Annual GNP Growth*



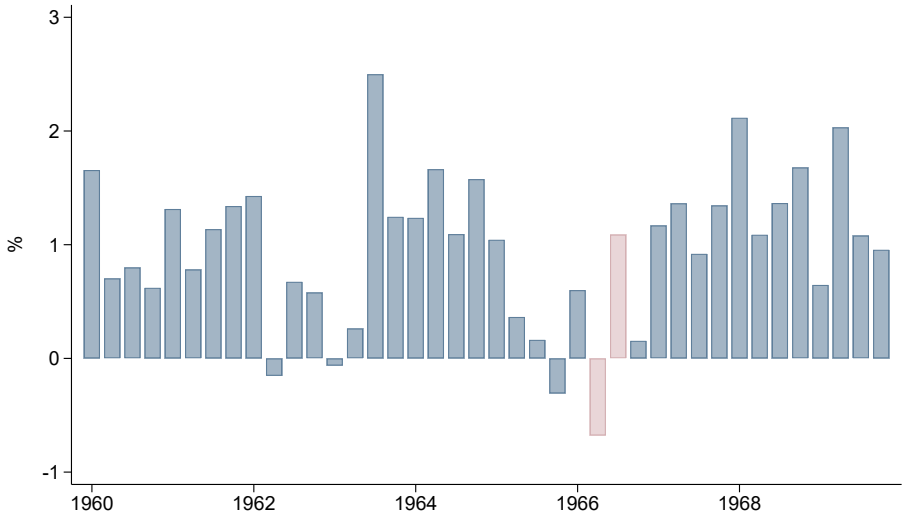
Notes and sources: Calculated from Central Statistical Office (1979). The shaded bar denotes the bank strike in 1966.

There are two clear limitations to this exercise. First, if there was some recovery following the reopening of the banks in August, then the losses would be understated in the annual data. Second, if there were other shocks that buffeted the economy in 1966, then the slowdown in growth may not be the sole consequence of the strike. To explore these, we turn to high-frequency data and macroeconomic forecasts.

A High-frequency Data

Starting with the high-frequency data, there are new estimates available of quarterly GDP (Kenny and Stuart, 2025). While the annual series suggests that there was a slowdown in 1966, the quarterly data in Figure 2 shows that there was a *contraction* in Q2 of 0.7% (-2.7% on an annualised basis), followed by a rebound in Q3. Overall, the first quarter of the bank strike is the worst of the 1960s.

Figure 2: *Quarterly GNP Growth*



Notes and sources: Calculated from Kenny and Stuart (2025). Seasonally adjusted at source. The shaded bars denote the bank strike between 1966:II and 1966:III.

As there is no more resolution to be gained from the existing series of GDP, Figure 3

presents four other macro indicators that are available at monthly frequency. Electricity production, which reflects use by households and firms, fell by 8.6% in May and remained below the pre-strike level throughout the dispute (Panel A). New vehicle registrations, on the other hand, continued to rise (Panel B). However, vehicles could be financed through hire purchase agreements, which were not directly affected by the strike.[4] The unemployment rate increased by 0.3pp in May to 4.1%, returning to the pre-strike level in September (Panel C). The value of retail sales decreased by 0.2% in May and by 1.3% in June before recovering in July (Panel D). Overall, the monthly indicators are consistent with the quarterly GDP estimates: the initial phase of the strike in May and June (Q2) was generally associated with worse outcomes than the later months, which might suggest a degree of learning and adaptation.

B Macroeconomic Forecasts

A proper assessment of the economic effects of an event would not only focus on the actual outcome but how it deviated from a counterfactual in which the event did not happen. For example, if there was a general slowing of the economy due to persistent supply-side issues or there were other shocks on the horizon, such as the implementation of a previously announced tax, then the downturn may coincide with the strike but is caused by other predetermined factors.

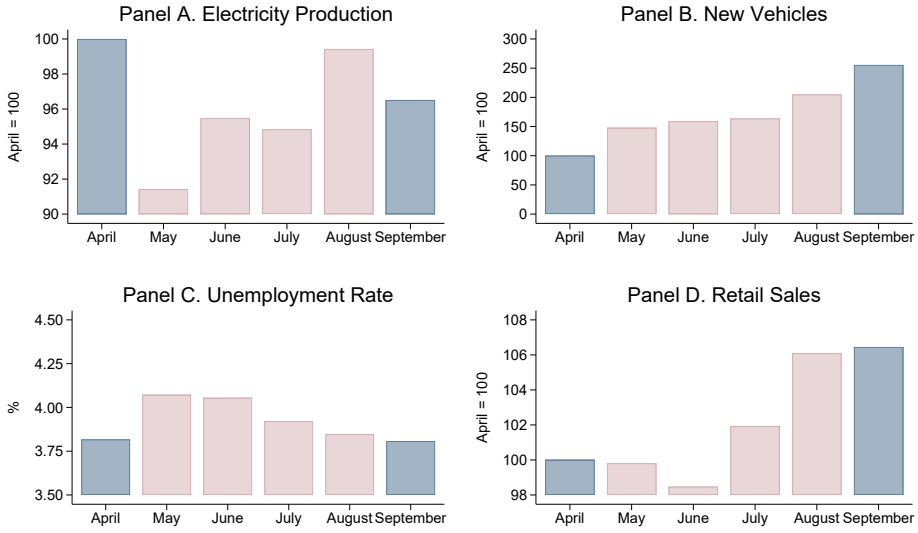
One potential counterfactual comes from macroeconomic forecasts, which are based on expert judgement and incorporate relevant information. If the outcome diverged from the forecast, then this is likely due to an unexpected shock. Although rare in economic history, we have unearthed two contemporary forecasts: one from the Department of Finance, the other from the Economic Research Institute (ERI).[5]

The Department of Finance forecasts were published in early 1966 as part of a *Pro-*

[4]Hire purchase agreements for new and used motor cars advanced by finance companies were relatively steady in 1966. Compared to 1965, the volume fell by 6.4% and the value by 4.6% (Department of Industry and Commerce, various). However, the income made by the finance companies rose by 0.8% off this lower level of business, suggesting that interest rates spiked in the temporary absence of competition from commercial banks.

[5]The ERI was the forerunner to the Economic and Social Research Institute.

Figure 3: *Monthly Macroeconomic Indicators*



Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13. The shaded bars denote the bank strike between May and August 1966.

gress Report for the Second Programme for Economic Expansion (Houses of the Oireachtas, 1966, pp. 21-26), which was entering its third year. While the Department was ultimately responsible for the forecasts, "consultations on the projection for 1966 were held with the Departments of Agriculture, and Industry and Commerce, the Central Statistics Office and the Economic Research Institute. These bodies expressed themselves in broad agreement with the trends disclosed by the projection" (Houses of the Oireachtas, 1966, p. 21).

The key assumptions underpinning the forecast were emphasised in the report. Increases in non-agricultural wages of 4%, rising profits in line with contractual incomes and, most importantly, "no widespread disruption of the growth of output by industrial unrest in the remaining ten months of the year" (National Industrial Economic Council, 1966, p. 10). Other assumptions were that the British import surcharge would stay in place, agricultural prices would remain unchanged and weather conditions would be "normal" (National Industrial Economic Council, 1966, p. 10). The forecasts did not mention the

growing tensions between the IBOA and the IBSC. However, the forecasts were conditioned on information available up to February 1966.

The second set of forecasts we study comes from the ERI (Economic and Social Research Institute, 1966). Although their first public forecast was not published until September 1968, we discovered a confidential projection for 1966 in the ERI's archives, which was prepared in December 1965.

Table 1 presents the forecasts from the Department of Finance and the ERI for the growth of GNP in constant prices against the realised outturn for 1966. The differences between the two forecasts are small, which is true of both the components and the aggregate. The best contemporary forecasts looked forward to continued high rates of economic growth of 3.5-3.8%. The sharp slowdown of 0.8% that materialised resulted in forecast errors of -2.7pp for the ERI and -3pp for the Department of Finance. These estimates took into account existing trends and policies, such as the credit restrictions that had been introduced in early 1965, the Anglo-Irish Trade Agreement of the previous year and the persistent decline in stock building.

Table 1: *Forecasts of GNP(E) Growth*

	Forecasts		Actual	Difference	
	DoF	ERI		DoF	ERI
Personal expenditure	2.3	4.0	1.6	-0.6	-2.4
Government expenditure	2.4	4.0	1.1	-1.2	-2.9
Fixed capital formation	6.1	5.0	-3.0	-9.0	-8.0
Stock building	-36.0	-35.0	-67.8	-31.8	-32.8
Exports	8.3	9.0	10.7	2.4	1.7
Imports	3.6	5.0	3.5	-0.1	-1.5
GNP(E)	3.8	3.5	0.8	-3.0	-2.7

Notes and sources: Calculated from Economic and Social Research Institute (1966), Houses of the Oireachtas (1966) and Central Statistical Office (1979). Growth rates in %. Forecast errors in pp.

Digging deeper, there are negative forecast errors across all components except exports.

Exporters might have benefited from changes to the UK tariff on imports, which was abolished in November (Roberts, 2013). The largest shortfalls were in fixed capital formation (-8 and -9pp) and stock building (-31.8 and -32.8pp). The slump in investment was a major disappointment of expectations. However, not all components were equal – consumption, for example, accounted for 70% of GNP at current prices in 1965 (Central Statistical Office, 1979). Therefore, the forecast errors of -0.6pp and -2.4pp, while not standing out in Table 1, contributed to a significant share of the total undershoot.

The two forecasts were presented in both current and constant prices so it is possible to infer inflation expectations for the GNP deflator by subtracting the forecasts for real GNP growth from the forecasts for nominal GNP growth. The Department of Finance expected inflation of 4.9% in 1966, while the ERI expected 5.7%. The outturn was 4.2%, which implies a forecast error of -0.7pp for the Department of Finance and of -1.5pp for the ERI. Taken together with the forecast errors in Table 1, it seems that the shock worked through both volumes and prices but that the real effect dominated the nominal.

Table 2 presents the Department of Finance's forecast of GNP in constant prices from the output side, which gives a sectoral breakdown. Agricultural output was expected to grow by 3.5% in 1966 but contracted by 0.1%, leading to a forecast error of -3.6pp. Industry was forecast to expand by 6% but only delivered growth of 2.2% – a difference of -3.8pp. Services held up better, growing by 1.5% against a forecast of 2%, resulting in a shortfall of 0.5pp. Overall, GNP(O) growth of 0.9% underperformed expectations of 3.8% by 2.8pp.[6]

Unfortunately, the forecasts are only annual, which leaves open the possibility that there may have been other unexpected shocks that year that contributed to the forecast error. One candidate is the British seamen's strike, which began on 16 May and lasted 47 days – about half the duration of the bank strike (*Irish Times*, 16 May 1966). While the seamen's strike could have affected trade and tourism between mainland Britain and Ireland, it is unlikely to account for the slowing of Irish GNP as net exports far exceeded expectations. One explanation for this resilience is the redirection of trade as there were record cattle exports from some ports to continental Europe in June (*Evening Echo*, 18 June 1966).

[6]The GNP(E) and GNP(O) growth rates for 1966 have not been balanced as there is a small difference between them.

Table 2: *Forecasts of GNP(O) Growth*

	Forecast	Actual	Difference
Agriculture	3.5	-0.1	-3.6
Industry	6.0	2.2	-3.8
Services	2.0	1.5	-0.5
GNP(O)	3.8	0.9	-2.8

Notes and sources: Houses of the Oireachtas (1966) and Central Statistical Office (1979). Growth rates in %. Forecast errors in pp.

Another way to explore the impact of other unexpected shocks is to estimate a higher-frequency forecast. If the difference between the actual and counterfactual outcome develops before or emerges after the strike, this would be evidence in favour of an alternative shock that occurred at some other time in 1966. Although it would not rule out another simultaneous shock, it would narrow down the search. One possibility is the Hamilton filter (2018), which is a statistical forecasting exercise that uses the data available at time t to make a forecast h quarters ahead.[7] If the subsequent outturn departs from the forecast, then this could be due to unforeseen cyclical factors. In practice, it involves an "OLS regression of y_{t+h} on a constant and the ... 4 most recent values of y as of date t" (Hamilton, 2018):

$$y_{t+h} = \underbrace{\beta_0 + \beta_1 y_t + \beta_2 y_{t-1} + \beta_3 y_{t-2} + \beta_4 y_{t-3}}_{Trend} + \underbrace{v_{t+h}}_{Cycle} \tag{1}$$

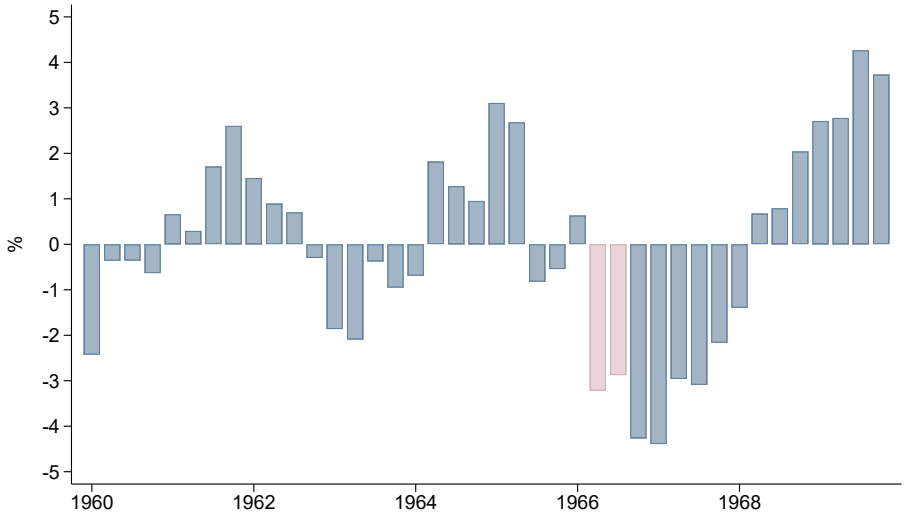
where the fitted values are regarded as the trend and the residuals are the cycle. For quarterly data, Hamilton recommends setting $h = 8$ quarters. Figure 4 presents the estimated cyclical component, v_{t+h}, which is the difference between the outturn, y_{t+h}, and the forecast, $\hat{y}_{t+h}$, where y is (100 times the natural log of) Kenny and Stuart's (2025) series of quarterly GDP.[8] The results suggest that the Irish economy was 0.6% above trend in the

[7] The Hodrick-Prescott filter is another possibility. However, Hamilton (2018) shows that it "introduces spurious dynamic relations that are purely an artifact of the filter and have no basis in the true data-generating process, and there exists no plausible data-generating process for which common popular practice would provide an optimal decomposition into trend and cycle."

[8] Equation 1 is an intuitive presentation of the Hamilton filter. In practice, however, interpreting the results is more straightforward if we backshift to $y_t = \beta_0 + \beta_1 y_{t-8} + \beta_2 y_{t-9} + \beta_3 y_{t-10} + \beta_4 y_{t-11} + v_t$. The two are equivalent in population.

first quarter of 1966 but dropped 3.2% below in the second quarter. Interestingly, this exercise suggests a more persistent shortfall as the economy struggled to recover the initial losses, growing along a similar trend but at a lower level for 6 quarters after the strike ended.[9]

Figure 4: *The Business Cycle*



Notes and sources: Calculated from Kenny and Stuart (2025) and Equation 1. The shaded bars denote the bank strike between 1966:II and 1966:III.

C Zooming In

Beyond the aggregate effects, the analysis has revealed some interesting patterns for deeper exploration. First, agriculture shrunk in 1966 despite projections of strong growth. Second, industry was hit hardest, relative to expectations. Third, consumption was significantly lower than forecast. Fourth, there was a particularly severe slump in the level of investment.

Beginning with agriculture, the national accounts showed a contraction of 0.1% in 1966,

[9]The results are similar using the Hodrick-Prescott filter.

compared to an expected expansion of 3.5%. There are quarterly series available for nominal farm sales and profits, which have been seasonally adjusted at source (Economic and Social Research Institute, 1967).[10] The higher-frequency data shows that farm sales and profits fell in both the second and third quarters of 1966. Relative to the first quarter, there were drops of 8% in sales and 26.4% in profits by the third quarter. As agricultural prices rose by 2.3% during this interval, the nominal decline more likely reflects a fall in volumes than prices. In Section 4D, we will present narrative evidence documenting how liquidity and credit constraints during the bank strike disrupted the functioning of agricultural markets.

While agriculture suffered most in terms of levels, industry fared worst relative to expectations. To investigate further, we collect quarterly output and employment data from the *Irish Trade Journal and Statistical Bulletin* (various) for 47 industries that operated in mining, quarrying, turf and manufacturing. Figure 5 displays the log change in real output between the second and first quarters of 1966 in descending order.[11] We focus on the second quarter as Figure 2 suggests that the aggregate effects were front loaded there.

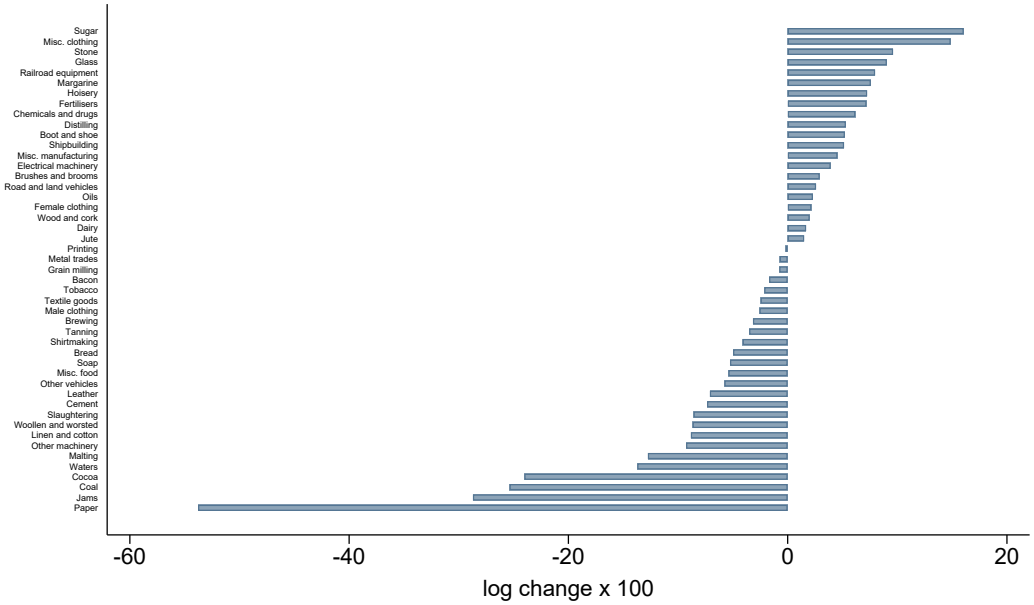
The distribution of growth was skewed towards negative values. Of the 47 industries, 26 contracted during the quarter that the strike began. The average rate of change was -9.7% for the industries that shrank and 6% for those that grew. A variety of industries experienced a contraction, from coal, food, textiles and other manufacturing. While paper experienced the biggest contraction, it was directly affected by a lengthy strike (Department of Industry and Commerce, various). However, there is more to the downturn than just widespread industrial action. A regression of the log change in output on a dummy indicating significant strikes has an R^2 of 0.21, suggesting that most of the variation in growth rates is due to other factors.[12]

[10] Profits or "net cash farm income" is defined as sales minus costs (excluding wages).

[11] The log change rather than the growth rate will be useful later for the employment-productivity decomposition.

[12] The strike variable is constructed from information on workdays lost to industrial disputes reported by the Department of Industry and Commerce (various).

Figure 5: *Output by Sector*



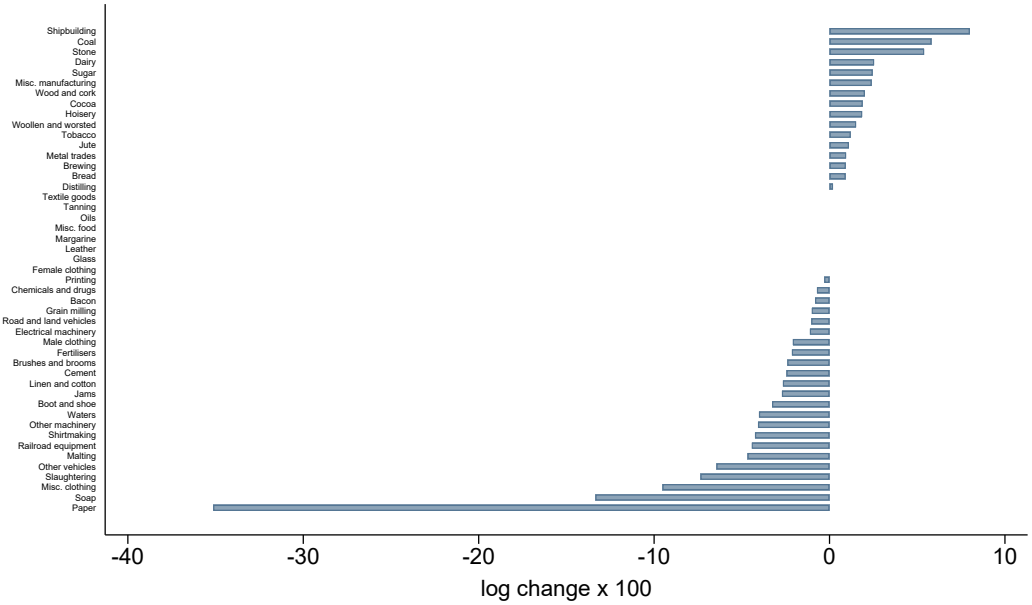
Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13.

Figure 6 shows an equivalent picture for employment. Of the same 47 industries, employment fell in 23, rose in 16 and was static in 8. The average change in employment was -5.1% for industries that lowered the headcount and 2.5% for those that created jobs.

Figure 7 combines the two previous figures to decompose output into the contributions from employment and productivity (output per employee) for each industry. On the whole, the figure is dominated by the orange of productivity rather than the grey of employment, which suggests that there was labour hoarding. Firms, faced with a temporary setback in demand, accepted lower productivity rather than firing workers who were costly to find, train and let go.

The third pattern was that consumption, which made up nearly three-quarters of nominal GNP in 1965, underperformed relative to expectations. Figure 3 has already given us some higher-frequency insights into the consumption crunch, showing that retail sales fell

Figure 6: *Employment by Sector*

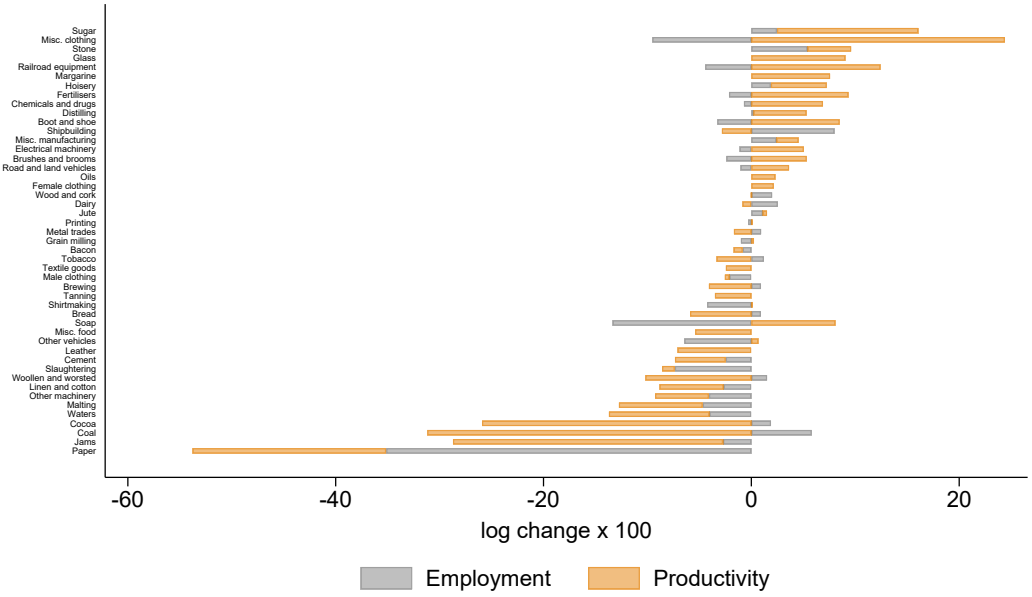


Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13.

by 0.2% in May, 1.3% in June and rebounded in July. However, we can go further by studying the disaggregated data underlying the retail sales index. Figure 8 plots the cumulative change in the value of retail sales in May, June and July relative to April 1966. Again, the distribution is skewed towards negative values. Of the 12 categories, 9 were below the pre-strike level in May and June, while 7 had recovered by July. Fresh meat was the worst-performing category, which is perhaps another indication of the difficulties in agricultural markets. The standout performer was vehicles, which were somewhat insulated from the strike due to the availability of hire purchase agreements.

To synthesize the micro data, we classify the categories as non-durable and durable and weight by their share in the 1968 retail sales index (Department of Industry and Commerce, 1969). The non-durable categories are grocery; public house, wines and spirits; fresh meat; tobacco, sweets and newspapers; other food and chemist. The durable categories are foot-

Figure 7: *Output Decomposition*



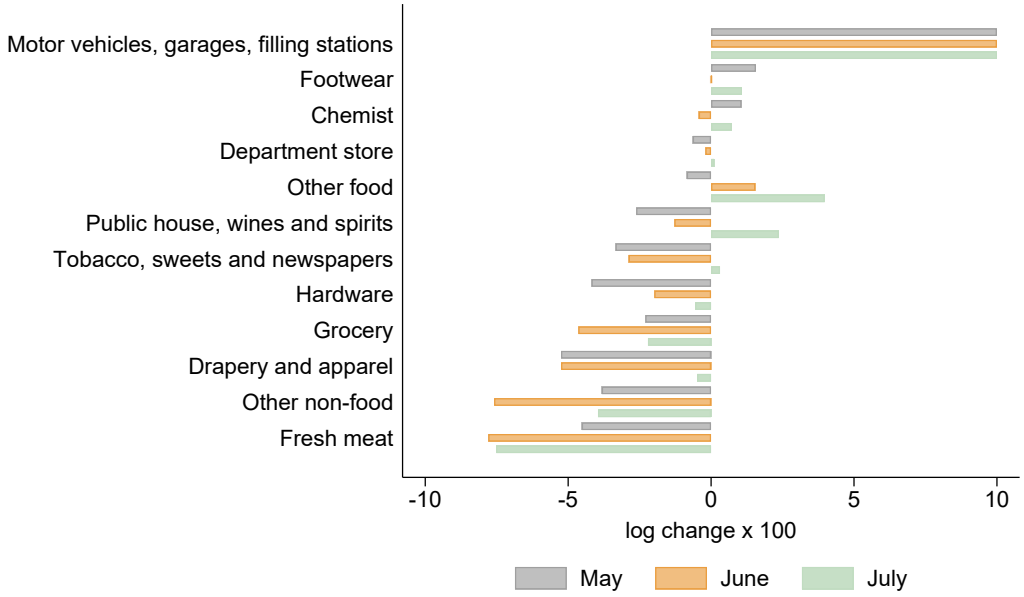
Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13.

wear; drapery and apparel; hardware; department stores and other non-food. We exclude motor vehicles because they accounted for 53% of durable consumption and hire purchase agreements facilitated a different trajectory.

Figure 9 shows that both non-durable and other durable consumption fell throughout the strike. However, other durables declined more than non-durables (-3.1% vs. -2% in May, -3.8% vs. -2.9% in June, -1.3% vs. -0.5% in July). After the strike had ended, other durables bounced back much stronger than non-durables (3.4% vs. -0.1% in August, 8.2% vs. -0.4% in September and so on throughout 1966). These profiles could be consistent with liquidity and credit constraints binding for large, durable purchases that are possible to postpone.[13] However, when the strike passed and the constraints lifted, there was pent-

[13]This also resembles the "wait-and-see" effect associated with uncertainty (Lennard, 2020). However, economic policy uncertainty, albeit only a subset of macroeconomic uncertainty, did not spike during the strike (Horgan et al., 2026).

Figure 8: *Retail Sales Disaggregated*



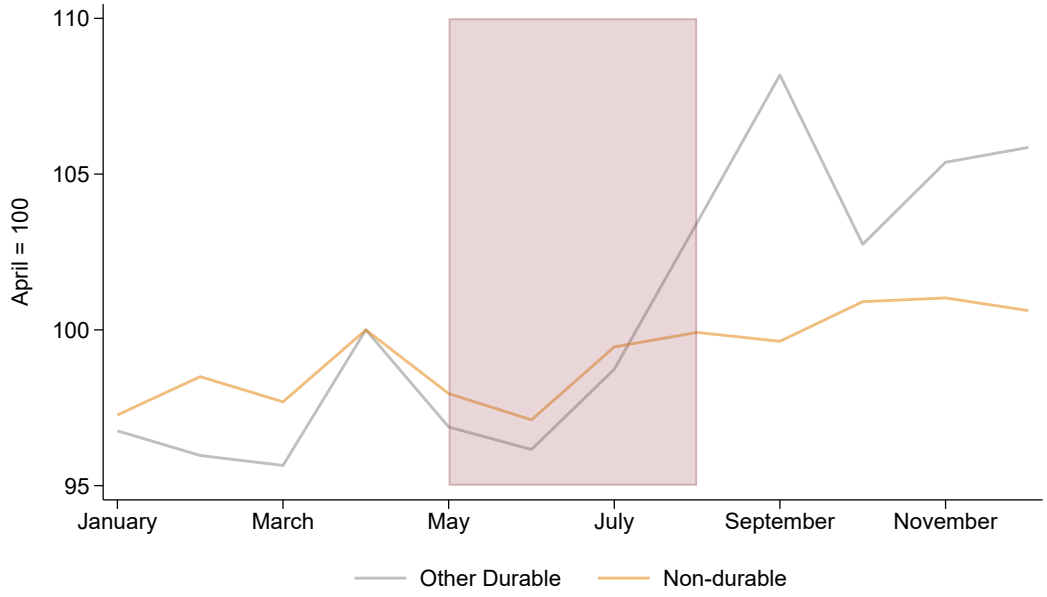
Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13. Winsorized at 10% for clarity.

up demand and a rebound in durable consumption.

Why did some industries perform worse than others during the strike? We can use the quarterly, industry-level information to make some progress on this question. To do so, we combine it with annual data from the Censuses of Industrial Production (Department of Industry and Commerce, various) for a matched sample of industries. The Censuses report gross output, net output, employment, productivity, stocks of working capital and net investment in fixed capital. Our hypothesis is that an industry facing credit and liquidity constraints would struggle to pay for its inputs of capital and labour and so would either economize on inputs or reduce output, which leads us to the specification and results in Table 3.

The outcome is the log change in output between the second and first quarters of 1966

Figure 9: *Durable and Non-Durable Consumption*



Notes and sources: Calculated from Department of Industry and Commerce (various) and seasonally adjusted using Census X-13. The shaded area denotes the bank strike between May and August 1966.

from Figure 5. Our first independent variable is intermediate inputs as a percentage of gross output in 1965. Intermediate inputs are defined in the census as the cost of materials, fuel, containers, etc. and is the difference between gross and net output.[14] The negative and statistically significant coefficient suggests that industries with higher input requirements experienced lower output during the strike, which could be explained by credit or liquidity issues.

The next independent variable is working capital as a percentage of gross output. Working capital consists of stocks of materials, work in progress and finished goods. The result suggests that industries with higher working capital were able to dip into their stocks and maintain output, whereas those that had limited stocks reduced output. This result relates

[14]For the data from the Censuses of Industrial Production, we use the values for 1965 rather than 1966 as the latter is likely to be affected by the strike.

Table 3: *Correlates of Industrial Performance during the Strike*

Independent/dependent variable	$\ln\left(Output^{SA}_{66:II}\right) - \ln\left(Output^{SA}_{66:I}\right)$
$Input_{65}/Output_{65}$	-0.234**
	(0.094)
$Working\,Capital_{65}/Output_{65}$	0.098**
	(0.046)
$Wages_{65}/(Wages_{65}+Salaries_{65})$	-0.352***
	(0.096)
$Net\,Investment_{65}/Output_{65}$	-1.426***
	(0.423)
$\ln\left(Output^{SA}_{66:I}\right)$	0.053**
	(0.025)
$Strike^{Paper}_{66:II}$	-28.074
	(17.205)
$Strike^{Food}_{66:II}$	-2.681
	(4.160)
Constant	16.380
	(14.510)
Observations	45
R^2	0.481

Notes and sources: Calculated from Department of Industry and Commerce (various). All variables except the strike dummies have been multiplied by 100. The SA superscripts denote that the variables have been seasonally adjusted using Census X-13. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$. Robust standard errors in parentheses.

to the fourth pattern: the substantial drop in stock building identified in Table 1.

Next up is the percentage of wages and earnings to the total wage bill, which also includes salaries. There is a negative and significant association between the wage share and output during the first quarter of the strike. One interpretation is the following: Salaries are a fixed cost that cannot be reduced without laying off workers, while wages and earn-

ings are more variable, allowing firms to adjust their labour input in response to demand shocks. Therefore, during the strike industries with a higher fraction of variable to fixed labour costs may have used this margin, reducing output to protect profits given the lower level of demand. Industries that did not have this flexibility maintained output as they were committed to paying for the labour input anyway.

The final independent variable of interest is the net investment-to-output ratio, which is the difference between investment and disinvestment in plant, machinery, vehicles, buildings and land. The negative and significant coefficient implies that industries with higher investment to output ratios were associated with lower output during the strike. This also connects to our investment puzzle – the decline in fixed capital formation highlighted in Table 1. However, there are competing explanations. On the one hand, these industries had newer capital stocks and were perhaps able to weather a period of low investment before depreciation and obsolescence caused disruption. On the other hand, these industries had high investment-output ratios. As investment became more difficult to finance during the strike, output or the ratio must fall.

The remaining variables are included as controls. The log level of output in the first quarter of 1966 is included to account for industry size. The positive and significant coefficient suggests that larger industries navigated the second quarter relatively well, perhaps as they were able to rely on internal financing or established credit relationships with customers and suppliers. Although the largest strike in this quarter was the bank strike, we know that other industries were affected by major industrial action, such as Food and Printing and Paper (Department of Industry and Commerce, various). As a result, we include dummies to allow for the direct effects of these strikes on output. As expected, these coefficients are negative, albeit not statistically significant. To round off this exercise, it's worth emphasising that the aim of Table 3 is not to establish causal effects but to reveal some basic patterns in the data.

Overall, although we may not have identified the weapon beyond all reasonable doubt, we have found multiple injuries to the Irish economy consistent with a breakdown in financial intermediation.

D Scarring

What was the legacy of the strike? The evidence we have presented so far is mixed. Some exercises indicate a strong recovery once the banks re-opened, such as retail sales; others suggest a more protracted slump, such as the Hamilton filter. A good starting point is to question why a bank strike would have an impact after it was over. One potential mechanism is a behavioural change from the banks and the public.

To investigate this, we collect balance sheet information, which is available at a quarterly frequency from the Department of Industry and Commerce (various). The balance sheets are aggregated to cover the Associated Banks, but disaggregated into various assets and liabilities.

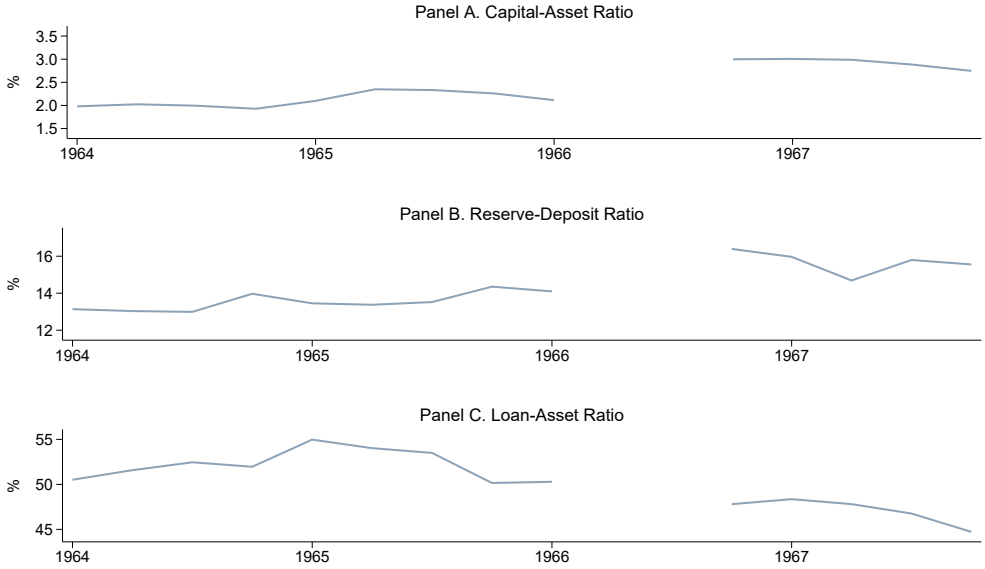
Figure 10 displays the dynamics of three ratios. The gap in each is due to the stoppage in reporting during the strike. Panel A plots the capital-asset ratio, which is calculated as the sum of paid-up capital to total assets. After the strike, there was an increase in the capital buffer, which implies lower risk as there is more capital to absorb losses. This does not reflect a fall in assets but a rise in capital, which increased by 47.6% between the first and fourth quarters of 1966.

Panel B shows the reserve-deposit ratio, which is measured as the ratio of cash and balances with London agents and other banks to deposits. This metric increased from 14.1% to 16.4% over the strike. As this ratio represents banks' desired holding of reserves for a given level of deposits (Cagan, 1965, p. 12), it suggests that banks became more risk-averse, ready to supply cash again before the scramble of another strike.

Panel C presents the loan-asset ratio, which is the ratio of loans and advances to total assets. Lending declined from 50.3% in the first quarter of 1966 to 47.8% by the end of the year. The falling share of loans implies less risk as the portfolio is skewed more towards safe assets, such as cash and government bonds, and less to lending, which is a riskier asset (Kenny et al., 2023).

Overall, after the strike, bank balance sheets became more conservative with higher capital buffers, more cash and less lending, which could have contributed to slower eco-

Figure 10: *Dynamics of Bank Balance Sheets*



Notes and sources: Calculated from the Department of Industry and Commerce (various). Not seasonally adjusted.

nomic growth.

4 Narrative Evidence

We now turn to narrative evidence to cross-reference our macro findings and to understand how households and firms navigated the strike at the micro level.

A Liquidity

The bank strike disrupted the regular flow of currency in the economy, where surpluses and deficits were intermediated by banks through deposits and loans. In the early stages of the strike, the public were flush with cash as "£10m extra was withdrawn on the last day

of banking", which provided "an additional float" (*Financial Times*, 26 May 1966).

However, shortages developed within a month: "Ready cash is becoming scarce and many companies found it difficult to fill yesterday's pay packets. The large withdrawals during the last few days before the strike left a surplus of cash in circulation and most companies were more afraid of being robbed than being short. But during the last two weeks this surplus has disappeared" (*Irish Times*, 4 June 1966). The *Evening Herald* (26 May 1966) reported that a "shortage of cash is worrying Government Departments, also. There was, at least, one case of a Local Government request for more than £100,000 turned down because the money was not available." As a result of the scarcity, "companies have tended to hoard [...] stocking up with notes in case the strike continues for another month" (*Irish Times*, 4 June 1966). The shortage made obtaining cash costly: "Yesterday the managing director of a large supermarket chain which exchanges £60,000 a week with large employers on a barter basis, in return for cheques, confirmed that he had been offered six per cent interest by firms seeking large amounts of cash immediately. Firms who had made this offer were seeking amounts up to £15,000 [...] However, there is no evidence that it has been done to date" (*Irish Independent*, 16 June 1966).

Not only was there a challenge of finding large sums for wages, there was also a big problem of small change (Sargent and Velde, 2003). From the outset, the *Irish Independent* (4 May 1966) forecasted that "all traders will be seeking small change", continuing, for example, that "drapers, charging typical prices of 2/11 and 7/11, will have a special demand for pennies." By the middle of June, it confirmed that "small change is rapidly growing scarcer" (*Irish Independent*, 16 June 1966). As with large sums, small denominations were trading at a premium: "1s. pieces, needed for the gas, were soon at a premium of 1s. 3d." (*Economist*, 13 August 1966).

As a consequence of the disruption, there were surpluses and deficits along the supply chain and between producers and consumers that had to be coordinated so that the cash was in the right place at the right time. Prices did some of the work, as the examples of high interest rates on cash and premiums on small change demonstrate. Concerns about losing cash through accidents and theft did some of the rest. For example, the *Financial*

Times (26 May 1966) described that money circulates "by virtue of the anxiety of businesses which accumulate cash to dispose of it again, in return for cheques, rather than hold large quantities of cash on their premises. Cinemas, dance halls, shops and accountants' offices, among other businesses, all become miniature banks, cashing cheques in order to dispose of mounting quantities of cash."

The *Irish Independent* (4 May 1966) noted that "most firms will be able to solve their pay-roll and security problems on a 'give-and-take' basis with suppliers and distributors. Factories with big staffs will pay their employees from cash paid over the counters of supermarkets, department stores, bakeries, dairies and cinemas. Retailers will give priority to their suppliers. In return the factories will write cheques which the distributive trades can cash after the strike. The money in this way will be safely disposed of." Another key intermediator was "publicans [... who] have been acting as bankers to their customers" (*Irish Times*, 24 June 1966).

Cash was also channelled between those in surplus and deficit due to civic concerns: "large firms who take in big amounts of cash daily are helping out by cashing cheques for business houses" (*Tuam Herald*, 25 June 1966).

In the absence of banks, therefore, firms that were dealing with consumers at the end of the supply chain, such as bakeries, pubs and department stores, accumulated cash that was transferred back down the supply chain through cheques. The cash would then be paid out as wages, returning back to the coffers of the firms further up the chain serving consumers.

B Credit Intermediation

A central function of banks is to intermediate credit between potential borrowers and lenders. In the absence of the Associated Banks, most formal credit intermediation was frozen as customers were unable to "modify their credit position with their banks, either by extending or reducing their accommodation or their deposit" (*Financial Times*, 26 May

1966). As a result, there were several reports – in prospect and retrospect – of a "credit squeeze" (*Irish Independent*, 4 May 1966; *Irish Examiner*, 13 July 1966).

However, credit did not grind to a complete halt as agents substituted away from formal to more informal sources, using "the improvised systems of cheques, barter and cash deals" (*Irish Independent*, 10 May 1966). The cheque was an important instrument that bridged households and firms through the strike. As queues developed outside the Associated Banks on the eve of the shutdown, it was not only a scramble for cash but also "a rush by customers to secure fresh cheque books which they can use for the duration of the strike" (*Evening Herald*, 5 May 1966).

How much credit was intermediated through cheques? A rough measure is that the cheque books that had been stockpiled in the run up to the strike were exhausted by late June: "people were beginning to run out of cheques and resorting to the 'do-it-yourself' variety" (*Irish Times*, 24 June 1966). Households produced "home-made cheques such as billheads and notepaper with 3d stamps", while many small businesses "had their own cheques printed" (*Irish Times*, 11 August 1966). Another gauge is the backlog to be cleared once the banks reopened. The *Economist* (13 August 1966) reported that "it may take bank employees up to four weeks of exhausting [...] overtime to sort through the sea of paper credit on which the economy floated."

How did cheques circulate if they could not be cleared? Murphy (1978) notes that cheques "were drawn, not against known credit accounts or allowed overdraft limits, but against the value of other uncleared cheques and/or the transactor's view as to his creditworthiness." The *Financial Times* (26 May 1966) argued that this "reflects the strong personal relationships within a small community where no one is really anonymous and two people who are strangers to each other rarely fail to find that they have a mutual friend. In such a society credit is a much less formal matter than in larger countries with great cities. Few Irish people have any difficulty about changing a cheque [...] Consequently, during a bank strike cheques become a kind of legal tender, passing happily from hand to hand, pending the reopening of the banks, when they can finally be laid reverently to rest after a useful and active life." Therefore, the use of cheques was facilitated by local

information and close personal relationships, which are usually thought to be impaired by bank closures (Bernanke, 1983b).

Although cheques circulated widely, they were not universally accepted. From the start, there were many notices that only cheques from "regular customers" and "known clients" would be accepted (*Evening Herald*, 26 May 1966; *Irish Independent*, 7 May 1966). As the strike developed, cheques were increasingly rejected, as shopkeepers were unable and manufacturers "unwilling" to accept them due to a shortage of cash (*Irish Times*, 4 June 1966; *Tuam Herald*, 25 June 1966). The *Irish Independent* (16 June 1966) summarised: "Traders have cut down drastically on cheque dealings and many say they are losing business as a result. The general manager of a Dublin department store said: 'We now have as many cheques in our safes as we can afford to have on hand and are now restricting credit dealings to gilt-edged customers. Normally, we would sell furniture, carpets and such items to strangers by cheque, delaying delivery until clearance of the cheque. All this business is now lost.'"

The goodwill was also wearing thin or missing altogether for international transactions. From the beginning of the strike, "English and Scottish banks [refused] to accept cheques drawn on Irish banks until the strike by Irish bank clerks is over" (*Evening Herald*, 6 May 1966). Financing imports was also becoming a challenge: "Many foreign firms with Irish debtors are getting bored with the prolongation of the strike and are pressing for payment in cash or through a British account" (*Irish Times*, 4 June 1966).

C Transaction Costs

Significant resources were devoted to managing cash and credit. A striking example is that "some firms [...] reportedly opened accounts with English banks with the intention of *flying* in wage money" (*Irish Independent*, 4 May 1966). Workers were diverted from their usual tasks: "Batchelors [producers of baked beans ...] had five members of its staff full-time [...] cashing cheques in bits and pieces round the country" (*Irish Times*, 4 June 1966).

The unofficial cheques that circulated after cheque books had run out had to be examined on a case-by-case basis (*Irish Times*, 24 June 1966).

Cash, normally a precious asset, became a liability due to the risk of theft and loss: "security firms did a nonstop business escorting cash boxes and money bags to business firms. Gardai on patrol in cars and on foot had instructions regarding possible robberies" (*Irish Examiner*, 6 May 1966).

Thus, cash went from a medium of exchange that quietly greased the wheels of industry to an industry in itself with producers, police and planes diverted from productive purposes to roles that were previously fulfilled by banks. On top of this, there was the foregone interest from hoarding cash and holding cheques, which was "expensive [given the] level of interest rates" (*Irish Times*, 4 June 1966).

The Fogarty Report (1971) noted similar transaction costs in the Strike of 1970: "Considerable inconvenience and expense arose from the dispute even at what might be called the level of petty cash. Organisations had to divert staff to running around shops and churches to find cash for wages; to spend money on employing security agents to transport their cash; and through inability to pay cheques into banks, to find ways of holding in safe custody unprecedented masses of vulnerable paper [...] the grand total of irritation, wasted effort, and expense which the dispute imposed on users is formidable."

D The Functioning of Markets

The interaction of a shortage of cash and credit impeded the functioning of markets. At the micro level, there was "no sale" at the Tipperary Cattle Market (*Irish Press*, 21 May 1966) and "upset" trading at the Cahirmee Horse Fair as a result of the "credit squeezes" and "shortage of ready cash" that was "due to the bank strike" (*Irish Examiner*, 13 July 1966; *Irish Independent*, 13 July 1966). These were not isolated issues but widespread: "many [livestock markets] were discontinued during the strike" (*Irish Farmer's Journal*, 6 August 1966). The *Connacht Tribune* concluded that "the ending of the bank strike is particularly

welcomed by farmers as it is felt that the resumption of business and consequent facilities for cashing cheques will give a much-needed boost to local fairs, trade at which has been consistently dull over the past three months" (6 August 1966).

At the more macro level, the strike limited activity on the stock exchange. The *Irish Independent* (6 June 1966) explained that "trading on the Dublin Stock Exchange last week was severely restricted by the lack of banking facilities and as long as the bank strike continues local business will remain at a low level. The majority of operators deposit their share certificates with their bankers for safe keeping and not having access to them at present puts quite a severe curb on market activity. Also, quite a large proportion of business in the local Gilt-edged and Industrial issues is channelled through the banks. Trading conditions last week probably touched their lowest level for a considerable time."

E Other Forms of Substitution

Beyond substitution from formal to informal sources of credit, there was little substitution between Associated and non-Associated banks. The *Evening Herald* (26 May 1966) reported that "banks unaffected by the strike are not enrolling thousands of new clients, but are limiting services to clients already established with them." This was repeated in the strike of 1970, when non-Associated banks did not step in to provide credit and liquidity as most refused to handle new accounts after an initial increase in demand (Murphy, 1978). A potential explanation is that this temporary opportunity was not worth the irreversible investment in staff, offices and so on (Bernanke, 1983a).

F Aggregate Impact

The narrative evidence not only sheds light on the mechanisms but also supports our quantitative evidence on the aggregate costs. The most optimistic reports portrayed an

economy that had "survived" and managed "to keep going" (*Financial Times*, 26 May 1966; *Economist*, 13 August 1966) but there is no indication that the strong pre-strike growth was maintained. The gloomier assessments, including a rethink from the *Financial Times*, noted that "the prolonged close-down of the banks is having a very serious effect on business" (*Tuam Herald*, 25 June 1966), that the "strike [...] has seriously upset business" (*Financial Times*, 6 July 1966) and that as a result of the strike "profits in many sectors of industry are under distinct pressure, indicating a falling off in business prosperity generally" (*Irish Independent*, 4 July 1966). The *Irish Examiner* (19 May 1966) summarised: "The strike was hitting commerce, the tourist trade and the working man."

5 Conclusions

In popular accounts, the Irish bank strikes are evidence that an economy can survive without banks (*Financial Times*, 3 July 2015; *Independent*, 12 July 2015; CORE, 2017; BBC Radio 4, 2022). However, the Irish economy was on a solid growth path in the 1960s so the associated disruption was not a success but a failure of lost growth. The episode instead is a case study of the importance of banks in intermediating credit, providing liquidity and minimising transaction costs. Banks have been more or less a constant for centuries, performing these vital functions without much fuss, until, that is, they are gone.

In the twenty-first century, banking systems remain vulnerable to outages. Although industrial action is less likely to be the source, IT failures are a growing threat, such as the glitches that affected the customers of Royal Bank of Scotland, NatWest and Ulster Bank in the United Kingdom for several weeks in 2012, and cyberattacks, such as the SWIFT hack to the global payments system in 2016. The lesson of the Irish bank strike of 1966 is that substitution might ameliorate but is unlikely to eliminate the macroeconomic consequences.

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