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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 18 Nollaig 2014

Thursday, 18 December 2014

The Committee met at 9.15 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

The joint committee met in private session until 9.30 a.m.

Context Phase

Mr. Rob Wright

Chairman: I call the meeting into public session.

The agenda today is a public hearing with Mr. Rob Wright on the report of the independent review panel, "Strengthening the Capacity of the Department of Finance." In doing this, I would like to welcome everyone to the second public hearing of the Joint Committee of Inquiry into the Banking Crisis. I welcome Mr. Rob Wright to discuss the report of the independent review panel on the Department of Finance. Mr. Wright has 35 years of economic policy management experience in the public service in Canada, over 20 years of which were at Deputy Minister level. Most recently Deputy Minister of Finance, he began his federal Government career as an economist with the Department of External Affairs. Over the next 12 years, he held various positions at the National Energy Board, the Department of Energy, Mines and Resources and the Department of Finance. In 1987, he was appointed Assistant Secretary to the Cabinet in the areas of priorities and planning at the Privy Council Office. Between 1989 and 2009, Mr. Wright held a number of positions at Deputy Minister level, including High Commissioner for Canada to New Zealand, Deputy Minister of Revenue Canada and the first Commissioner of the Canada Customs and Revenue Agency, CCRA. He was also Associate Secretary to the Cabinet, Deputy Minister to the Deputy Prime Minister and national security adviser to the Prime Minister. Mr. Wright retired from his position as Deputy Minister of Finance in 2009, the 35th anniversary of his employment in the public service of Canada.

The report of the independent review panel, "Strengthening the Capacity of the Department of Finance", was commissioned in September 2010 by the then Minister for Finance, Brian Lenihan, following his commitment at the Joint Committee on Finance and the Public Service to the effect that a review would be carried out to assess the Department's policy advice and performance in the previous ten years and to make recommendations on how best the Department might adapt to meet the challenges of the future. Mr. Wright was chairman of the independent review panel.

Before beginning and to deal with the formalities of today's meeting, I wish to advise the witness that, by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If he is directed by the Chair to cease giving evidence on a particular matter and he continues to so do, he is entitled thereafter only to qualified privilege in respect of his evidence. He is directed that only evidence connected with the subject matter of these proceedings is to be given. As he has been informed, the committee is asking witnesses to refrain from naming individuals in this phase of the inquiry. Members are reminded of the long-standing ruling of the Chair to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

With that, I welcome Mr. Wright again and invite him to make some opening comments.

Mr. Rob Wright: I will. I thank the Chairman. It is a pleasure to be here. I do not have a formal opening comment, but I would like to refer to page 4 and the executive summary. I will walk through a little bit to give members a brief overview of the report. It has been four years.

As the Chairman reported, we were appointed as a panel. The other panel members included Mr. John Malone, a very experienced Secretary General from the Irish public service, and Dr. Hans Borstlap, a senior official from the Dutch civil service and very experienced in the EU bureaucracy. Not a panel member, but Mr. Pat McArdle served as a senior economic adviser to the panel and was very active as well.

I was approached for this job by the Secretary General of the day. The guidelines for the panel were approved by a parliamentary committee and really heartily embraced by the Minister of the day, Brian Lenihan, who was very impressive and made the point it was time to take an honest look - a serious look - at, given the circumstance, what would we do looking forward to improve the Department of Finance. That is something I was interested in and I was certainly willing to devote the three-month timeline that we had to complete this report.

When we started the process, we had enormous support for the review. There was a great public interest in what we were doing. We asked for submissions. We offered to meet with a large number of participants. We did that over a period of months. It included stakeholders from the private sector, partners in the social partnership process and Members of this Parliament from all parties. I met a great number of people from within the Department. Again, the Secretary General of the day heartily embraced what we were doing and devoted a great deal of his resources to make sure it happened. We met people from the ground floor of the Department and then prepared our report.

I presume a number of members have read the report. We start with an overview of the Irish economy. It was a fascinating history of Irish economic history in which I took a particular interest and was eager to play a part, but members know that history. The economy was transformed in the early 1990s by some real structural changes that dramatically improved Ireland's international competitiveness. That spurred a period of real growth, a very important growth, in the 1990s, further activated by Ireland's entry into the EU. Whereas people outside of Ireland, and probably in Ireland, anticipated that the pace of growth would cool somewhat at the turn of the century, it did not.

The second phase of growth in the first decade of the 2000s was very different from the 1990s growth. Ireland saw a deterioration of its international competitiveness but, buoyed by increased infrastructure investments, in part funded by the EU, and by joining a monetary union that clearly had at that time and throughout the early first decade of this century interest rates that were far too low for the circumstances of the Irish economy, growth was spurred, particularly in building. So, there was a deterioration of international competitiveness, yet there was still a very active economy.

Mr. Peter Nyberg's advice and recommendations yesterday were noted in this report. Interest rates were far too low for the macroeconomic environment in Ireland. There was a pressure, an economic case, for spending restraint. That did not happen. The construction boom further overheated the economy. It was aggravated by the financial sector which expanded, funded largely by short-term borrowings in Europe. At the same time, there was a very large increase in Government spending here. It averaged almost 12% per year for a decade between 1998 and

2008. That was an extraordinary expansionary process. All of that led to the crash in 2006-2007 particularly, which was severely aggravated by the failure of the Irish banking system when there was a very serious international climate, including in Canada. It caused a serious challenge here of which members are well aware.

Since then, Ireland has been working hard to re-establish the credentials and strength of the economy. I must say, there is a very different environment walking around the city now than there was four years, so I think there has been progress.

The Government acted with two scoping reviews on what to do. There was the first Honohan report and Regling and Watson did a report on various issues. Of course, there was a banking inquiry established with Mr. Nyberg and the review of the Department of Finance. We were quite deliberate in not wanting to overlap with the work on the banking sector, but we did draw from some observations in the Watson-Regling report that focused our review. There was one part of the mandate that we got from Parliament that was a little troubling, namely, to look at the policy processes of the Department of Finance for the last ten years. Having been a Deputy Minister of Finance, that is a massive amount of information, so we used the core observations from the Regling report to help focus our work.

We looked at three questions - how appropriate was the Department's advice on the risk of pro-cyclical fiscal policy, which was the No. 1 issue of our focus; secondly-----

Chairman: Define what "pro-cyclical-----

Mr. Rob Wright: I beg your pardon.

Chairman: In layman's terms, define what "pro-cyclical fiscal policy" means for people who may be viewing the hearings this morning.

Mr. Rob Wright: I should make an observation - my hearing is not the best and I have been out of Ireland for a number of years.

Chairman: And I come from Cork, which probably makes me even harder to understand. The term "pro-cyclical fiscal policy" arises a number of times in the report. In layman's terms and because people are viewing these proceedings, could Mr. Wright explain what it means?

Mr. Rob Wright: Yes. If one has a monetary policy that is perhaps providing too much incentive for growth and there is evidence of overheating in the economy, fiscal policy, which is what one spends or how much one varies tax rates, should not aggravate that overheating. It should pull back; one should show restraint. I will get into the substance later but, over that period when Ireland had incentives for building that added to the enthusiasm rather than pulled back from that enthusiasm, it was a big problem. That was a big problem. That was called pro-cyclical, in other words one is working up the curve of activity when one should be monitoring that activity. Second, to have spending going up by 12% a year when one already has an overheating economy is not good. That is pro-cyclical activity and in fiscal policy terms the international observers, the IMF, EU, OECD, did report on Ireland over that period. It was pretty scarce on issues of financial regulation. I think there were some real gaps in what the international agencies did. Similarly it was varied somewhat for pro-cyclical fiscal policy but the OECD did provide a pretty consistent pattern of concern about that.

I thank the Chairman for that question and prompt because it is a vital issue. When Ireland joined the European Union, essentially it lost its own independent monetary policy. So if the economy was overheating, an independent Central Bank would increase interest rates to have a more restrictive monetary policy to reign in growth. That could not happen in a monetary union. So one had overall interest rates and other financial markets over-stimulating activity in Ireland at the time. Again, access to the cheap short-term money to fund long-term mortgages was a key factor but what was needed at that time, given that fact, was a more restrictive spending pattern and that did not happen. So that is what we looked at. Did the Government receive advice to be very careful about what it spent or how it activated its tax reductions at that period?

The second thing we looked at was whether the Department provided appropriate advice on the risks of an overheating property sector, particularly construction activity. Third, whether the Department gave appropriate tax policy advice on the extent to which the Government's own resources were tied to one overheated sector of the economy. Those were the three things we looked at.

On the first matter we reviewed in particular the advice on pro-cyclical fiscal policy. We reviewed annual memoranda to Cabinet setting out the fiscal framework that was recommended by the Department for moving forward. One of the other observations that is pretty stark in the report is that there was very little other consistent stream of written advice that we could access. This was a major concern to the panel but we did use that pattern of regular memoranda to Cabinet to get a sense of whether the Department was actively advising against pro-cyclical fiscal policy, which was a significant contributor to the problems in 2007 and 2008.

We found that the Department had provided clear warnings, had recommended a level of spending and tax measures that was substantially more moderate than what the Government ended up doing. Some of this advice was certainly more direct than the people of the country knew about; it is private advice because advice to governments are so. With very few exceptions this advice was substantially exceeded. There was a more active spending and tax agenda coming out of Government than was recommended early in that budget process. We examined the reasons that was the case, the first reason being just the exuberance in this country at the time. There was great success in the 1990s and there was chatter around the world about the Celtic tiger, the Irish miracle and people believed that. They saw the growth that was happening and they wanted a share of that, they wanted to catch up. That fairness issue overwhelmed decisions and in fact, any casual observation of economic reality would show you had a very well managed debt pattern in that there was not excessive debt, you were meeting your targets, revenues were coming in higher than anticipated and so the layman would not see a screaming issue of concern there.

That was our first observation, that it was hard to restrain when things just always kept going well. Second, from a Canadian perspective, I found that the fiscal framework that the Government establishes for managing itself is a core of government management and in Ireland over that period this process was overwhelmed with two other extremely important processes, one being the programmes for Government. We have had some coalition governments in Canada on very limited occasions and that has put a lot pressure on accommodating and spending the coalition. I understand that pressure and Canadian governments are susceptible to the same but that was a more ready part of everyday regular management here and in many cases it completely overwhelmed the fiscal framework that was established by Government. Second, the social partnership process was a very well-established process at that point. It initially started by helping the country make very important structural changes that were win-win for labour and Government and enhanced substantially the competitiveness of the Irish economy. That was really the circumstance in the 1990s. By the turn of the century that process was dominated by "Where is our piece of this prosperity?". That prompted substantial expansion of wages within the public sector that worked to keep up with an overheated private sector.

With reference to salaries in the public sector there is an example in the report where the average salary for the Irish teaching profession moved from being ranked seventh out of ten in an EU comparable group to third out of ten within six years. That is a remarkable pace of growth. The social programme was evolved at the turn of the century into a process for broadening the fairness of what was seen as broad-based prosperity. It helped to fuel the 12% a year growth in spending and made it much harder to stick with appropriate fiscal policy.

Third, we found some serious deficiencies in the quality of finance advice. Advice existed and if it had been embraced one could see where that could have helped facilitate the chance of a soft landing from the boom, if there had been a real engagement on that, but there was no real engagement. Our advice was pretty blunt on this, namely, that the Department should have strengthened its advice in several respects. It should have highlighted the concerns as it went forward. It is one issue to express a concern on one year of expansionary fiscal policy that was putting the country at risk but after five years there should have been extraordinarily strong concerns expressed.

Over that period the OECD and others had made a number of observations that the construction sector in particular was really overheated. At that point it became too late to say, "How can we unwind this without a hard landing rather than a soft landing?" I am sure there were also some broader political issues on reining in an economy with great expectations. We provided a number of recommendations on this policy function and it is one that I think is the most vital going forward. It would require a change in culture but we asked the Department to consider not holding back on its mandate. The Department of Finance is uniquely positioned to provide regular advice on the total macro-economic risk environment facing the Government. We did not see evidence, for example, of building in the very reality that the monetary policy was inappropriately loose at that time because Ireland was driven by the interest rates out of the broader economic European Union. We thought they should have had that advice in the Department and that they should have been more active in looking at the financial sector. They focused in a more limited way on the breadths and we recommended again a number of areas where they should annually report to the Government on the broader set of macro-economic risks.

We provided recommendations on a need to strengthen the Department's written record of advice. I will speak to that later in the question and answer session. We recommended on a number of other issues relating to strengthening its capacity to provide this sort of advice.

We then turned to issues of the management of the Department, including the structure and the staffing of the Department based on what we heard from others in the public service, political observers, politicians and from people in the Department itself. We felt the management framework for the Department was quite weak and needed to be strengthened substantially. In particular, we said it did not have a critical mass in vital technical skills, including economics and financial sector expertise, taxation policy expertise - which it should strengthen. It had too many generalists. Observers from outside said it was more numbers-driven rather than strategic. I agree with that. It did not have a strong enough engagement with the broader economic community in Ireland. It operated in silos, even within the Department. It really did not have a modern management. It did not connect to its full team and there was some very good people in the Department of Finance that were not being fully utilised because of this management challenge. This was a sort of candour and assessment that the Secretary General of the day was seeking from us and we delivered it and really called it. We made a number of recommendations that dealt with strengthening the human resource management at the Department.

It is very easy to make these observations in hindsight, on the economic crisis and on the management regime. That was core to our mandate from Government and it is what was embraced by the Minister of the day and his Secretary General. We did go out of our way to acknowledge that there were some very gifted people there and now members have been exposed to those people. They have worked very hard over the last four years.

I will very briefly go over the range of recommendations we had on management. First of all, it had a very broad Department. It included public service management, it included senior executive management, it included expenditure management and it included classic macroeconomic management.

Our first piece of advice, we recommended to the Government that the Department should sharpen its focus of activities on the core business of the economy and strengthen its capacity to manage that core business. Our advice was that they should spin-off public service management. We did advise that the Department retain sectoral analysis. The Government of the day moved that out as well. There is, I think, appropriate connections between the two Departments to make things work, but the Department has been sharply focused from where it was and it is more definitively focused on the core economic issues of the day.

We had a number of other recommendations on public service management, and I think those would not be within the Department of Finance now but with the expenditure management Department. I note that given the focus on restraint, there probably continues to be less progress on public service modernisation than should be seen. Canadian public service management is not stellar. The pace of change and modernisation in government seems to be hard, slower paced and more restrained. The Irish system, in particular, needs to be energised to help public servants cope with extraordinary demands for service in a time of restraint. I think not as much progress has happened on that front on the broader public service.

Going back to focusing on the other recommendations we had for the Department of Finance, to strengthen the remaining core structure, we suggested a number of things. We suggested de-layering the executive management team so that there were more appropriate direct reports to the Secretary General. If one thinks of what the management objective is for a world-class Department of Finance, one would say one has to have the right people and manage those people well. It is a knowledge institution where all those people should be connected to the objectives. One has to ensure that those people have a real sense of purpose in providing the necessary advice to the Minister. Their best advice, regardless of what the Minister wants to hear, you get their best advice and then you implement the Minister's decisions. Those three steps - the right people, the right management systems and a focus on professional policy advice. We saw a lot of very good people in the Department. We thought they should substantially increase the number of economists and other financial and tax experts where they were very low by international standards.

We saw a real need to modernise the management regime in basic things such as structuring, communicating and connecting all the members of this team. There are now only 300 people in the Department of Finance. They have to be connected to the sense of purpose the senior executives have and what the Government wants. There is a whole range of issues that should be done to improve that.

Finally, on policy advice I mentioned we had some very important advices on how to formulise some of the policy processes. I am happy to speak to these individual pieces of advice. In the four years since - although I am here to talk about this report which is four years old - there has been a great deal of progress. There has been a much stronger engagement with the EU that has covered off some of our advice for particular fiscal councils and one exists now. Ireland's relationship with the EU has provided greater rigour that has changed the timing of the budgetary process and strengthened that.

I am also aware, from my contacts from Canada and with meetings I have had over the last few days, that the Department has made some very important progress in implementing the ideas we had in place. The Secretary General of the day is better equipped, and the Minister, to talk about that progress. There has been some real progress there.

I also note that there has been a very important step made on repatriating economic sovereignty with early withdrawal from the process and with the troika, which I commend Ireland for. It is driven by economic growth that I hope continues. That is the last comment I shall make.

Canada had major fiscal challenges in the 1990s which lasted for several years. We went through a lot of restraint of spending and tax increases to deal with the challenges but it was economic growth that really delivered us out of that. I really support the additional observation we had in here, that the Minister has clearly run with, which is looking at a medium-term economic plan to get back to the competitiveness focus that Ireland had in the 1990s. It is something that Canada should be doing more of. It certainly is a very important element of what is going to get Ireland through to the sort of economic activity it is looking for.

I have given a brief but complete overview and I welcome questions and comments.

Chairman: I thank Mr. Wright. I shall deal with some broader aspects of his report before inviting Senator Barrett and Deputy John Paul Phelan, as lead questioners this morning, to commence.

Mr. Wright reached a conclusion on page 36 of his report that he does not accept the notion that the Department is not fit for purpose. However, the report made 50 recommendations in all, many of which with some sub-recommendations underneath. How does he square his statement that the Department was fit for purpose at the time with such an extensive range of recommendations?

Mr. Rob Wright: I thank the Chairman. We did not hold back on advice. There are some very good people in the Department. I mean one did not have to start from scratch. In the whole Department there were people who wanted to make themselves in the face of this. There was a full engagement with everyone in the Department. I met with people at the working level right through the Department who knew they were doing something important to help Ireland get out of this. Since the crisis those people have worked their hearts out to get there.

Our advice is based on how to broaden and deepen that engagement. I think John Moran made some comments to this Parliament a few weeks ago that it was a pretty glum place to be and the finance Department was getting a real beating. There are some real important questions one should ask of public officials that were being asked. They really were not getting credit for some of the work they had done. There was advice and one did not have to start from scratch.

That said, we gave some very direct advice. If the Department had not embraced that level of advice, or is not embracing that level of advice, I would say it is not fit for purpose. It has to be ready to engage, modernise and strengthen its capacity to serve Ireland. That is what public servants are in this for - to work on issues that they know are important. They are working with a good team and are making a difference for their country. They stepped up to the plate when this crisis hit. They need to be better organised and supplemented for longer effect. I wanted to have something constructive to say about the people here as well.

Chairman: Thank you. In your opening statement, Mr. Wright, you say that in the 1990s, the economy would appear to have been structured in a way from a fiscal base to be more sound than what it was when it progressed into the 2000s. Also, in your opening statement, you said that because of Ireland being part of the eurozone, we did not have control over our interest rates. Can you explain the difficulties that arose from the 1990s into the noughties? Were they difficulties arising because of advice coming from the Department of Finance, or were those difficulties arising from Government policy that was not in line with advice coming from the Department of Finance?

Mr. Rob Wright: I think both. First of all, in the 1990s, the most important change was a breakthrough, through the social partnership, to say “let’s reduce wages substantially and reduce taxes”, so it is a net win. It is win for people who are working and a huge win for a more competitive Ireland. That became less dominant at the turn of the century. I think, as I mentioned, there is no single culprit. There was advice that should have been followed and I can envisage a scenario where that advice could have been very helpful, if followed, on a more restrictive fiscal policy - spending less money. If the finance advice was taken, it would have helped enormously because when the crisis hit, you saw a real impact on the business sector, but Government resources were severely strained. Typically, you would want the Government to step up to the plate and to do more at that period, yet their tax resources withered away and they had already ramped up spending by 12% a year, so there was very little room for the type of fiscal action you had in mind.

Maybe I went through that summary too quickly. I did see some evidence of some good advice - some advice that should have been taken from the Department and was not, whether that was because of political judgments or these other processes and, in part, because of the expectations you still face, actually. There are expectations in Ireland in the next election that you will be able to solve a lot of problems with resources that you will not have to solve those problems with. Unless you are ready to restrain that expectation, you will have the same challenge.

Chairman: That brings me on to my final question, and regardless of whether the banking crisis ever happened. When the Irish economy came to that sudden stop, there was a deficit of about €30 billion in tax revenue coming in to meet the daily outgoings of running the country on a day-to-day basis which meant the Irish nation was short €30 billion to manage its house, and that was because of a tax shortfall and not because of banking debts or anything else, which is what the focus of the inquiry is about. Coming back to the change between the 1990s and the 2000s, was there an observational change in taxation in the area of property and in development, that there were particular taxation policies that changed between the 1990s and the 2000s that actually had a specific impact in the property and development sector that were creating the sort of overheating in the economy that you are talking about?

Mr. Rob Wright: The dynamic that is important, Chairman, is there were existing tax instruments - stamp duty and revenue flows from the property sector. When the property sector was overheating, those revenues were flowing even greater. It was not that there was a tax policy to enhance all of that but that those that existed, once the sector grew very substantially, revenues grew and the higher the revenues, the higher the surpluses that were evident, which fuelled more spending. That was the question, whether the tax authorities in the Department of Finance were aware of just how vulnerable the overall Government finances were to that stream of revenues, and they were.

The question in that sector as well was, as is now, how do you manage the potential for another overheating of the sector? I think you have done a number of things by restraining some of the incentives that were in place at the time, including interest deductibility. There is more that will be done, I am sure, on the level of mortgage coverage. There are other options in terms of broad-based 100% mortgages to deal with new home buyers that you can incent through targeted tax agreements. That was a very important element of the dynamic that took place but it was not as if the Government was adding dramatically new incentives for the housing sector but basically not restraining some of the elements that were there. In fact, some of the elements that were there were creating more expectations for spending, not unlike in any other country. In Canada, we had a period of time where we were targeting to reach a certain point on deficit and surplus and there was pressure to spend to meet needs across the country. If there was a surprise to the upside on revenues or whatever, where there was an increased pile of money in one year, there was enormous frustration about why we did not know about that earlier. I think you face the same pressures here from all parties to meet real needs of the economy. That fuelled the fiscal spending.

I did not answer the Chairman as completely as I should have. What has changed very dramatically now is that years ago, countries like Ireland and Canada devolved very tough economic decisions to our central bankers. If the economy was growing too fast, you needed some cold-hearted economist in a senior position to say, "We're going to have to pull back now, folks. Hopefully, we will be open in why we are doing it, but that is what we're going to do. We're going to pull back now." They do that and people may not like it. They will gripe to the central banker but politicians will not be making the final choice on when and how to pull back. Central bankers are much better at pulling back.

Now you do not have a central banker who will deal with the unique monetary policy needs of this country. You are part of a broader economic European Union. It puts a lot more pressure on you, as politicians, to help the people of Ireland to restrain expectations about what you can do and to explain why there is a danger to over-incenting the economy. That is not obvious to people out there yet.

Chairman: Thank you very much, Mr. Wright. I just noted in our opening statement that you made a suggestion that you might be able to provide this committee with some questions that we might raise with the Department of Finance. You might give us an indication as to some areas with which we might deal with it. I will return to that at the end of today's session, when we have completed proceedings, and maybe draw upon those comments a bit further.

That said, I invite Senator Sean D. Barrett to open up the lead questions.

Senator Senator Sean D. Barrett: Thank you very much, Chairman. I welcome Mr. Wright and thank him for his report in the first instance, for being here today and, indeed, for keeping up with what has been happening in the Irish economy. I think we have a friend in Ottawa looking out for us. As a student in Canada, I remember that we used to go to western Ontario to the great seminars on public policy. That was Mr. Wright's department.

I have admired Canada for not having a banking crisis, when the United States had a huge one, and for having control of the public finances. There is a lot of Irish DNA in there with Jim

Flaherty, Canada's former federal Minister of Finance, and the former governor of the Bank of Canada, who is now the governor of the Bank of England. This can be a very fruitful dialogue and, as the Chairman said, if you can give us any hints on how we might improve matters further, it would be valuable.

You have explained in great detail the reforms in the Department of Finance but it had only 39 economists out of 542 staff, which is 7%. The Canadian figure was 60 and the Dutch figure was 40. Can I put it to you, that must be an essential, that is, we cannot have untrained people so prominent? Does it explain part of the Canadian success?

Mr. Rob Wright: Yes, it does. I was really surprised at the limited numbers of senior economists - I mean masters level economists. That was at a very low level. We were quite direct about the need in that regard and I talked a lot about that with everybody in the Department. Some felt threatened by it. Again, people are very good and they are doing a good job but we gave a lot of specific advice on what to do. One of the best things the Department of Finance in Ottawa in Canada does is it has a regular inflow of economists. There is a great deal of interest in working in the Department of Finance there. If you are a senior economist - if you are taking a graduate programme in economics - the Irish Department of Finance would be a fantastic place to work, so open up to that process. Despite some restraints, have a regular influx. We recommended doubling the number of economists at a master's level within two years. They have not quite done that. We also recommended urgently seconding in expertise from around Ireland and abroad and I think they have acted on that.

The Department of Finance is now focused around almost 300 people. There has been a lot of churn in the Department. That is always a good thing. In fact, it now has over 100 employees with an economics background, almost half of them at master's level. There has been important progress. Very importantly, there have been a number of secondees from the NTMA, Bank of Ireland and other partners around the world that have an interest in this and can add to the immediate bench strength. The core, going forward, is a regular influx and an outreach. The Department now has a full-time human resources expert with a five-year plan. That is not enough - the Secretary General will have to tie himself personally to management objectives for that group - but significant progress has been made and yes, I was very surprised at how little bench strength the Department had.

Senator Senator Sean D. Barrett: Mr. Wright mentioned a hundred members of staff, of whom half had master's degrees. That only brings the relevant number from 39 to 50, which still falls far short of the proportion he would seek in Ottawa.

Mr. Rob Wright: The Department comprised a staff complement of 500 people, and now it is 300 people. There has been some churn. More progress must be made, but important progress has been made.

Senator Senator Sean D. Barrett: Of the 542 staff Mr. Wright looked at, 58 were in the financial services sector. Do we know how many of those had master's qualifications in economics and do we know the split between those who were promoting Ireland for financial services and who were also to watch what was happening in Irish banking, which caused the great collapse he described for us?

Mr. Rob Wright: As I mentioned at the outset, and the Chairman mentioned, the report is four years old. I am not here to report on progress made against that report. The Secretary General should do that-----

Chairman: That would be his job and he will come before the inquiry as well.

Mr. Rob Wright: I am sure he will be happy to do that. I would reinforce a couple of observations we made at the time we produced the report, four years ago. On the financial sector, one of the big differences I saw was that treasury operations in the Department of Finance, with some highly trained and skilled economists, was moved out to set up the NTMA in early 2002 or around that time. In Canada, the treasury operations are an integral part of our Department. They are in the same branch that manages financial sector policies, so during some troubling times in the financial sector, with a global meltdown, I was able to draw on great strength in that sector to get us through that. The Canadian regulatory framework was a much more active financial regulatory framework. It was not principles-based or light-touch, it was regulation. That was tracked very closely.

The Department of Finance had expertise, where I was told whether within the Department members of staff agreed with all decisions being made and they could tell the Minister whether they agreed, and they were expected to do that. Without that expertise from the NTMA, the Department really did not have the capacity to seriously question some of the regulatory decisions that were being made. One does not want to duplicate effort, but here is a broad area of economic risk. Much has happened since then. They have seconded people into the Department and, most importantly, there is a much more integrated effort with the great expertise in the NTMA and the Department. There was a real gap there and they have made a number of changes to improve it.

Senator Senator Sean D. Barrett: Is there a contradiction between promoting the development of international financial services in Ireland and the important task Mr. Wright just described of seeing whether the rest of the banking system in Ireland was sustainable or whether it was on unsustainable paths? In Ireland it is called the "green jersey", that one must keep the image of Ireland high and if that meant ignoring what was happening in banking, that was a price we may have been willing to pay.

Mr. Rob Wright: There is a lot of international competition for economic activity. That is not all bad. I think some of the tightening of financial regulatory requirements in the United States led the UK to compete for a greater portion of the global financial market activity through principles-based regulation. Some of the sentiment in that way was probably rewarded in the Davos comparators of where is the best place to do business if one is a businessman. Canada has a strong financial regulatory sector. Our banks have talked about how important it was through the crisis to have that, but people do not like being regulated. The banking sector is extremely important in Canada and Canadian bank leaders are very strong leaders in the business community and so one must have this sector that is attentive to what they are saying, but does not stray from one's regulatory needs.

Senator Senator Sean D. Barrett: The 100% mortgages issue seemed to catch the Department almost unawares according to Mr. Wright's report.

Mr. Rob Wright: What caught them unawares?

Senator Senator Sean D. Barrett: Once the Financial Regulator decided on 100% mortgages, the report says that the Department went silent on the issue.

Mr. Rob Wright: I thank Senator Barrett for that clarification. I think the move to 100% mortgages was about helping first home buyers in Ireland. In Canada, we had limited mortgage insurance, up to 85% of the value of a home. There were private sector insurance providers which helped move that up to 90% or 95% and in Canada there was a concern that this might overheat the economy. We approached the Minister with advice on restraining that limit and some of his political advisers had real concerns about the impact on the housing market, but the Minister did not. It was not even in Minister Flaherty's Department but he took action to restrain it because he did not want a bubble. In that particular circumstance there was strong evidence of an overheated construction sector, so to do something expansionary at that point was a real concern. The Department questioned it somewhat. I think a Minister in Government had raised some questions about it but in the end, particularly once the regulator said it could support 100%, it was very hard to resist. It should have been. At that point in time, what the country needed was a strategy for how to manage a soft landing in the construction sector.

Senator Senator Sean D. Barrett: Mr. Wright mentioned the overheated construction sector on page 31. What could Ireland have done to restrain an overheated construction sector?

Mr. Rob Wright: One could look at the framework that was inducing it. Spending was not about just low interest rates, but one could have moderated the coverage for mortgage rates. One could have taken some actions, which have now been taken, on tax-deductability for mortgages. One could have intervened with the banks in terms of their eagerness. The regulatory authority would have a menu of things it could do but clearly it would have to be part of a framework the Government was comfortable with and if it were to be of the magnitude that was needed one would have had to have a strategic framework that would say, "Look, here is the growth rate we have seen in construction, here is an objective assessment of how excessive that might be. We will see how these work, but we are going to restrain it". One would have needed a strategic framework that would have a common effort between the Government, the Department - including instruments on the tax side - and also the regulator. One start would have been the coverage on the percentage covered for mortgages. That would have been a useful start.

Senator Senator Sean D. Barrett: Page 29 of Mr. Wright's submission states, "it is best practice to maintain a formal written record." Is that an important reform compared with what he found?

Mr. Rob Wright: I think that is one of the most important recommendations we have in here. I have spoken with three Secretaries General about how important it is. If I can, I will comment at some length on that. We did focus on those three core questions and I wanted to see the advice on the risks of pro-cyclical fiscal policy. There was just very little written advice. One could get snippets here and there, but in something as vital as that, particularly when one has regular engagement with international institutions like the IMF, the OECD and the European Union where concerns have been expressed, one would have anticipated a consistent flow of advice through that period. We really could not find much of that.

There were several reasons for that. The most dominant reason we were given was that under the Freedom of Information Act the Department would be at risk if its advice was truly blunt to a Minister. Advice has to be blunt to a Minister in terms of saying, "This is the Department of Finance's view. We're not saying it's your view. Here's what might guide your decision", or, "Here's what you committed to do, but here is why you should look at a different variant."

If one is sending a message to one's Minister that is suggesting a different path than he has already stated in public, it is very damaging to relationships and that is not how public servants in Canada and in Ireland see our role. Our role is to inform decisions. When I was briefing my Minister, Jim Flaherty, in Canada, I gave very direct advice on what the department's view was and he would usually take it. However, occasionally - on a number of occasions - he would say, “No, I don’t agree with it. So I need an option of something that is more practical.” These were areas where the Minister was right to have options. This was the right thing to do.

On some occasions, I would not have thought it was the right thing to do for the economy, but it was a broader political need for him, the Prime Minister or his party. However, once the decision is made, we will go and implement it. That engagement informs the Minister of a balanced professional view of the right thing for the economy. He makes his decision and he is accountable for it, and again it is a good interchange.

If one has a piece of advice that is not totally consistent with what the Minister has said in public, it is controversial. On the guidelines for my appearance here, there is an element of the committee’s guidelines that I was struck by, that clearly state that public servants are not expected and cannot be asked to contradict what their Ministers say.

Chairman: Those were the guidelines when Mr. Wright was invited to do his report and not before the committee. It is a section of the Act.

Mr. Rob Wright: Yes.

I go on, maybe, a little too much, but there was at least one experience in the Department where a piece of advice from the Secretary General or the Department to the Minister was released in public and the Minister of the day had a lot of concern about that. That particular Minister wanted more limited options that he did not agree with - well, that constrained the process. I think that is only one example.

So I expressed some concern about freedom of information to the extent that one does not want anything to restrain Secretaries General of the future from pushing the button when they have to push the button. So one has to be sure one has that outlet.

I think the Department overreacted on that. I think there are provisions. I understand Ireland does not have a Freedom of Information Act like in Canada. It is not accessible. My advice to my Minister is not accessible; that is a blanket exemption. It is vital in my view.

Chairman: I ask Mr. Wright to clarify that he was a public servant and not a politician in the administration.

Mr. Rob Wright: I was a public servant. I was the Secretary General. In Canada-----

Deputy Sean D. Barrett: Mr. Wright was called “Minister”, is that not so?

Mr. Rob Wright: I was called the “Deputy Minister”. In Canada that is what they would call a Secretary General. It is the interface between the rest of the Department and the Minister.

To the Senator’s question - I am sorry I am going on a little bit, but I think this is a vital piece - we had heard from other Secretaries General that the freedom of information had constrained their written record as well. We had also heard from the former Comptroller and Auditor General, who has now retired but is a very impressive man, that indeed there is a systemic issue of written record in government about which he is concerned.

So we made that observation and I have reinforced it with the Department in an important way because an important part of how a professional, world-class Department of Finance works is to say, “Here is our advice. You know what it is. We’re on the record.” A Minister does not want casual observations. Some Ministers operate in different ways. I have worked with Ministers who really wanted to sit down and talk with the team about options and everything. I have worked with other Ministers who might say, “Put yourself on the spot, Deputy Minister. You give me written advice on what you think and if I agree with it we’ll do it. I don’t want to waste time. If I don’t agree with it, we’ll come and talk about it.” There is a great discipline to writing down. It is also very important to the overall enterprise of this knowledge institution. The Department of Finance officials should know what one is trying to achieve and should know where one stands on these issues and written records help everyone know that.

Deputy Sean D. Barrett: I thank Mr. Wright. He has said that the Department of Finance is unique in that assistant secretaries do not report directly to the Secretary General. Would that have meant the 58 people who were in charge of financial services had no way of relating to the other 542 members of staff?

Mr. Rob Wright: No. At the time we did the report, there were three Deputy Secretaries General. All the assistant secretaries reported to those people and through them to the Secretary General. What I was saying there is that I think best practice is that if somebody has a line responsibility as an executive managing the financial sector, he or she should have connection to the Secretary General.

There are other models that could work. Very senior members of the Department wanted the more direct connection to their Secretary General, and we thought that was a good thing, particularly in a streamlined and focused enterprise like we have now. Given the magnitude of the financial sector restructuring, NAMA, the NTMA relationship, I think the current Secretary General will explain his structure and why that worked for him. What is vital in the core reform needed is having clear structures and using a much greater degree of information flow - communication within the Department. Again that is one of the reasons we wanted to see a more detailed written record.

I want to expand on that point a bit because I have a couple more observations on the written record. If one is going to give advice to the Minister in writing about what one thinks is important, one will articulate the rationale for it. If one does not have the capacity to give the Minister advice on the financial sector, because one does not have the bench strength to advise one on that, one is going to know it. One is not going to be comfortable signing a piece of advice that either one does not understand or one fears someone else does not understand. So it is an important discipline on rigour that grows a stronger Department.

It is not enough to say, “I had a conversation with the Minister of the day.” Does the rest of the Department know that is a conversation? It should not be a personal matter. In Canada if advice has gone to the Minister, it is from the Department of Finance. People in the Department know what it is and they are all connected to it. That helps strengthen the team and understand better the directions of the Government, but they understand their role is to give their best possible advice.

Deputy Sean D. Barrett: I thank Mr. Wright.

Chairman: Before calling Deputy John Paul Phelan, I have a question. Mr. Wright mentioned the construction of the Department of Finance. Did Mr. Wright confirm in his report that more people worked in the press office than there were senior economists in the Department of Finance at the time? Were there more spin doctors than economists in the Department?

Mr. Rob Wright: It sounds as if the Chairman knows the answer to that question.

Chairman: Mr. Wright wrote the reports.

Mr. Rob Wright: We have a layout of the Department. There is an important corporate function on relating to the press and outreach and corporate services.

I agree with the Chairman that this observation was made for a reason. Some 39 Masters' level economists in the Department of Finance is not enough.

Deputy John Paul Phelan: Good morning Mr. Wright. I wish to follow up on the second last question put by Senator Barrett. Mr. Wright spoke of his engagement with the Canadian Minister for Finance and he referred to it as a balanced professional view that might exist between a Secretary General and a Minister at the time. Did he find in the ten year period that he investigated that such a balanced professional view existed between the senior officials in the Department of Finance and the Minister of the day?

Mr. Rob Wright: I think there was a strong public service ethos. People were not seen as the executive assistant to the Minister. They had a capacity to do more and they did more. I know that on the day when I was engaged I was impressed by the commitment of the then Secretary General to public service and to renewal. I have been impressed by a number of the senior players who had frustrations within that system and wanted to improve it, but when it came to giving the Minister advice, I thought that relationship was professional. What I have recommended are ways to make it more rigorous in ways that are more important and would lead the Department to be capable.

I know we have all got the knock on the noggin. I do not think senior officials in the Department of Finance will be comfortable giving casual advice. I think they have embraced this notion of increased formality of the written record and the discipline associated with that. How to regulate a risk is learned from it. The question of how to sustain it is something that is worthy of being part of the review. In Canada, advice to the Minister is clearly restricted. Under the former Freedom of Information Act, which is an Australian model, there is no blanket exemption. I did take the time to talk to a few Australians about whether that restrained them from giving advice when it had to be blunt. Australian reaction to that question was typically Australian: I was left in no doubt that the advice would be delivered in a bloody clear fashion.

There are areas to get the job done in that framework. In the current framework, I would want to be reassured that if there is a red button that has to be pushed in no uncertain terms, there are enough exemptions for that type of national financial market advice to go uncensored through the system to the Minister. I think that is a vital aspect. There is scope in the current system but I think the committee should be mindful of that.

Deputy John Paul Phelan: Thank you Mr. Wright. I wish to put a number of quotations by the people who commented after the publication of Mr. Wright's report. Mr. Dave Thomas, the then General Secretary of the Association of Higher Civil and Public Servants, AHCPS, said in the aftermath of the publication of Mr. Wright's report, "This report clearly states that the actions of politicians, rather than civil servants, were the primary factors ... that led to economic collapse". Does Mr. Wright think that is a fair characterisation of his report?

Mr. Rob Wright: I did not think I should limit my aim that much. When we have something this important everybody should front up to say what can we do differently going forward. This is not a question of looking to blame people but is asking what they have to do better. That is what drew me to this work. It is what really impressed me about my engagement with the Department and others. There are things that they have to do better. There are a lot of things that members as politicians will have to do better. I can talk about it at any time members want to - it is not just in Ireland, there are issues everywhere.

Again in Canada we have drifted away from a medium-term economic agenda that enhances future growth. It is very hard to sell politically concepts of building a stronger future when one knows there is an immediate risk for something that has to be resolved. That is something that is going to have to focus one's mind here.

There is going to be an election now. Again, another example, if there is a programme of government - and there will be coming out of this election - in Canada because we went through this grief in the 1990s, Canadians do not want an ongoing deficit. There was an enhanced deficit to deal with the financial crisis in Canada. The Government in power now in the last election said, "We have some ideas to spend more money on tax relief and other relief, but we're not going to do that till we balance the budget." Other parties did not attack that principle. Even if this may not be the best fiscal policy at the current time, it is an important guideline going forward.

So in Canada we will have an election in the coming year and I think people will be saying, "If you're going to offer tax relief, where are you going to get the revenue from? If you're going to offer spending, where are you going to get the revenue from then?" I think if one has an engagement now on a programme of government that is very ambitious on spending the question should be, "Where are you going to get the money for that?"

I would think that given the current climate, with the fiscal council and the Department of Finance, one of the most important questions of the coming year or two is, "Do you have some fiscal parameters that are important to guide the people of Ireland and its politicians in knowing what they should be doing?" If there is a surprise to the upside in revenue, it is because the economy is doing quite a bit better than one had anticipated and perhaps there are some sectors that are overheating. The last thing one wants to do in economic terms may well be to spend that money. If one has a menu of actions that people want and an unanticipated surplus, should one spend that on those needs or should one pay down the debt? There is a very strong case that one should pay down the debt. Again that is something that should be developed, otherwise it is back to the same old game and I do not think that is going to work.

Similarly in Canada, a piece of advice we had was that the Government and the Department have to have the strength to give advice on a medium-term economic plan, which is what does one do that can regain some of the magic from the early 1990s to say that we are going to enhance the competitiveness of Ireland. The Minister did put out a medium-term economic plan. It is a very high-level document, but there are some really important new ideas in there, such as expanded financial framework funding for small business. There are other areas one can talk about, which is a more efficient tax regime rather than just a fair tax regime and further investments that enhance one's competitiveness. So it is not all just the wage levels.

I think the way forward to focus on initiatives should be on areas that enhance the prospects of economic growth in Ireland and areas that respect this very challenging new world, members will face as politicians, when they do not have a monetary policy or a bank governor who is going to restrain monetary policy when it is needed. The members are going to have to help restrain the ambitions of the Irish people - 12% a year in spending. Of course, I am a Canadian so I can come here and say that - the committee probably will not have other Secretaries General but that is what is needed.

Deputy John Paul Phelan: I was going to refer to another quote, but I think Mr. Wright has forced a rethink of my questioning.

In terms of the investigations Mr. Wright had, did he uncover any informal or formal contacts between the Department of Finance and the banks' auditors at that time?

Mr. Rob Wright: The auditors?

Deputy John Paul Phelan: Yes.

Mr. Rob Wright: Does the Deputy mean the Financial Regulator?

Deputy John Paul Phelan: No, I mean the actual audit houses.

Mr. Rob Wright: No, I did not.

Deputy John Paul Phelan: I wish to ask Mr. Wright about page 22 of his report. I think the economist in him was coming out when the bar chart was published showing the period 1999-2008, including the June fiscal framework proposal from the Department of Finance and the final actual budget figures announced in December of those particular years. Looking at the differences between the advice offered in June and the final outcome in December, is it fair to say that the Department of Finance's advice was largely ignored? With the exception of 2003 which conveniently enough was just after a general election, is it fair to say that in the other years that advice in June was not replicated in the final outcome when the budget was announced in December?

Mr. Rob Wright: "Ignored" is very strong, but it certainly was not followed. In the text of that report we explain a number of reasons why, that could explain a year or two of it. First of all, the timing of the budget was out of line with the timing of some of the revenue receipts if revenues came in higher. There was a tendency to think - not in the Department of Finance - that if there is a surprise to the upside on revenues, let us spend it. That is what happened. There was a menu of ideas from programmes for Government or the social process that had real demand from the people of Ireland. Politicians did not resist all of that; they may have resisted some.

Chairman: To summarise Mr. Wright's response, the graph in page 22, which the public might not be looking at, shows a clear distinction between the position advocated in June by Department of Finance officials and the decision taken later in the year by Government in terms of implementing the budget. There is a consistent situation whereby the advice and what happens are quite different.

Mr. Rob Wright: Yes. I would say - a little variant of that - this does not show what the Department advised its Minister the framework should be. It may be the same, but I would make a distinction. It shows what the Minister brought to Cabinet as the framework, I think upon the advice of the Department, but the Department may well have recommended something different than that. That is what the Minister took to Cabinet based on the advice of the Department.

Deputy John Paul Phelan: Mr. Robert Pye, who is an assistant secretary in the Department of Finance, was reported in *The Sunday Times* here in Ireland - after a freedom of information request on 1 May 2011 - to have made a submission to Mr. Wright's group stating that there was an environment in the Department of unquestioning obedience to politicians that permeated the

Department. He also said that this was enforced by senior managers. Does Mr. Wright feel that is an accurate reflection of how the Department operated at that particular period?

Mr. Rob Wright: I was here for three months, or not even that. I was here on four trips over three months. I cannot say that. What I can say is that members of the Department - the staff of the Department - were not connected clearly enough to the sense of purpose of senior managers. In an informal process, one could interpret that. Certainly once any Minister makes his decision, one is going to implement that Minister's decision. The qualm I had was whether, at the time, the Minister had very clear advice from the Department on what was appropriate to the circumstance. If he overruled that and went on, that is his prerogative - he is the Minister. That observation really underscores something else that we observed that said one has to modernise the management regime in this Department so people are connected.

One of the times I was here was a budget night. People in the Department went home to see what was in the budget. I found that incredible. Why did they not know what was in the budget? They are in the Department of Finance. There was not a connection to these core pieces.

I am not advocating Canadianising your service, but in Canada-----

Deputy Kieran O'Donnell: Mr. Wright is not making that case?

Mr. Rob Wright: No, I am not advocating that. However, I would say that post-crisis in Canada it had huge implications for Canada as well. I had a very strong department to help me through that - some of the best economists in Canada, a number of them, to talk through key issues. One of the things I am proudest of concerns the processes in that Department, and they existed before I arrived but I hope they may be a little more reinforced. There are 750 people in the Department of Finance. This was one of the biggest and most important budgets we had put together. We did it on a very short timeframe for a great Minister who was the leading candidate through this. Every one of those 750 people were connected to those outcomes. They knew what we were doing, knew their role in it, and were actively engaged.

That connection to the policy agenda, and the objectives of the Secretary General and the Minister, had to be substantially strengthened. I think it is. I think what has been accomplished in the last couple of years has been tremendous. I saw the Minister briefly yesterday. To repatriate economic sovereignty is pretty big. To see the progress that is being made in the economy here is pretty big.

I think the Department feels a part of that, very strongly, and they are more connected to it throughout. At that time, however, there really was not the sort of connection I would like to have seen. That led to a whole set of advice on how to strengthen the communication and connection within the Department.

I did not think that senior managers were on a leash. I think they would have given advice and they did give advice. I thought they should have given more advice in writing. I thought they should have taken more initiative. In Canada and, I would say in Australia or the Dutch finance department if there was any issue - and this is the term I have used directly with the Secretaries General here - that affects the economy or the fiscal standing of Canada, the Minister for Finance is going to get a view from the department. If it is in somebody else's turf and they have already made a decision, it does not matter. That is the ambition they have to have. They have to have the capacity to do that.

That is where this Minister expects them to be as well, so I am pleased to see that progress.

At that time, I can understand a comment like that but it would not necessarily be that that was what was happening. It is that they did not know what was happening. It could be a mixture of both. They were professional public servants who were giving advice, but I thought it should have been more rigorous. That was a very fair observation but beyond that I would not have thought it fair.

Deputy John Paul Phelan: I have a final question. At several points in his report, Mr. Wright referred to the two dominant processes. He touched on them briefly already - the programmes for Government and the social partnership. After the publication of Mr. Wright's report, the secretary general of the Irish Congress of Trade Unions at the time, Mr. David Begg, described Mr. Wright's criticism of social partnership as a facile exercise of scapegoating designed to obscure the true cause of the collapse, which was the banks, builders and toxic Government policy. Does Mr. Wright have any views on that particular comment by Mr. Begg?

Mr. Rob Wright: This was a huge problem and one does not have to say it is one or the other, if somebody has a view. I was not trying to. I think the social partnership achieved a great deal for Ireland. Even though it led to massive excess spending, it overwhelmed the fiscal framework of government. It certainly enhanced the cohesion and outreach, and connected with the people very strongly, but I was not looking for a scapegoat. I do not think that it is. I think it is a reality and it is something that you will all have to deal with. How does one restrain expectations in a period where, if one does not, it is dangerous?

We have had observations on all parties. I have not had observations on the Financial Regulator because someone else has been doing that, but clearly there were gaps.

Senator Senator Susan O'Keeffe: I thank Mr. Wright. Were he and his team surprised that he received so few public submissions? He advertised in the newspapers but he got very few.

Mr. Rob Wright: No. We received some useful submissions. I was not surprised. We were pleased - I do not think we asked anyone - we invited people to come see us as well and there was a tremendous response to that. It was a very intense infusion, and extremely helpful.

Senator Senator Susan O'Keeffe: How many people did Mr. Wright invite?

Mr. Rob Wright: I do not have the numbers in front of me.

Senator Senator Susan O'Keeffe: In the order? Ten or 100?

Mr. Rob Wright: Between there. We probably met over 50 people one on one and it would be over 100 if I counted the engagement with staff level in the Department.

Senator Senator Susan O'Keeffe: Mr. Wright talks a lot about the importance of written documentation and so on. Was he made aware at any point by anybody that relevant documents might have been deleted or destroyed or removed from the Department?

Mr. Rob Wright: I did not hear that.

Senator Senator Susan O'Keeffe: Mr. Wright did not hear that.

Mr. Rob Wright: No.

Senator Senator Susan O'Keeffe: Mr. Wright refers on page 21 of his report to the European Council's warning under Article 99.4 about the overheating. It is not clear from the way

Mr. Wright phrased that whether we, as in Ireland, the Department of Finance, ignored that. That is what I understand but perhaps Mr. Wright might clarify. Was the warning ignored?

Mr. Rob Wright: No. We did not delve into the advice on that. We did not expect to find advice on that. That warning perhaps overreached a little bit. That was where everybody, of all parties, put on the green jersey and pushed back very hard at the political level. There were real questions about the capacity for Ireland to adapt to the pressures that were building on the IT challenges of that period. It turns out that, in fact, there was a pretty full response to it, so it did seem to be overreaching. I would say that experience and the reaction probably moderated some of the advice you might have had from the European Union. However, I did not see the specific advice on that issue from the Department of Finance.

Senator Senator Susan O'Keeffe: Sorry, just to clarify. Mr. Wright is saying that the warning that came was pushed back from here?

Mr. Rob Wright: By the Minister, by Opposition leaders and by the people of Ireland. There was a common view, which is an observation that has been made in a number of areas, that what you were doing was good, it was making progress and you did not need a directive. Now it turns out that, in fact, the Minister of the day, and the Minister of the day was a very forceful gentleman on that matter, but it was an Irish view and it took offence to some elements of that warning, and that probably moderated the sort of advice you got from the EU, although some of it was still pretty good.

Senator Senator Susan O'Keeffe: Given Mr. Wright's understanding and vast experience of civil service and the way in which organisations function together, was it unusual that such push-back would have come from an official-----

Mr. Rob Wright: I did not see it coming from the officials; I saw it coming from the Minister and the Prime Minister.

Senator Senator Susan O'Keeffe: No, I beg your pardon. Would that be unusual, that there would be push-back?

Mr. Rob Wright: I think it would be unusual that an action like that would be taken without fully gauging the reaction that might be anticipated and managing it. So maybe there was a little overreach on both sides. That was not the core element of my research, but I would say that was-----

Senator Senator Susan O'Keeffe: Mr. Wright explained that when the National Treasury Management Agency was established, some of the expertise left the Department. Am I correct in understanding it was almost akin to a divorce? It seems there was not anymore the dialogue that ought to have been there, that when they left, they left and took their advice with them. One would imagine that if they left and went to another building and organised themselves, there would still be a huge amount of contact between the two organisations, but I gather that was not-----

Mr. Rob Wright: Thank you. It is an important question. There was not enough contact. There was not enough integrated effort between the two organisations. There was great expertise over there. They were focused, they did good work for the Minister of the day, and they grew into something that is really quite distinct and impressive. However, that was a large body of expertise to lose. It was one of the reasons we were reluctant to see the sectoral analysis unit leave the Department as well. It was affecting the critical mass of trained economists. At the same time, what I think the previous Secretary General has done, importantly, and the current deputy Secretary General, is ensure a truly integrated effort with that group, which is needed, including complete interchange of staff. Yes, my advice to Secretaries General now would be to use the more effective staffing and other processes of the NTMA, the bank of Ireland and anyone else you can to get the expertise in, but to build stronger partnerships. There is no room for divorce.

Senator Senator Susan O'Keeffe: Mr. Wright talk about the significance of the Department's engagement with Europe and with European organisations. In his meetings with those between ten and 100 people, did he meet members of any of the European organisations, the European Central Bank or any of the others?

Mr. Rob Wright: No, I did not.

Senator Senator Susan O'Keeffe: Did Mr. Wright ask them? Did he invite them?

Mr. Rob Wright: No. Who we invited, and the Government invited, was Dr. Hans Borstlap, who was a panel member. He, in fact, wrote the section on the relationship with Europe. We had an outstanding individual, the assistant secretary, who just retired, Jim O'Brien, who gave us great advice in terms of what that engagement is. Of course, four years later, much of that engagement has helped and is really part of the response to the advice here on the fiscal council, on changes to the timing of budget, on further effort there.

Senator Senator Susan O'Keeffe: Mr. Wright talk about how our Central Bank, because it is part of a European-wide eurozone, has less impact. Is it that it has been neutered? What is the word Mr. Wright would use?

Mr. Rob Wright: You are in a monetary union.

Senator Senator Susan O'Keeffe: Of course.

Mr. Rob Wright: In Canada, our central banker - we are a relatively small economy in the world but we are next to the giant, the giant - but we have an independent monetary policy which says here is how we are going to set interest rates and here is how we are going to relate to anything else. The Governor of the Bank of Canada has a great deal of authority for independent action.

Senator Senator Susan O'Keeffe: And Mr. Wright is saying the Irish Central Bank Governor does not have that kind of power?

Mr. Rob Wright: He does not have that now. You do not have that now. You do not have someone independent to restrain the economy of Ireland when it needs to be restrained. It has to be you.

Senator Senator Susan O'Keeffe: Finally, if I may, when Mr. Wright talks about the three key reasons in his report for the failure of fiscal policy, he says the extraordinary expectations of Government, the budget process being completely overwhelmed by the programme for Government and the social partnership, and then he talks about the Department of Finance and he says it should have done more.

Mr. Rob Wright: It should have done more.

Senator Senator Susan O'Keeffe: The first two are really strong statements and when

Mr. Wright comes to the Department, it is very much more toned down and careful in its tone. When I read that first, it felt to me as if the Department of Finance are the good guys here and the Government and the politicians are the bad guys. That is how it felt in the language that is used there. So I just wonder if Mr. Wright might comment?

Mr. Rob Wright: What page is the Senator looking at?

Senator Senator Susan O'Keeffe: I am looking at pages 5 and 6.

Mr. Rob Wright: That is an executive summary. Read the report.

Senator Senator Susan O'Keeffe: Sure. I have read the report, of course.

Mr. Rob Wright: I would say it is not the sort of report I would want to read on Canada if I was the Minister for finance. It is very direct advice. It says they did not do what they should have done. Again, would I have done a better job if I was here through that whole period? I would like to think I would but I do not know. Looking back, when I say that, I was not trying to be critical of the people who were there at the time. It was an extraordinary time, but what we were asked to do by the Minister of the day and his Secretary General was to say what are the lessons from that going forward. The lesson was they should do a lot of things better.

Senator Senator Susan O'Keeffe: Does Mr. Wright think the level of things that were not right either on the politicians' side or on the Department's side was a partnership of error or was it, as I take it from the report, that there was more error on the political side than on the departmental side?

Chairman: Senator O'Keeffe should ask her final question.

Senator Senator Susan O'Keeffe: That is my final question.

Mr. Rob Wright: I do not feel that. I think there was a collective problem here. I think the Department should have done a better job in presenting advice and done it in a rigorous way and should not have held a calm view of that period. It is one thing - Senator O'Keefe referred to the chart - to say that early advice was there, but my God, after seven or eight years of it should there not be more concern than there was at first? Should things not have been stepped up? In retrospect, they should have been. There are a lot of things and the real issue is if we asked people who were there at the time what they should have done differently, they would probably have a longer list. There are lessons there. However, the question is, should both parties have done more? Yes, if the Minister of the day received a very clear and coherent piece of advice and still did not follow it. Would he have followed it? Perhaps or perhaps not, but I must say I think this was received by the Minister of the day as a tough, fair and balanced report. I think it is fair and balanced.

Chairman: Thank you Mr. Wright. I now propose that we suspend for 15 minutes and resume at 11.15 a.m.

Sitting suspended at 11.00 a.m. and resumed at 11.15 a.m.

Senator Senator Michael D'Arcy: I welcome Mr. Wright and thank him for coming. It is important to set the scene for people. Mr. Wright was the Secretary General in the Department of Finance in Canada.

Mr. Rob Wright: The equivalent, yes.

Senator Senator Michael D'Arcy: The Canadian economy, he said, is a small economy but it is in the top ten economies, or thereabouts, worldwide.

Mr. Rob Wright: Yes.

Senator Senator Michael D'Arcy: One could say that Mr. Wright is one of the top ten civil servants worldwide.

Mr. Rob Wright: I was important. It was a very important role in Canada.

Senator Senator Michael D'Arcy: Where I am coming from on this is Mr. Wright's experience. He has been around the block, and he was in a very good position to do the analysis on behalf of the Department. If he had been in the Department, would he have pushed the red button? Those are his own words.

Mr. Rob Wright: Yes, if I was in the Department at that time. I made this comment generally. If I had to come over from the Canadian Department to the Irish Department, yes. Of the people who came up through that system, maybe there was some built in complacency in that process. I do not know. However, of course I would have. I would have provided written advice on the risks and had a team tracking those risks over that period. I would have made sure that advice was not just from me personally. In Canada, they do not see our advice, but they know it exists. It is not Rob Wright's advice. When I was a deputy Minister for Finance, I was a very strong economist because I was relying on an entire Department that supported me. I would have made sure that advice had a broad base of support within the Department. Everyone who knew that advice would be using any engagement that they had to reinforce it.

Senator Senator Michael D'Arcy: I thank Mr. Wright for being so frank in his answer.

Chairman: What does the Senator mean by "pushing the red button"? What does that mean?

Mr. Rob Wright: I think the Senator is asking if I would have provided strong, formal advice on the risks to Ireland.

Senator Senator Michael D'Arcy: Exactly.

Mr. Rob Wright: I think I would have, but I cannot say for sure that I would have, if I had come through the system and gone through the concerns I expressed earlier about the leak of advice and the problems. However, if I were just dropped in, for a moment, from Canada, absolutely. At that point, Ireland had a major economic problem and then a crisis on the financial sector. These were challenging times in Canada and I had a full squad of outstanding, world-class economists with great integrity - strong integrity I knew about - on the financial regulatory side, and it was still challenging. It would have been extraordinarily challenging for the senior advisers in Ireland at that time. The pressures and the demands on them would have been extraordinary.

Senator Senator Michael D'Arcy: I am not trying to criticise. Mr. Wright mentioned the NTMA being sectioned off, and he used the term "silo" on a number of occasions. In this jurisdiction, a silo stores agricultural produce. However, should the NTMA be put back under the remit of the Department of Finance?

Mr. Rob Wright: First, on silos, that observation was not just my personal opinion. It was the opinion of some people - senior managers - in the Department. It was the opinion of John

Malone and a number of Secretaries General that were trying to get different views from different parts of the variance. When I arrived I did think about and ask what is different from Canada and why. Ireland now has the current structure that the Minister has implemented - the Government has implemented - for the Departments and it is identical to the Canadian structure except for the treasury function.

However, Ireland is different to Canada. The NTMA has grown very important because it had this capacity, the ambition to expand that capacity and it has been able to deliver the goods on a full range of issues. Right now, it manages Ireland's pension funds. We have a completely separate federal provincial institution that runs the Canada pensions system, invests its wherewithal and earns the returns quite separate from that. It has a range of other activities. It is more than twice as big as the Department of Finance. One could not just do something as simple as that.

What the Department has now done is entirely appropriate. It has strengthened its relationship with the NTMA and seconded 18 people within the Department from the NTMA. There is scope to do more and as long as they are joined up in this analysis, that is the way it could work. Over time, some of those in the NTMA should stay as permanent financial sector and independent advisers within the Department of Finance.

Senator Senator Michael D'Arcy: In yesterday's evidence, Mr. Nyberg stated that the Central Bank and Financial Regulator blocked the introduction of a special resolution scheme or legislation in 2007. As the Mr. Wright knows, it would have been a useful tool available to the Department of Finance in the event of an economic crash. Should the Department of Finance have been stronger in standing up the Central Bank and Financial Regulator to ensure the legislative tool could have been available?

Mr. Rob Wright: They should have had a stronger relationship with the financial regulator. The Secretary General sits on the board of the bank and would therefore be apprised of the overall direction but I know, being a former Secretary General, that it is not enough. With the working level engagement, there would need to be a stronger idea of what is happening and an ability to advise going forward. That was not done enough. There was a line where the Department was often reluctant to second-guess decisions, whereas the Department of Finance should really second-guess anything it wants to. It should have that ambition. That is a lesson going forward, although these systems evolve, and it has been heeded.

Senator Senator Michael D'Arcy: Mr. Wright has done in-depth analysis of the Department of Finance. Yesterday, in evidence, we had a conversation regarding contrarian views among staff. Did Mr. Wright see any evidence of potential for somebody with an alternative view that was not of the mainstream? Could that have had an impact on promotion within the Department?

Mr. Rob Wright: I did not see a lot of written advice. I did not see contrarian views that were not pursued. Nor did I see the notion that these views were being squelched. There has been a broader range of evidence of a gap that is sometimes evident between working-level expertise and decision makers. I was very sensitive to it. It affected some of the management role advice.

Finance in Canada is quite unique in terms of institutions and I know people have left it. When I get briefed on an area, the working-level person is in the room. When there is a crisis and I am getting ready to brief a Minister, the working-level person is in the room when we decide what is our advice to the Minister. None of those working-level people in Canada is reluctant to tell me when I am wrong, which is an essential attribute. If a person is in that position, he or she is a mile wide and an inch deep. If somebody is giving the Minister for Finance some advice, he will act on it, so that person wants to be sure the people most in tune with the expertise are giving the correct information. That is not the level of engagement at the working level that existed four years ago; these people should work together.

I am happy to hear contrarian views and the current Secretary General would be happy to hear such views. They would be discussed, and it might be the wrong view. They should engage on it.

Senator Senator Michael D'Arcy: There was a specific question. For those who held a contrarian view, did it impact on their prospects of being promoted if they were seen as somebody who has an alternative non-mainstream view and if they pursued that position, they would not be considered for promotion whenever promotion came around and they were considered difficult to manage?

Mr. Rob Wright: I cannot say that I saw that, and I would be very careful about saying that is a factor. Not all contrarian views are good views. If somebody is pursuing a view that one does not feel is well established or well-thought out, that probably should affect his or her way forward. However, I have not seen any evidence that those who just had a different judgment were persecuted in terms of their path. I have not seen that.

Chairman: I thank Senator D'Arcy. Following on from Senator D'Arcy's question and referencing it to what Deputy John Paul Phelan stated earlier, in the graph, on page 22 of Mr. Wright's report, which shows the differences between the positions advocated in June and the outcomes in December, and Mr. Wright's graphs run between 1999 and 2008, at which period during that time should the red button have been pushed?

Mr. Rob Wright: The proper advice would not have been a red button as much as a regular series of warnings. Certainly, the Government and the Department could have acted in ways, in 2005 and 2006, that dealt with a very obvious problem.

Chairman: In what way would they have dealt with it?

Mr. Rob Wright: By getting off the track of a pro-cyclical fiscal policy of spending money when it should not have been spent in an overheated economy. That is what they would have done. They would have said, "Rein in the spending, take some actions to rein in the construction sector". If one would have made those decisions by 2005 instead of increasing spending - or even perhaps 2006, but by 2006-07 it was probably too late - when one had the spending ramped up that dramatically in an obviously overheated economy, that is a dangerous point.

Chairman: I seek clarification on something Mr. Wright stated before the committee suspended. He referred to good staff in the Department of Finance and from the Bank of Ireland. In that context, I assume, when Mr. Wright is talking about the Bank of Ireland, he is talking about the Central Bank.

Mr. Rob Wright: Yes. I am not going to talk about any other banks.

Chairman: It is the Central Bank Mr. Wright is talking about. I thank Mr. Wright. That said, I call Deputy Higgins who has ten minutes.

Deputy Joe Higgins: Was it a good idea to have, as a key adviser to Mr. Wright's report, somebody who was central to the banking sector all the way up to the crisis?

Mr. Rob Wright: I do not know whom Deputy Higgins is talking about. I guess he cannot mention names.

Deputy Joe Higgins: Mr. Pat McArdle.

Mr. Rob Wright: Mr. Pat McArdle brought a great deal to the table. He is a former official in the Department of Finance. He had views about how the Department evolved. He had views about how the economy evolved. He helped greatly on the background economic analysis. I do not recall at any time he represented a banking view to me or to other members of the panel, and this report represents my view.

Deputy Joe Higgins: Mr. Wright speaks in his report of advice given by Department officials which was not taken by the Minister, or essentially the Government, in some areas. He spoke to many staff in the Department of Finance. Did anybody come to Mr. Wright and show that he or she very strongly warned against what was going on in the property sector, including the policies that the Government was implementing in regard to the property sector, etc., but was slapped down?

Mr. Rob Wright: No. I opened myself up to the Department. I did see analysis on the construction sector. There was clear analysis of the fiscal implications of a slowdown on the construction side., but the answer is "No". I had round table meetings with employees only, I roamed around the place and nobody said that to me.

Deputy Joe Higgins: I confess to being surprised that less than one page of Mr. Wright's 48-page report, which really arises from the crisis that arose from the bubble that was blown up in the construction property sector, deals with construction policy *vis-à-vis* the Department of Finance. In that chapter, I quote, "Based on departmental advice, the Government took some limited action to moderate tax incentives for construction early in the decade and again eventually in 2006/2007." Did Mr. Wright get any evidence that any further proposals were discussed inside the Department, much stronger than moderating some tax incentives, to curb what Mr. Nyberg yesterday called speculation? For example, was there discussion of any measures to disincentivise speculators in the market who were driving up the prices, or to control the price of building land?

Mr. Rob Wright: No, and I think one of our observations in the report was that we did see advice on the risks of an overheated economy. It was not just the construction sector that was overheating the Irish economy; it was the fact that Government spending was growing by 12% a year for a decade on top of that. All these things could have been reined in. There is an element in this report that notes there was advice - it should have been coherent - but what was needed was a strategic plan of how to deal with that. A snippet of advice is not enough, there needs to be a plan to deal with it, and that did not exist.

Deputy Joe Higgins: Did that indicate a very narrow range of thinking within the Department? In this country, there was a debate for decades on building land prices and how they increased massively at various times, thus pushing up the price of a home, etc. There has been a debate on whether there should be measures to control that, or measures to control people who buy up large numbers of houses to rent and compete with the ordinary workers and first-time buyers. Does it indicate a very narrow range of thought in the Department that these, or indeed other debates, were not even considered?

Mr. Rob Wright: It indicates that there was not a strategic view of this as an important issue to track and get a strategic approach to dealing with. That is what it indicates.

Deputy Joe Higgins: Yesterday, Mr. Nyberg said the house price increase was a result of speculation by those for whom this was possible and also a result of their being financed primarily by banks. In this committee we are so circumscribed by legislation we are almost afraid to admit we are human at times, but I must confess to a certain frustration, having read four or five reports, that although Mr. Wright and other distinguished authors have spoken to bankers, developers, regulators, senior public officials, and senior political establishment figures, I do not hear the voice of the victims in the reports. The young workers who had to go to 40-year mortgages, for example, at unsustainable levels - I do not hear their voices. They were the victims of forces that were way above them and outside their control. Does Mr. Wright agree that is perhaps missing in these reports?

Mr. Rob Wright: I am not going to deny Deputy Higgins's perspective. For the people who were incentivised to enter the Dublin market on the verge of this collapse, using all of their savings and their family savings, this is a real human tragedy. That is why I am here saying we should learn from it and make sure it does not happen again. In a recession people lose their jobs, their cars, their houses - this is extremely negative. Again, there is a limit to what governments can do in terms of solving all problems, but establishing a framework for stable, ongoing growth is the most important thing they can do. We had ten years of growth in Canada. People talk about the fairness in the system. This was a great period. Between the mid-1990s and 2005 we had an extraordinary period for advancement in terms of people on lower income, women in the workplace and disadvantaged people because there were opportunities in the workplace.

The Deputy is welcome to his perspective.

Deputy Joe Higgins: Mr. Wright has many observations about pro-cyclical financing and policies. Does he have a view on whether it is healthy for society or the economy that there is unrestrained profit taking, for example in the housing industry, that this does not seem to be a problem for the political establishment or others, and that no proposals to curb that have come forward?

Mr. Rob Wright: I think objectively I have to say we are on the same page. What we are looking at is the capacity of government to advise on when to pull back, so that one does not have an overheated economy with those outcomes. A lot of negatives happen when one does not manage sustainable growth. The Deputy is naming some of them. That is why I have a passion for that enterprise.

Deputy Joe Higgins: On page four of his report Strengthening the Capacity of the Department of Finance, Report of the Independent Review Panel, Mr. Wright states:

> We met a large number of people from the political system, officials from the Department, individuals from the broader Public Sector and those with an interest in, and interaction with, the Department...We enjoyed complete access to departmental personnel and records.

Did he find evidence of strong lobbying by the property, the construction or the banking sectors in the Department? I have a related question in respect of tax incentives, based on a quotation from page 31 of his report which states:

> However, there were countervailing views at the time and even demands for substantial additional tax incentives for construction which, thankfully, were rejected by the Government.

From where did the demands for further incentives for the construction industry come? Did he find evidence of who was lobbying and how the very powerful interests lobbied?

Mr. Rob Wright: I did not see evidence of the lobbying process underway. There was probably some pressures from this body, in terms of people who were hearing about what was not happening for constituents, who wanted more of some of these things. Again, in this area there was appropriate advice that it was dangerous to expand and that advice was taken, thankfully. I did not see a large body of material on lobbying.

Lobbying exists and it happens. There was no well established written record of this.

Deputy Joe Higgins: On page 62 of the report, which deals with the financial services division of the Department he states:

> The Division is also responsible for supporting the appropriate development of international financial services in Ireland which have been a major contributor to growth and employment.

Is there not a major contradiction, similar to the financial regulator, which was responsible for promoting the financial sector and at the same time regulating it, which even the Governor of the Central Bank said-----

Chairman: Will the Deputy ask a question, as he is now over his time.

I ask him to remove any prejudgement when framing the question.

Deputy Joe Higgins: What is the balance of the financial services division, which is promoting a sector which Mr. Wright states has been a major contributor to growth and employment, whereas others would say that in the course of the bubble being blown up that same sector was responsible for the crisis that cost many jobs? Does Mr. Wright see the contradiction in that?

Mr. Rob Wright: The financial sector of any economy is vitally important. I take the Deputy's point that the question arises as to whether people were preoccupied with growth when they should have been preoccupied with prudent management in the financial services sector. It is a fair point. Again, one of the most interesting and potentially useful competitiveness items going forward is the Minister's notion of expanding the availability of credit to a European or German standard for small and medium enterprises. One of the reasons there was a crisis and one of the reasons the Government did act when it had to act is that financial services are absolutely vital to an economy. They have to be well managed and well integrated. I do not think it is one or the other; it is about having a coherent approach that balances those issues.

Deputy Kieran O'Donnell: It is clear from Mr. Wright's report that he is not a fan of social partnership. For example, on page 23 he states:

> [A] very poor budgetary process obscured ministerial and Government accountability to Parliament, and was overwhelmed by other spending processes – Programmes for Government and

> Social Partnership.

On page 25, he goes on to state:

> Over the ten year period of review, the Programme for Government and Social Partnership Processes helped overwhelm the Budget process. Instead of providing an appropriate fiscal framework for prioritisation of competing demands on the Government's overall agenda, the Budget essentially paid the bills for these dominant processes.

Looking at the table on page 22, which shows the difference between what was set out in budgets compared with what was proposed earlier in the fiscal year, is it fair to say that Mr. Wright's view is that Government economic policy over that period was really about electoral cycles and social partnership as distinct from prudent government? Does he not believe that social partnership contributed to cohesion within the economy?

Mr. Rob Wright: I think there was some really important value in social partnership. The amazing potential of it was realised in the 1990s. This was a forum for social cohesion on what the country needed to do to move forward together. It was extraordinary and powerful. Even when it was not moving forward in terms of the framework for enhanced competitiveness, it was still a valuable forum for social cohesion. I would say this is a strength of our two countries, that we listen rather than just talk.

The point I was making in the report is that, particularly after the turn of the century, there were some real risks from that process. It stopped building a stronger economy and became an effective forum to engage on spending more money. Looking back, which is always helpful, it created some real challenges. I think it led to a huge increase in the public sector payroll that went beyond what could reasonably have been expected under any other scenario, when pay was benchmarked to private sector wages in an overheated economy. It contributed to that overheating.

Deputy Kieran O'Donnell: Mr. Wright is quite emphatic in his report on this point when he says, "the Budget essentially paid the bills for these dominant processes". On page 28, the report states:

> Had departmental and ministerial advice to Cabinet at the start of the budgetary cycle been accepted and sustained, Ireland would have been better positioned to deal with the current economic challenges.

At the same time, however, Mr. Wright criticises the Department on numerous levels. While he states on page 6 that he does not accept the notion that the Department was not fit for purpose, he also refers to technical deficiencies in terms of economic skills, there being too many generalists among the staff and the approach being numbers driven rather strategically driven. On the other hand, in his letter to the Minister of the time, the late Brian Lenihan, he spoke about how impressed he was with the staff and the broad base of understanding within the Department.

Was social partnership used, in a way, as a scapegoat? I find some of the views within the report contradictory. In one breath, it is said that it is fit for purpose, but in another numerous other situations are outlined, such as the fact that the expansionary monetary policy was not highlighted and there was no proper strategic analysis of construction. It is not stated explicitly in the report, but it is fair to say that the Department was devoid of skills in terms of any understanding of banking and the credit bubble. Yet, the table on page 22 which refers to the difference between what was provided by the fiscal framework by the officials and the Minister in June every year to the Cabinet-----

Chairman: Deputy, put your question. You have asked two or three questions. I need to afford Mr. Wright time to respond, in fairness.

Deputy Kieran O'Donnell: Over that ten-year period there was a clear difference. It was like a runaway train. Proposals were developed every June, which were probably incomplete. Was Mr. Wright using social partnership as scapegoat when the real problem was that there was a deficiency of skills within the Department?

Chairman: Before you respond, I ask that Deputies confine their questions to one or two conjoined at a time. Mr. Wright is answering six or seven questions and does not have sufficient time within the member's slot to answer. I ask members to be disciplined in their questions.

Deputy Kieran O'Donnell: I ask the Chairman to allow me the extra time.

Chairman: The clock has stopped while I have been talking. Let me be clear-----

Deputy Kieran O'Donnell: I would like the witness to answer me.

Chairman: You are speaking on my time, Deputy, because the clock has stopped. I will be very clear. Deputies need to be very measured in the time allowed to afford witnesses appropriate time to answer in the time allotted to them.

Mr. Rob Wright: I thank the Chairman. I was not offended by the question. I could not hear much of it. Maybe that is why-----

Deputy Kieran O'Donnell: I will repeat it. It is a very important question. Social partnership worked, in the main, over that period. There were certain issues. Was Mr. Wright scapegoating social partnership in order to overlook the deficiencies within the Department in terms of proper advice?

Mr. Rob Wright: I thank the Deputy for the question, but the answer is "No." I met all of the key players in the social partnership process. I thought it was a very useful process and will be in the future. However, a process like that has to know the limits and ambitions on spending pressures, and it did not. It was used to leverage public sector pay in a way that was overdone.

An honest read of the report would find that we did not pick favourites. We examined anything that was an issue. We had a number of observations which were critical of the Department in the areas in which they should have been. There are some great people who should have been better energised, but they understand there are some things they should do better. The Government and Minister of the day should perhaps have taken some advice and that would have helped the landing.

On the processes in play, I had the temerity to talk about programmes for Government, which is probably the most sensitive issue to raise in this room. In the future there will have to be some limits on them. In the array of observations, I have not singled out an objective view of the social partnership process, but I mentioned that the process has to be managed in a fiscally responsible way. It is an important process and had a significant impact when it started out. It has to return to the process of building consensus on the way forward. That is all I am saying, and if I have said it in a way that troubles people, I am sorry for that.

Deputy Kieran O'Donnell: I am putting the question. It is clear that the report is critical of the Department across a range of areas. It is fair to say that there was a lack of any sort of banking expertise within the Department of Finance at the time.

Chairman: Deputy, can you ask the question rather than make the judgment?

Deputy Kieran O'Donnell: Based on that, how can the report state that the Department was fit for purpose?

Mr. Rob Wright: That can be stated because it was working hard to improve and had the right people to do that. If it embraced the changes, it could rebuild itself. Clearly, the Department needs to rebuild itself with the same effectiveness it has used on some of the immediate, short-term economic agendas.

One can see a common purpose in everything stated in the report. We are saying something positive about every sector of this economy and observations about issues that must improve going forward. It is an honest and frank assessment.

Deputy Kieran O'Donnell: Over those ten years, was it fit for purpose? Over the period covered by Mr. Wright in examining what happened in 2008, when taxpayers were lumbered with €64 billion, can the witness in all faith state that the Department was fit for purpose?

Mr. Rob Wright: I did not say it was fit for purpose. What is that? Define "fit for purpose"? It is not a Canadian term, I must say.

Deputy Kieran O'Donnell: On point 13 on page six, the report states, "We have been direct in our analysis and advice, but do not accept the notion that the Department is not fit for purpose."

Mr. Rob Wright: We identified areas where it should improve dramatically but I would not reject everything it did. It has some good people that provided good advice. The Department should improve substantially but I would not use "not fit for purpose". Perhaps it is my Canadian vocabulary.

Deputy Kieran O'Donnell: Over the ten years leading up to 2008, does the witness believe the Department was fit for purpose?

Mr. Rob Wright: Over the ten years, the Department could have and should have done a much better job.

Deputy Kieran O'Donnell: So it was not fit for purpose.

Chairman: The Deputy cannot make the judgment.

Deputy Kieran O'Donnell: Does he believe-----

Chairman: I must interject. The Deputy cannot lead witnesses by putting vocabulary into their mouths in the questioning. Everybody must be given a fair outing. The Deputy can put a question but should not lead a witness by trying to put words into his mouth.

Deputy Kieran O'Donnell: To go in another direction, if the National Treasury Management Agency, NTMA, was part of the Department and there was a proper banking expertise within the Department, would it then have been fit for purpose? That relates to dealing with a banking crisis.

Mr. Rob Wright: Mr. Nyberg was here yesterday talking about the banking sector and we did not overlap. I made observations about the NTMA and the loss of vital expertise. The Department could do better in relating to the agency. There was not one issue in any of this that we could say is the key. I am saying that we should look, going forward, at an entire set of improvements. That involves the way the country works, how the Department provides advice and the way key elements, such as programmes for Government and social partnership, work. Would it all have been better if one thing did not happen? I not believe so. As Mr. Nyberg observed yesterday, there was a confluence of issues. One should not pick one thing in focusing on solutions and one must address all the elements in a coherent way.

Deputy Michael McGrath: I welcome Mr. Wright and thank him for his time and attendance. How many of the 50 recommendations in his report have been implemented?

Mr. Rob Wright: Again, the Chairman asked me to comment on this report as it existed and although I can provide a view, it is vital for the committee to take a view. Much of the advice we gave on restructuring the public service renewal part of the Department has been dealt with by the Government in a way that is different from what is in the report, but it is important. That is resolved. Over the past four years there has been much initiative with the European Union on terms that affect the timing of budgets in a more coherent way and deal with that part of the report.

There has been important progress on everything else. Are we there yet? No, but progress has been made in the midst of this reorganisation on the number of professional economists and the strength of the Department's resources on the financial institution side. There has been some restructuring that deals with some of the management issues we have in mind. There is now a full-time human resource co-ordinator, which has been in place for several years. The Department is ahead of the rest of government in having a performance management regime in place that assesses vital issues such as how to manage people. It asks if one is identifying those who are higher in capability and those who are challenged, and if one is dealing with both. The Department is ahead of the curve on that. The Department is not as far ahead as its own staff want it to be on performance management, but it is ahead of Government. Therefore, important progress has been made.

I would say the one change that is a harder change, and it is a cultural change - I see signs that I am encouraged by - is the more active formal engagement on policy advice to the Minister. That is a cultural change and that is probably one of the most important changes we have to see. I see progress there too, but that is one the committee-----

Deputy Michael McGrath: In light of the series of recommendations Mr. Wright made about reforming the budgetary process, does it surprise him that we still have the big bang announcement on budget day in Ireland? Mr. Wright made a lot of recommendations about opening up the process, having a consultation period, setting out options well in advance, and setting out the risks and the economic outlook. That, to my mind, has not happened, and that is central to Mr. Wright. We still have a big bang announcement of a budget on one day.

Chairman: I would remind Deputy Michael McGrath that when he states "to my mind", it is a judgment. He should just ask the question.

Deputy Michael McGrath: No. It is factual. The recommendations here have not been implemented.

Chairman: The Deputy should just state the fact.

Deputy Michael McGrath: It is a fact. It is not a value judgment.

Mr. Rob Wright: I am okay with that. There is progress there too. I am very encouraged. There is a series of outreach initiatives. I killed some time yesterday morning and yesterday afternoon with some colleagues to see what is happening. I have an interest, and they were happy to inform me of progress.

There is a more active outward engagement on the economic side. The Department now has a senior economist. He relates to the broader interests of economists in the country. There is an engagement by the co-ordinator of management issues in the Department. There are now some short-term exchanges of students from universities around Ireland to get some exposure to the Department. In the Minister's medium-term economic agenda, which admittedly is high level, there was an outward engagement.

It is a very important point the Deputy makes. I see some progress there but, as the Chairman had pointed out at the start, I have only been here a half a day or so to engage on that. I feel there has been some progress. The committee will want to hold them to account, if there is enough or if my advice has been wrong for them.

Deputy Michael McGrath: Were the warnings from the Department of Finance officials to the Minister on fiscal policy clear enough, strong enough or persistent enough?

Mr. Rob Wright: No. It is clear in the report. We stated there was a body of advice. It is so easy to say this from now. If, when I was the head of a department in Canada, we would get an auditor general report on something and people would pick up on one or two observations but they were not there when it happened, I would get my back up. Saying it that bluntly, people who were there at the time were overwhelmed by a whole set of issues.

But, objectively speaking, this report, which is not my advice but is the panel's advice, is very clear that although advice existed, it should have been better. It should have been clearer. It should have evolved over time to be more focused. They should have looked at alternative ways to make that advice known, and it should have been written. It should have been known in the Department that advice existed and there was a broader engagement for the whole Department in championing that advice.

Deputy Michael McGrath: Mr. Wright speaks, on page 5 of the report, about the spending pressures on Government. It states: "These pressures were reflected in the political debate of the day where all political parties were eager to meet public expectations for more and better services." My question is did Mr. Wright encounter any evidence that the then Government was being challenged on a sustained basis by the Opposition parties, for example, in Parliament? Were those parties telling Government that it was not being cautious enough and more prudent fiscal management was required? Did he find any evidence of that or was there a national political consensus? What is Mr. Wright's view?

Mr. Rob Wright: No. Frankly, I do not see it now. Honestly, that is how the political debate will have to mature going forward. How it happens is really important. I do not doubt it will happen but I have not seen it. I have seen a lot of focus on fairness and if one is going to do this, one should try to ease it. These are all important engagements. I think the most vital engagement is if we are going to do that how are we going to pay for it, or it is fine to do this rebalancing within the framework that is established, but how are we going to enhance a more balanced sustainable growth? What are the things we can do together in that right?

It has been a tumultuous time and the members have made collectively some really important progress. The next phase of this engagement is going to change a lot of what they are doing. I really think that is what members should be focusing on. I think there is so much work to do there. Looking forward, where to from here and how do we maintain the cohesion of some really important processes like social partnership? What I personally think is going to happen over the next few years is that one is going to establish some fiscal anchors in which the debate will take place. That should be a focus of the Department of Finance and the fiscal council. It helps channel the real debate about different ways of getting things done but in a framework that is sustainable.

Deputy Michael McGrath: Does Mr. Wright believe there was a broad political consensus that the expansionary policies were largely correct or was the Government being challenged sufficiently and being given an alternative from the Opposition for a more prudent fiscal strategy?

Mr. Rob Wright: The Deputy knows that was not a core part of our research.

Deputy Michael McGrath: I know that, but I ask Mr. Wright for his observations.

Mr. Rob Wright: There have been a lot of observations in every report about a common view - a common sense of purpose on things going forward. So there was a collective view that things are working fine, we are moving forward and let us all share in this collective future. There were few brakes put on and that is not typically what one would see in any country from that political debate unless somebody is putting out, saying, “Here’s why we have to be cautious.” I think the onus is on Government, appropriately so at that time.

Deputy Michael McGrath: Is Mr. Wright confident the fiscal policy mistakes of the past will not be repeated and that we will not just have auction politics?

Mr. Rob Wright: Well, I think that is the dilemma of modern politics. I do not see us being beyond that in Canada.

I should not digress, but I digress a little bit. When I was a student, economics was proudly the dismal science. Political science was not even a science; it was kind of modern history of political processes, but political science is now a science and it has been led by activities in the US and Canadian politicians. It is very easy to say, “What do people want? I’m going to give more of it than my competitors here in this vote.” It is much harder to say, “Let’s look forward. What do you need going forward? Here is my advice on how to lead your way through with some sacrifice for greater benefit.” That is full of risk in the modern political science. The short answer is that one is going to have to get over this and get into a new world of it.

Deputy Michael McGrath: Mr. Wright’s report concentrated on the fiscal side. On banking policy and interaction between the Department of Finance and the Central Bank, did he find any evidence of the Department of Finance raising concerns consistently with the Central Bank about unsustainable lending to one sector of the economy - construction and property - with the risks that were being built up? Did he find any evidence of the Department of Finance giving those warnings to the Central Bank?

Mr. Rob Wright: No, nor *vice versa*. What I did not see was the integrated economic assessment. One has monetary policy; one has fiscal policy. Particularly when one has, much lower interest rates than obviously were needed for the Irish economy, an integrated view would say, “You have to hold back fiscal policy.” That is the message that should have been going to the Minister from all the institutions that reported to him.

Chairman: The Department of Finance has a regulatory position in that it can influence taxation codes that put in check behaviour in the economy and so forth. How does Mr. Wright think the banks were viewing the authorities, the regulators who were watching over them including the Central Bank, the Financial Regulator and the Department? What does Mr. Wright think the banks’ perception of the regulatory framework was at that time?

Mr. Rob Wright: I apologise to the Chairman. I did not hear that fully.

Chairman: It is following on from Deputy McGrath’s question, which was about the regulatory framework and the fact that the Department of Finance does have a regulatory aspect to it in that it can put in place taxation policies that influence behaviour in the market. How does Mr. Wright think the banks themselves viewed the broader regulatory structure, whether it was the Central Bank, the regulator’s office or the Department of Finance?

Mr. Rob Wright: I do not know. I think that when the former secretary general probed that engagement, he became very concerned. The Department got more and more engaged in what it saw as some issues there.

Chairman: What were the concerns?

Mr. Rob Wright: That perhaps the depth of engagement of the Financial Regulator was not sufficient to have true insight into the risks to the economy. However, that was late in the game. There were some real gaps in the regulation of the bank sector. That is the evidence from yesterday and I will leave it at that.

Deputy Pearse Doherty: Cuirim fáilte roimh an tUasal Wright. I welcome him to the committee. I have a couple of questions. His report deals with the Department of Finance over a ten year period and he focused on three areas. The terms of reference of this inquiry is to look at specific areas, particularly the nexus between property, banking and the State. I wish to focus on that area, that his report covers. He has had a discussion with the committee on the verbalisation of advice to the Minister and the lack of written records. Mr. Wright’s view from his recommendation, and he might correct me if I am wrong, is that more written advice should be given, but the public should not be given access to that written advice for at least five years in relation to budgetary matters.

Mr. Rob Wright: Yes.

Deputy Pearse Doherty: In the case where a Government overrides that advice, does Mr. Wright believe that it would be appropriate for the public not to be informed of that advice?

Mr. Rob Wright: Yes.

Deputy Pearse Doherty: In a case where we had a banking crisis - I want to focus on construction, because Mr. Wright mentions that advice was given to Government during that period in terms of overheating the construction sector - Mr. Wright’s view is that while it was right and appropriate for that advice to be given, it should have been given in a stronger way. However, the public should not have access to that advice despite the fact that Government or a Government in the future could override that advice, and therefore the consequences could be dire.

Mr. Rob Wright: Again, I make those observations. There are many outlets to safeguard the public interest the Deputy is raising. If our auditor general in Canada, and I am sure Ireland's too, has the capacity to go through and make observations on where things could be improved and if advice is not taken, that is one of the things on which he will make observations. What we have identified here is a paradox. I believe the concern about access to information was probably an overreaction by the Department, in some good degree. We say in here, and I believe, that it is really important to get more information out there. In some areas, one should get policy options out there for the broader public. That is something that should be developed. My focus in particular was on whether clearer, more blunt advice would be given if it was protected. It would. The paradox is that if one is saying advice to the Minister should be made public, one will not see a lot publicised to the public. The balance struck in Ireland's previous Freedom of Information Act allows advice to be protected if it is a matter that could affect markets, trading or international relationships. I think there is a remit broad enough to be assured that if one pushes the button, even in bluntest terms, and if it were inconsistent with what the Government and Minister said, if it is a matter of national importance, and why we referred to Cabinet - I heard from an earlier secretary general that there was a renewed process of the macro-economic risk assessment, and budgetary reports to cabinet on a regular basis - it would be unreleasable, so that would deal with that concern. The vital issue for the committee to consider and to be assured of, and for the Minister for Finance to be assured of, is that there is no impediment to somebody pushing a red button and giving blunt advice when it is needed.

Deputy Pearse Doherty: In his interviews with different individuals Mr. Wright shared that the advice was not written down but was given verbally to the Ministers.

Mr. Rob Wright: Yes.

Deputy Pearse Doherty: So the advice was tendered; it is just that there is no written record.

Mr Rob Wright: I have heard of one example of when that happened. I put that forward in the report. I will have private chats with my Ministers as well. Every Deputy Minister or Secretary General will do that. Is that enough? No. Important in that particular case is whether other senior officials in the Department know that happened. The answer is "no". There is more coherence needed on these things.

Deputy Pearse Doherty: I refer to Mr. Wright's presentation and report in which he states that advice was given verbally. Was advice coming through the Department that was suppressed within the Department? Does Mr. Wright know whether people on the ground floor were giving advice about the overheating of the construction sector, the potential for a property collapse, and that Department officials either excluded that advice or deleted it from statements, replies to parliamentary questions, speeches by Ministers and so on?

Mr. Rob Wright: We did not see evidence of that.

Deputy Pearse Doherty: It has been put into the public domain by somebody within the Department who provided information to the Nyberg commission relating to responses that she made to parliamentary questions. As these went up the chain in the Department of Finance, the suggestion was that those responses and the language were neutered and some language was deleted. She was told to use the phrase "a soft landing" and so on. When questioned by a national newspaper at the time, the Department of Finance responded that Mr. Wright was carrying out a report and he had access to all staff members in the Department of Finance. Did Mr. Wright interview the person in question to whom I refer?

Mr. Rob Wright: No. I think we did report on that instance of the soft landing and whether a more proactive policy would have been appropriate. There were some ideas generated. Parliamentary questions are usually a somewhat different stream than advice. On something this important one would see a coherent piece of analysis that had the background and economic analysis and suggested further steps. It would have engaged the entire system. I did not see that nor did I see any evidence of repressing that from anyone I talked to in the Department.

Deputy Pearse Doherty: Would it surprise Mr. Wright to learn that there is evidence that has given weight to that fact that information was deleted, rephrased and so on, given the three month investigation he carried out?

Mr. Rob Wright: It would not surprise me that documents prepared for questions in the Parliament would have reflected the Minister's view. If that view was, rather than getting proactive on engineering a landing, that we are going to hope for a soft landing, that is what his questions - even if they were not written - would have said. Again, I know when people explored options to form our active engagement, I did not see a coherent process for that going forward and I did not see a body of written thought on alternative approaches.

Deputy Pearse Doherty: The construction policy area is one of the three areas which were the focus of Mr. Wright's report. As has been remarked earlier, it is quite brief. It is less than one page.

Mr Wright in his report states that as far back as 1999 the Department provided advice on the overheating of the construction sector. He mentioned there were assessments of risks from the Irish housing bubble. He went on to state that "the Government took limited action to moderate tax incentives for construction early in the decade and ... eventually in 2006 ... However this action was not sustained". What he did not include was the amount of property related construction tax incentives that were extended during that period early in that decade and in 2006. Did he investigate that or examine that area? The urban renewal scheme was extended twice over the period of the scheme, the living over the shop scheme was extended twice over the period of that scheme, the rural renewal scheme was extended twice up to 2006, there was also the park and ride scheme, the town renewal scheme and the student accommodation scheme, and the multistorey car park scheme was extended twice over the period of that scheme. There were all supposed to conclude in either 2002 or 2004 and they were extended up to 2006 or 2008.

Mr. Rob Wright: We saw the analysis on the construction sector. It was quite limited. We saw that some of that advice was followed. Some policies that should have been "grandfathered" or ended were not but to be honest, and I should be, I do not recall that deep level of detail from four years ago.

Deputy Pearse Doherty: Mr. Wright mentioned departmental advice and in his report he twice referred to exempting minimum wage earners from income tax. The purpose of this inquiry is in regard to that nexus. With regard to those property related schemes, was there advice from the Department not to extend those schemes? There were public statements from the Government that some were not going to be extended and that position was reversed. Was sound solid advice given one way or another in regard to those extensions?

Mr. Rob Wright: We asked to see such advice. None was identified for us.

Deputy Pearse Doherty: Was Mr. Wright informed that verbal advice was given to the

Minister in regard to the extension of the schemes?

Mr. Rob Wright: We did not get the detailed advice on what verbal advice might have been given. I do not even know if the same people were in place at the time. There was one exception to that but we did not explore verbal advice.

Deputy Pearse Doherty: While the written advice was not there, Mr. Wright mentioned that he is satisfied that it was provided verbally. In regard to the construction sector----

Mr. Rob Wright: I am satisfied that one issue - obviously there was advice given to the Minister over this period and so, I am sure, there would have been verbal advice given to the Minister.

Deputy Pearse Doherty: I am asking if Mr. Wright knew if that advice was positive, to the effect that the Department supported the extensions of these construction related schemes, or was it negative, to the effect that the view was expressed that there was an overheating of the property market and so on?

Mr. Rob Wright: It is an important question and I would not speculate on what the proper answer is.

Deputy Pearse Doherty: Okay.

Chairman: A final question, Deputy.

Deputy Pearse Doherty: Mr. Wright stated in his report that in regard to 100% mortgages, “The Department ... lacked coherence across ... divisions”.

Mr. Rob Wright: Yes.

Deputy Pearse Doherty: Can Mr. Wright explain what was the lack of coherence? Was there a conflict between two divisions in regard to that? He said that this came from other sectors of Government. We know that is the Department of the Environment, Community and Local Government from previous reports, but he mentioned it also came from the banking sector. Can he elaborate on which part of the banking sector was concerned with 100% mortgages?

Mr. Rob Wright: I cannot. There were some people in the Department who wanted to be actively supportive of some restraint on that and there were others who were not. That debate did not see itself through and in the process of it the Office of the Financial Regulator announced it was comfortable with that with the result that it withered away. I stated it was an opportunity lost. I commend the Minister of State who raised this as an important issue and people in the banking sector who would have raised it as an important issue but, sadly, it was not pursued.

Senator Senator Marc MacSharry: I want to ask Mr. Wright about the expertise in the Department. He called for a good deal of engagement with the private sector on various matters in his report. He indicates that there was a reluctance by the Department to second guess the Central Bank if advices were coming in and so on. To what extent does Mr. Wright believe that the lack of internal expertise within the Department on banking, with only 39 economists and so forth, allowed the bankers to have undue influence over it when it came to banking regulation?

Mr. Rob Wright: The lack of a core capacity has an impact on everything. I would not say it led to this undue influence; it just meant people in the Department were not perhaps as fully engaged in that area as they should have been. My evidence would say they were not. It was not just that, however. Given what I saw, what surprised me more was that there was not as active an engagement with the Financial Regulator as I would have expected on some key elements. Going back to our focus on written advice, it is very hard to sign a piece of advice if one is not comfortable it is correct. One needs to be sure one has the right people helping one prepare that advice. I do not think there was the capacity for people in the Department to engage actively, so they did not do so.

Senator Senator Marc MacSharry: Given the lack of knowledge internally, was it the case that bankers were getting their own way?

Mr. Rob Wright: I think the core of that issue, which Mr. Peter Nyberg has assessed, is that there must be somebody with very clear authority to regulate the banking sector. I should not comment in detail on his report but I think he has the right tierage. The banks should have done a lot more. The evidence that they did not know what they were doing is pretty shocking. The regulator should have known enough of where the issues of concern were. The international system that tracks regulators should have done more, but they seem to have spent more time reviewing the Canadian financial regulatory oversight than the Irish one. The Central Bank should have done more. The Department of Finance did not have the ambition to engage as actively as it should have done, certainly as actively as I would have done in Canada. I had an outstanding team in that sector.

Senator Senator Marc MacSharry: To put it in another way, was the Department prone to taking the banking sector's advice as the correct way to proceed rather than the Department outlining the way we ought to proceed?

Mr. Rob Wright: I saw no evidence of that.

Senator Senator Marc MacSharry: On the issue of economic and monetary union, Mr. Wright mentioned the difficulty Ireland faces in not having the potential to adjust interest rates and the very important counter-cyclical tool that would have offered. Does he feel that how the euro is structured and how the ECB does its business in terms of deciding where interest rates need to be and focusing more on inflation rather than economic performance in member states is a flawed approach for a small, open economy like Ireland which makes up 1% of the eurozone?

Mr. Rob Wright: I think there is a great opportunity for Ireland within the European Union. As with everything else, one must weigh up those opportunities with how one manages that relationship. I think Ireland is managing it very well. There is much it can learn from best practices in terms of what is happening around, for example, small business financing. Ireland has had the Presidency of the EU. It is a vast market, which is probably the most important upside for Ireland's economy.

Senator Senator Marc MacSharry: I will rephrase the question. Is it a problem that interest rates on this island will never be at the optimum position at which this economy needs them to be?

Mr. Rob Wright: It is a problem that can be resolved in ways that really challenge the political process.

Senator Senator Marc MacSharry: Notwithstanding the potential for other political and policy mistakes being made throughout the ten year period Mr. Wright examined, without the tool of interest rate deduction does he feel the Government or the Department were adequately equipped to deal with the problem quickly?

Mr. Rob Wright: I think it could be managed to ensure a strong economic future for Ireland. On whether it is there today, I am very cautious about terms and terminology. That is not the mandate of this analysis. Ireland is focused on the right thing, namely an engagement with the European Union. It will strengthen Ireland's capacity to gauge these risks. There is scope for an active policy agenda that deals with potential overheating and issues like that. That is what it has to be ready to do. It will be a challenge to manage the expectations of what it can deliver within that framework. It is the challenge of any monetary union. It is a challenge in Canada for one region of our vast country which has very different bases. Often the monetary policy for the country as a whole is very challenging for particular areas. The management of that has to be considered. I will not say it is not positive for Ireland.

Senator Senator Marc MacSharry: Given what we have discussed, would it surprise Mr. Wright that the ECB has announced its intention not to attend or co-operate with this inquiry?

Mr. Rob Wright: Yes, I did not know that was an option. Christmas is coming.

Chairman: You came all the way from another continent.

Mr. Rob Wright: I cannot make judgments about what the ECB is doing and why. The committee has a wealth of analysis before it, and I will not comment on what others do. I took this-----

Senator Senator Marc MacSharry: I will put it another way. If Mr. Wright was conducting an inquiry in Canada between all the states, similar to this one, would it be possible to conduct it if its central bank did not allow itself to be included in the investigation?

Mr. Rob Wright: I do not know that the central bank in Canada would come before such an inquiry. There are inquiries and inquiries. I will not tell the committee how to do its business. I understand why it is doing this.

Senator Senator Marc MacSharry: It is a "Yes" or "No" answer.

Mr. Rob Wright: I would not count on it being here, but the committee has a wealth of activity and information before it.

Senator Senator Marc MacSharry: The political science aspect of 35 years beside the Minister is rubbing off on Mr. Wright.

Mr. Rob Wright: Thank you.

Senator Senator Marc MacSharry: We will take that as a "Yes."

Mr. Rob Wright: What did I answer?

Senator Senator Marc MacSharry: On the comment that it will be difficult to do the work when a major player will not participate in the process.

Mr. Rob Wright: I do not think it is a major player.

Senator Senator Marc MacSharry: The ECB?

Mr. Rob Wright: It is a major player, but the committee knows what its policies have been and its stance on it. It can deal with it. I will not comment on other players in the process.

Chairman: I thank Senator MacSharry. At the beginning of his contribution he mentioned the cost of the banking crisis and the engagement between the Central Bank and the Department of Finance. Given that the cost of the banking crisis ended up affecting the fiscal position of the State and, as we know, the day-to-day lives of Irish citizens, what is Mr. Wright's assessment of the ability of the Department Of Finance to engage with the Central Bank on a financial stability analysis or plan for dealing with a banking crisis prior to the crisis of the bank guarantee in 2008? What conjoined elements existed between the two agencies in preparation for the crisis period and, in particular, before the bank guarantee?

Mr. Rob Wright: It was not part of the detailed issues on which we focused. I made some general observations about the engagement not being as strong as I would have expected, but I did not explore that process. We have processes for that co-ordination in Canada which are much like that. They are very well established where there is an engagement at deputy Minister or associate deputy Minister level. There is also a working group level that really gets into the detail of what is happening. I did not see that secondary process at all. There is a process there. I think it has been renewed and is actually working practically now.

Chairman: Mr. Wright's report continually refers to the pro-cyclical fiscal policy which obtained at the time-----

Mr. Rob Wright: Yes.

Chairman: -----and highlights the fact that, ultimately, this was going to give rise to a crisis. As we know - and separate to the banking crisis - when the economy crashed, there was a €30 billion deficit. That was a Department of Finance problem. The Central Bank was responsible for monitoring what was happening in the banks. The activities in which the latter were involved ultimately gave rise to another a crisis and the State was lumbered with a debt of €64 billion as a result. This means that, in financial terms, the extent of the problem for the State is approaching €100 billion.

Mr. Rob Wright: Yes.

Chairman: In the context of the two issues to which I refer, is Mr. Wright of the view that two significant agencies within the State which were dealing concurrently with two major crises were not engaging with each other to the extent to which they should have been?

Mr. Rob Wright: Yes. The Secretary General is on the board of the bank. There was an engagement with the regulator which was not as fulsome as it should have been, in part because of the resourcing issues. It is why we specifically recommend that the Department of Finance be legislatively obliged to report on the broadest possible macroeconomic risks, which include, perhaps, inappropriate policy and other fiscal risks. I know the Department has been working on a broader, risk-based assessment of issues. I agree that this was previously inadequate and we proposed some very specific things to strengthen it.

Chairman: In terms of the shortfall within the economy and the impact of the banking crisis, the outcome for the State is a debt of approximately €100 billion.

Mr. Rob Wright: Yes. It was a huge problem.

Deputy Eoghan Murphy: Mr. Wright stated earlier that when he first met senior officials within the Department of Finance, they indicated their frustrations with regard how it was being run.

Mr. Rob Wright: Yes.

Deputy Eoghan Murphy: Why had things not changed in the period leading up to that point?

Mr. Rob Wright: I do not know. I have had two runs through the Department of Finance in Canada. On the first occasion I was a director. That was 30 years ago and old-fashioned management was involved then too. If one had a problem, one threw people at it. When I came in to brief the Minister at the weekend, I would be item No. 4 on a list of ten. I would wait all day and be obliged to return the next day because our item was not reached. There was not a modern human resource management model in place. There were strong people but that really was not modern human resource management.

When I returned to the Department 20 years later, there had been enormous progress. I hope I left the institution in a slightly better position than it was in when I arrived. Now it has a very modern management system that focuses on people and manages them properly in place. There is a regular intake of bright people every year and there is a great interest in that work. Every year - I advocated this to the Department here and it is following my advice - we would sit down, assess everyone on the staff and analyse whether we had identified the people who are on a fast track to success and those who are not getting it done, who require assistance or who should, perhaps, pursue another vocation. We did all of that.

Deputy Eoghan Murphy: Would Mr. Wright describe the system that was in place in our Department of Finance when he first visited it as old fashioned?

Mr. Rob Wright: It was, yes.

Deputy Eoghan Murphy: To continue with the comparisons between Canada and Ireland, Mr. Wright stated that people in the Department of Finance here used to have to go home and watch television in order to discover what was in the budget. In Canada, the Minister led the process and everyone followed behind him. Are we talking, therefore, about an absence of leadership in the Irish Department of Finance?

Mr. Rob Wright: No, it was not the Minister. There would be some elements of the budget that they would not see. However, everybody in the Canadian Department of Finance knew enough about what was happening. The staff there were fully engaged with the process.

Deputy Eoghan Murphy: Does that not come down to leadership? Is it not a question of a Minister engaging all of his or her staff?

Mr. Rob Wright: Yes.

Deputy Eoghan Murphy: Mr. Wright did not see that in the Department of Finance?

Mr. Rob Wright: No I did not see that. Actually, it is about leadership and it is also just management. There is a management advisory committee that meets weekly, which does not involve all of the assistant secretaries, so not all of them know. Key to modern management is communicating within and the internal communications were not adequate. It is not that hard. There is a full exchange of what is happening and why, and right after that management meeting the people go back and brief their teams. When they come to the team they are connected to what is really happening on the ground and it is no more complicated than that. What is more complicated is looking at having a five-year plan on human resource management, which is modern and should happen. It is not rocket science. Someone has been brought in and has been on board for three years now, I think, who is trying to work all that through. The key is not the guru management stuff, the key is to have a secretary general who is going to stand up and say, “Okay, here is my commitment to making this a better place to work.” It is a vital tool. If all of this expertise can be connected to the agenda of serving the Government, capacity will improve.

Deputy Eoghan Murphy: But we did not have that in 2010 because the Department was old fashioned.

Mr. Rob Wright: Yes.

Deputy Eoghan Murphy: When Mr. Wright first went into the department in Canada he talked about it not having a proper HR function but about dominant personalities. Was that a problem when he came into the Department of Finance here?

Mr. Rob Wright: In Canada?

Deputy Eoghan Murphy: In Ireland, when Mr. Wright came here.

Mr. Rob Wright: I am sorry----

Deputy Eoghan Murphy: Mr. Wright talked about dominant personalities when he first went into the department in Canada, and how it is modernised now in Canada.

Mr. Rob Wright: There are always going to be dominant personalities, but there should not be an overwhelming abuse. People have to have their say. One of the things I was proudest of in my term is that no-one in the department would doubt for a second when to tell me I am wrong. That is a pretty essential step for the Secretary General of finance for Ireland.

Deputy Eoghan Murphy: Moving to another area, Mr. Wright’s report states that it was impossible to review all of the advice over the ten-year period. Is it necessary for this committee to look at the advice that was given in the Department? Is it necessary for this committee to do that work, or is what is provided in the report enough of a snapshot? Is there more documentation that we need to look at?

Mr. Rob Wright: I think we have done a good job. It is a good place for the committee to start, and if they see gaps in the report they should pursue them, but I think we have done a good job and covered the bases. If the committee wants to do more, well then----

Deputy Eoghan Murphy: Just to clarify something else about the memoranda on the budget that went to Cabinet in June. That was the position of the Department but it was signed off on by the Minister, so it was also his view then.

Mr. Rob Wright: Yes, that is correct.

Deputy Eoghan Murphy: Is there any evidence that, when that view was not accepted at Cabinet in the actual budget in December, there was any internal process reflecting on that in the Department and saying, “We said this in June, this has just been announced”?

Mr. Rob Wright: I think that is a very good point. No, I have not seen any evidence of that. I would have thought that, when decisions were being made coming out of other processes such as the social partnership or the programmes for Government, if there was a surprise to the upside, that was then spent. I would hope - but I know it did not exist in writing - that there was a repeat of the advice that was given earlier and perhaps heightened concerns. I did not see it. It did not exist.

Deputy Eoghan Murphy: Mr. Wright said earlier on there was a tendency to think that if money was coming in we should spend it, but I think he said that thinking was not in the Department.

Mr. Rob Wright: No, I would not want to speculate about what happened at that point in time because I did not see any written advice, but in the advice a few months earlier, they clearly expressed concern about the spend, and it was just enhanced substantially a few months later. I would not expect that would be supported by the Department.

Let me be clear on this because the Deputy is making a really important point. There is an annex to the report about comments from international agencies and I think it is a very fair point, but the international agencies should have done a better job in prompting Ireland to be more sensitive to the financial market risks and the financial sector regulatory world. It was not picked up, but there was a lot of concern expressed over that whole period by the OECD in particular, about an overheated economy and the need to be cautious. That should have been fitted into those issues.

Deputy Eoghan Murphy: In 2000 or thereabouts, things began to change and Mr. Wright has noted several of those changes in this report. He notes, for example, that while the economy continued to expand after 2000, the dynamic changed with growth being less export-led and depending more on domestic factors. From Mr. Wright's understanding, was this dynamic change an intentional change?

Mr. Rob Wright: Again, it is a great luxury for all of us to be able to look back. Members were here for the ride; I was on the other side of the pond. There was a real sense of dynamism in this country about a great decade of growth, catching up with the rest of the European Union and, in early 2000, surpassing it in terms of income and every barometer there was. The revenue kept coming in. Was there a conscious change? Probably not. The early driver of change was enhanced competitiveness. The second dynamic of change was low interest rates from the European Union, massive infrastructure spending by the Union and a focus on sharing the benefits that did not really exist at the time. These factors overwhelmed the situation. It was not just the construction sector that was expanding; the average rate of growth of spending was 11.8% over the ten-year period. That is extraordinary.

Deputy Eoghan Murphy: Had we begun to lose competitiveness at that point?

Mr. Rob Wright: Yes, quite substantially.

Deputy Eoghan Murphy: Mr. Wright says in his report that we received warnings in this regard which were not heeded.

Mr. Rob Wright: Yes. There were warnings from the National Competitiveness Council which should have been heeded for sure. There were warnings from the OECD. However, there was a dynamic of expectations going on.

Deputy Eoghan Murphy: Did Mr. Wright come across anything in the Department that showed it was at least aware of these warnings and how it was reacting to them?

Mr. Rob Wright: I would be sure people in the Department were aware of the warnings. It is not a warning if one does not make someone aware of it. However, I did not see that these warnings were a driver of change other than, I guess, being reflected in the Department's advice to Cabinet, which was that there was a risk of overheating the economy.

Deputy Eoghan Murphy: Would Mr. Wright say the warning on competitiveness comes through in the Department's advice to the Cabinet in terms of overheating?

Mr. Rob Wright: I do not recall a very strong measure of that being built into it. It is a fair observation.

Chairman: We will now have a final brief round of questions. The two leads will have five minutes each, with other members having one minute each. We will begin wrapping up after that. I invite Senator Barrett to put his final questions.

Senator Senator Sean D. Barrett: Thank you, Chairman. When we gave up our monetary independence, it should have meant a recognition within the Department of Finance that there would be an enhanced role for fiscal policy. Did Mr. Wright come across any documentation preparing the Department for that context?

Mr. Rob Wright: No, but I am sure people in the Department understand that fully.

Senator Senator Sean D. Barrett: This issue is particularly important in a context where the United Kingdom had decided not to join the eurozone. Did Mr. Wright come across any evidence of doubts in this regard?

Mr. Rob Wright: No, I did not see anything on that specifically. I think Professor Honohan made an observation in his report in this regard. For a small, open economy like Ireland with a major trading partner like the UK, there was a particular context. The capacity for an independent monetary policy to truly rein Ireland in as much as possible was more limited than in the case of some other major countries. Ireland did not perhaps have that much to give up. On the other hand, in joining economic and monetary union, Ireland did lose capacity and I am sure the Department of Finance focused on that. As to whether people said to the Minister, "Here is how we need to enhance our co-ordination policy in light of this change", I did not see evidence of it. That is the issue we flagged as recommending very clearly that the Department be mandated to have that overall macroeconomic view.

Senator Senator Sean D. Barrett: Adding to that, there was a massive flow of capital into Irish banks which then went into the property sector. Does the model envisage the Minister for Finance having to say, "Because there has been a massive monetary stimulus to the economy, I have to run a huge budget surplus and I will be cutting down on education, health and welfare." How do we manage this?

Mr. Rob Wright: I think there are ways. That is a regulated sector. You have ways to manage the liquidity in your country, which are still important. The Central Bank of Ireland and the regulator have an important role, in co-ordination with the Minister, and the trade-off is not that stark. I think the point I was making was simply that it puts a great deal of onus on restraining spending ambitions and tax initiatives. You have to do it in an overall macroeconomic framework.

Senator Senator Sean D. Barrett: We have had a tradition over a number of decades where the Secretary General of the Department of Finance moves on to become the Governor of the Central Bank of Ireland. Is that a good idea, given Mr. Wright's knowledge of it? How is the Governor of the Bank of Canada appointed?

Mr. Rob Wright: There is no one rule in Canada. We have had very strong bank governors come up through the system in the Bank of Canada. A former Deputy Minister of Finance, David Dodge, Governor of the Bank of Canada. My associate, a former Deputy Minister of Finance, Mark Carney, become Governor of the Bank of Canada and now he is Governor of the Bank of England. Our experience has been that there is not a natural conduit through the Department of Finance. Probably more than half of the governors in recent history have come from within the central bank, but it is something that is not an unhelpful experience in a Department of Finance. However, it should not be a "crown princing", I would think.

Senator Senator Sean D. Barrett: Would the ambition to be the governor restrain contrarian views being expressed within the Department of Finance?

Mr. Rob Wright: I do not think so and, in fact, I would say the restraining of contrarian views that I observed was more towards the financial regulator within the bank, which is quite a distinct office. I would not say I saw anything that supports that judgment.

Senator Senator Sean D. Barrett: I thank Mr. Wright again.

Deputy John Paul Phelan: As part of Mr. Wright's study or investigation, was an in-depth analysis of the recruitment practices of the Department of Finance carried out? I think on page 45, and in other places, he referred to the lack of certain expertise and he compared it to Canada and the Netherlands. Was there an in-depth analysis of the recruitment practices of the Department?

Mr. Rob Wright: We did talk about the challenges of recruitment within the public service recruitment process. I think there was some frustration at the timelines of that process. I did not get into it in detail, other than urging the Department to be more proactive in the sorts of public service modernisation that were talked about. I did talk about the Canadian model, where we do have an engagement annually to hire university graduates not just to an economic analysis unit, but to the whole policy needs of the department. I advocated that because I thought particularly - it has been a very challenging environment - for an economist graduating from university in Ireland or anywhere, it would be an extraordinary opportunity to see some fascinating times and so, I think, that is something that, over the long-term, should be done every year. You should hire some people.

I do not have a lot more to say on the Government-wide staffing process other than certainly for promotions and even perhaps hiring from outside, it is hard to do in a period of severe restraints. There was little intake for a year or two and they are now looking forward to doing more of it. The real question is whether there is an appropriate dynamic for hiring throughout the public service that is a more modern approach and that deals with the performance issues. The Department has gone through a performance management process and identified areas already, and some people that needed some support, but if one went to the rank and file of the Department, people have said not enough has been done. People feel that one must be more conscious of problems with performance. They do not want to sit next to someone who is not doing as much work or working as effectively as they are, without any variation in their level of compensation. That dynamic has started but I do not have the details in terms of the detailed

Irish Government staffing process.

Deputy John Paul Phelan: The reason I asked the question is that there is a perception at least that some of the senior managers in the Department of Finance come from a very small pool, and have done traditionally. Senator Barrett referred to the movement from the Department of Finance across to the Central Bank. There is a strongly held perception that in Ireland traditionally senior managers in the Department of Finance come from a very set background. I know Mr. Wright was limited in terms of having only three months and there is only so much one can do in such time, but in terms of strengthening the capacity of the Department of Finance, there is more to the Department than just banking or even the construction sector. Is it representative of the economy as a whole and is the perception that exists correct, that it might not be?

Mr. Rob Wright: I think a number of Secretaries General of the Department of Finance have come through the public service management stream rather than the budgetary stream and they have been very good people. In the new dynamic, where there is a very clear focus on macroeconomic advice and management for the country, over time we will see a pool of people who are equipped for that position come from the economic advice stream. That is not a bad thing.

I myself am not a lifer in the Department of Finance in Canada. I should say that I moved around. I worked there for a couple of years and then I was in the Prime Minister's Department and I worked for other Departments. I think there is some value to every track.

Deputy John Paul Phelan: I wish to refer to page 32 of the report, paragraph 3.9.2, in describing the tax promises contained in the 2002 programme for Government, Mr. Wright stated that they were effective political messages for the electorate but not good tax policy. Could Mr. Wright elaborate on what he meant by "effective political messages" as briefly as he can?

Mr. Rob Wright: Telling people that 80% of them would not pay taxes is pretty good. I forgot my vote. Do I hear 90%? I should not say that. In Canada, at tax time people file their taxes not just to pay taxes but to receive important tax credits for lower income families and people with ability needs. More than half of Canadians do not pay income taxes, net of those benefits. This is a good thing. I do not say that getting people off that roll is a bad thing but one needs to be fair and efficient. The tax system can be a very important tool for growth.

What we have done in Canada is – as I mentioned earlier we have stopped doing it – we have looked at removing barriers to growth by barriers to entry. We have made it easier for people on lower income to get off welfare and support systems onto the payroll without paying a huge tax. There are barriers to work at the lower levels. We have looked at incentivising people at the higher levels to get ahead in life without hitting a big wall of large tax increases. Reform of the tax system was one of the things we recommended and some steps have been taken. I do not know what they are in terms of removing some special benefits, and going forward looking at the tax regime as an instrument for growth gives one some options. I am eating up Deputy Phelan's time. I am enjoying it very much.

Chairman: The Deputy's time is eaten up.

Deputy John Paul Phelan: Mr. Wright just referenced "fair and efficient", does he believe that part of the 2002 programme for Government fitted into what he described as fair and efficient?

Mr. Rob Wright: No, I said that it is not the whole story, just saying that 80% is an objective. One should fit into a broader view of the tax system that says yes it is fair but does one have a higher priority in terms of creating jobs for the future than just that benchmark? I believe one should have. I mean it respectfully for that process, but one can engage on how to do that.

Senator Senator Susan O'Keeffe: I do not have the exact quote to hand but Mr. Nyberg indicated yesterday that he felt there probably would not be a different outcome from this inquiry and that we already know the causes of and reasons for what happened. He was more or less asking why we are holding an inquiry. What is Mr. Wright's view on this inquiry? What does he believe - in light of his close up but very brief glimpse of the matters to which it relates and on which he has very strong views - it might yield for the country?

Mr. Rob Wright: Stocktaking is a good thing. I would advocate looking forward. Our analysis looked forward. We looked back for lessons for the future, not to identify who was responsible.

Senator Senator Susan O'Keeffe: Not for retribution.

Mr. Rob Wright: No. We asked what we could learn from what happened and tried to identify the way forward. The committee should look at this report in the context of implementation. There are good reasons for not doing some of these things. It is there for the Irish Government to use and to take stock of how it is working and how it can be improved. It is a great thing to even look at. However, all of that is going forward. The Senator asked if the inquiry is going to find out more than what Mr. Nyberg said. I do not know what he said. What I have tried to identify today are some of the really important challenges for the future that people here at a political level are really going to be obliged to engage with going forward.

Senator Senator Susan O'Keeffe: So it is worthwhile.

Mr. Rob Wright: If it is focused on looking forward, it is worthwhile.

Senator Senator Michael D'Arcy: Suitably qualified people were not available in the Department of Finance at the time. Mr. Nyberg stated yesterday that people who give advice give advice and that those who make decisions make decisions. Would it have made any difference if suitably qualified people had been in place in the Department of Finance and had given alternative advice to those who made the decisions? Is it not the case that regardless of whether they were qualified, those people would have been ignored?

Mr. Rob Wright: I do not think anyone knows the answer to that. It could and should make a difference. Given that reasonable advice was ignored, the Senator is also asking whether good advice would also have been ignored. It could have been. The dynamic of this set of advice is that there should be a broader engagement with people, that there should be more disciplined advice on offer and there are ways, through that outer engagement, for there to be wider interest in the risks. The vast majority of Ministers I have met look for proper advice on which to make decisions that will be good for their countries. They need to be well served in order to make informed decisions. I cannot provide an answer in respect of one smoking gun.

Deputy Joe Higgins: In his report, Mr. Wright focuses a great deal on pro-cyclical fiscal policy but does not, as I pointed out earlier, have a great deal to say with regard to property and construction. Is he saying that the pro-cyclical fiscal policy was more responsible for the crash than the property bubble and all that went with it? The report is also very critical of the decision to remove the lowest paid workers - who are really on poverty wages - from the tax net and of Government spending. According to EUROSTAT, in the period leading up to the crash, Government spending in Ireland, as a percentage of GDP, was the second lowest in the entire EU. What else would young nurses, teachers and public servants - many of whom are on low or middle incomes - have done but seek wage increases when their accommodation costs were going through the roof? It was a case of their seeking wage increases or living in tents. However, Mr. Wright, in his report, appears to be very critical of what happened in this regard.

Mr. Rob Wright: To be clear, I am not critical with regard to people getting off the tax roll. I am just saying that this should not be the only dynamic in terms of what one stands for, particularly on a go-forward basis. Half of Canadians do not pay taxes and I do not think all Irish people should pay taxes. That is fine, and if I sounded too strident on it, I meant no offence. I think in this country, you really do have an outstanding social engagement, as Canadians do, so I do not think we are that far apart as countries. In fact, I just made some comments on removing barriers to entry into the workforce, which is something that is extremely important in Canada and we made some great strides on that when I was in government.

Deputy Joe Higgins: Responsibility for the crash - primarily, banking or pro-cyclical policies?

Mr. Rob Wright: Your comments on pro-cyclical - we are spending too much time on that and not on construction. As I said at the outset, I think in terms of what advice you would expect, the bread and butter of a Department of Finance, is fiscal policy. It also includes the overspent construction so it is actually included in that dynamic as well. It is not picking winners. I think it is the right weighting and I think the report deals appropriately with both of them.

Chairman: Can I just clarify that question because I think it is a very pertinent one, given that your area is taxation and the Department of Finance? There was the other issue with Mr. Nyberg yesterday regarding the banks. I suppose the question Deputy Higgins is asking, and I think it is the critical one to put to you this morning, Mr. Wright, is that there was a structural deficit in the tax base of this country when the economy crashed, besides the bank debt that was there. That was €60 billion, as a lump sum one could say, but there is a €30 billion deficit, which is on a roll-over year after year. It is not that one is worse than the other, as both are bad, but in terms of trying to correct something, which do you see as the more difficult? Which do you see as the more problematic over a period of time, a legacy banking debt or a major structural hole in one's finances?

Mr. Rob Wright: I do not see them as separate issues. I think that is the element of your problem. That problem is one big problem. I think what the panel tried to put forward in this report is a way to minimise the risks of that happening again.

Chairman: The human cost of this is explicit. We see it every day but in terms of the financial cost of trying to meet the legacy bank debt and the financial cost of actually trying to deal with a structural deficit, which one ends up being the most expensive?

Mr. Rob Wright: I mean that is just arithmetic. I think they are all connected in what you have to dig yourself through. I think you have got the right processes and ways to minimise the legacy burden of the bank decision and you have got the right people focused on that. On the structural deficit, you have got a medium-term plan that you are going to deal with.

I mentioned this point - I should be more emphatic, perhaps - but I think you should look at everything you can to enhance the growth prospects of the country. It is not just a question of reallocating spending in the community at large but it is a question of how you can allocate to enhance your capacity for balanced growth beyond the construction sector and see yourself through on that. That is the key to the growth.

Deputy Kieran O'Donnell: Can I just go back to one issue, the budget packages graph, which was on page 22, and the difference between what the officials would have brought to the Minister in June with the framework and what effectively would happen on budget day itself? Did you get the opportunity to look at what were the additional measures brought in on budget day? One thing that is striking is that up to April 1998, mortgage interest relief was allowed for rental properties.

Mr. Rob Wright: What was allowed?

Deputy Kieran O'Donnell: Interest relief on borrowings was allowed against rental income. That was basically disallowed for the years 1998, 1999, 2000 and 2001. Then in the 2002 budget and the Finance Act 2002, it was reintroduced at 100%. That obviously fuelled a further bubble, and it just so happened to coincide with an election year. Did you get the opportunity to look at what exactly filled that wedge? That is just one element that stands out.

Mr. Rob Wright: I think there probably is an election dynamic to these numbers. I looked at the actual documents that went to Cabinet but we did not do a cross-section analysis of every piece.

Deputy Kieran O'Donnell: Did Mr. Wright get the opportunity to look at any years? Clearly, that is the critical element. His report states that what was brought by the officials was relatively prudent and then every year, apart from 2003, over a ten-year period, the budget was far in excess of what was being proposed by officials. Looking over that ten year period, does Mr. Wright believe the way the economy was being run was based around electoral cycles as distinct from economic prudent cycles?

Mr. Rob Wright: That is the spirit in which we have given this, although it must be said this was a summary chart. It is quite stark. We debated whether to put it in. It did not exist in a Department, and perhaps it should have. It focuses the mind but that is why-----

Deputy Kieran O'Donnell: Does Mr. Wright think it would be a worthwhile body of work for this committee to examine what made up the differentials between what the officials would have proposed to the Minister and what we had on budget day? Clearly, it is the area that fuels in terms of fiscal overspend.

Chairman: That is a leading question. I do not want to have to interrupt any more. Members know the rules. They do not say what they want to say, they ask the witness about what they want him to respond to.

Deputy Kieran O'Donnell: Can I reword the question?

Mr. Rob Wright: I think I understand what the Deputy is looking for. On those elements, we made a general comment that they came from additional spends either that were a priority in the programme for Government or from the social partnership. The Deputy could ask for that. It is not a hard thing to look at. I do not think it is the most critical element of the page.

Deputy Kieran O'Donnell: What is the most critical element?

Mr. Rob Wright: It is historic. It is over a long period of time-----

Chairman: The Deputy is well over his time. I call Deputy McGrath.

Mr. Rob Wright: -----particularly 2005, 2006 and 2007. Those were the years.

Deputy Michael McGrath: I have one final question for Mr. Wright related to the issue of the bank guarantee which I know was not germane to his report, as such, but it was a landmark decision which we will be examining closely. In the course of his work, did he examine in any way the role of the Department of Finance in the making of that decision, supporting documentation or the decision-making process? I know his work was focused on advice in relation to fiscal matters and so on but in the course of his work did he look at that issue?

Mr. Rob Wright: As we made clear in the report, we did not want to overlap. First, we did not have a remit to look at the other agencies involved in that, so it would not be something we could have defended a view on anyway. We did not overlap with the formal inquiry that Peter Nyberg was doing.

Chairman: Deputy Doherty.

Deputy Pearse Doherty: I have three brief issues. Mr. Wright mentioned circumventing the freedom of information laws and that they did not write down anything or there was a reluctance to write down anything. Did he come across any other attempts to circumvent freedom of information legislation-----

Chairman: The Deputy needs to minimise that.

Deputy Pearse Doherty: -----so that documents would not be disclosed under that legislation? I refer, for example, to personal e-mail accounts or anything of that nature. Mr. Wright mentioned in regard to the OECD and other external agencies that they should have been more vocal and while they made warning signals, they were missed. Is Mr. Wright making the point that they were missed by all people in the Department or just by those at a senior level? Does he believe some people in the Department spotted them? My last point relates to the personalities and the relationships that were mentioned. In Canada the ethics code-----

Chairman: I am picking up interference from a mobile phone.

Deputy Pearse Doherty: -----requires the disclosure of liabilities as well as assets. Is that something Mr. Wright believes would be important given the relationship particularly within the Department of Finance and the financial system?

Mr. Rob Wright: I am not aware of those relationships so I cannot make a judgment on that. In terms of whether some people in the Department were more aware of the observations on an inappropriate fiscal policy, the Department itself had been advising more restraint over a period of ten years, so it would not have been a secret to anyone in the Department that it was a big issue. I cannot identify individuals from the chart we just examined on page 22; some people knew more than others. There was a body of view but that was not the nature of our business.

Deputy Pearse Doherty: And in freedom of information, it was just a case of written records?

Mr. Rob Wright: I saw no evidence. Frankly, I think there was a broader concern that was not just driven by fear. There are ways to do business, meet the real interests of freedom of information and yet give clear, strong advice to the Minister, and that was not done. A number of people raised that with me, I was preoccupied by it and I have looked at in detail since then. I would say, and have said to the Secretary General, that he should be sure there is a process that meets the needs of the law and lets somebody push the right button if there is a problem, or go back to Parliament.

Deputy Eoghan Murphy: Mr. Wright says in his conclusions that Ireland failed the test of prudent fiscal management. Thinking forward five or ten years' time, how do we know if we are passing that test without walking into another economic crisis?

Mr. Rob Wright: Pardon? How we know if we are-----

Deputy Eoghan Murphy: Passing the test of prudent fiscal management.

Mr. Rob Wright: Ireland will pass the test if it does not overheat its economy in ways that cause devastating outcomes. The crisis a few years ago was a combination of things which I do not think will repeat itself here. The real test will be when the economy is getting stronger and there is pressure on key sectors, whether fiscal policy is used to restrain those expectations and, when a surplus appears, whether there is agreement that it should be most appropriately dedicated to paying down this extraordinary debt that has been raised rather than adding to the fuel. That would be the test.

Deputy Eoghan Murphy: By implication, we would be failing that test if we were not doing that.

Mr. Rob Wright: Yes. Politicians are part of the solution and it is not an easy solution. Based on the classic demands from their constituencies, it has to be put in a context where people understand what they are striving for and the values of it. Interest has fallen from 14% to 2.8% on outstanding debt, unemployment has dropped by four percentage points, and there is a vision for the future that is going to sustain growth long enough for Irish families to settle and not worry about looking abroad for jobs - those are really powerful points.

Chairman: When Mr. Nyberg was before us yesterday, he outlined a number of recommendations to the committee as to how its work might add value to what he has done. It was quite an extensive series of recommendations, maybe stemming from the limitations of the terms of reference of his report, or maybe based on things this inquiry can do that he did not do himself in hindsight. Every inquiry has limitations; Mr. Wright's had and ours will have with regard to time, resources and the job of work that has to be done. Given that situation, are there issues that may have not been within the terms of reference or the timeframe of his report that he would like to have explored in more detail? Are there suggestions he might make to this committee that would add to the body of work we are trying to do?

Mr. Rob Wright: I thank the Chairman. In our one-page set of conclusions, we highlight the challenge of managing political expectations and change. I think this process would be most constructive if it looked forward at the challenges that have been met and the role of engaging the people of Ireland in recognising what lies ahead and how best to have effect for securing the future. The dry issues are far less interesting - I do not think we will see the same crowd as we saw yesterday from the press - but they are vitally important----

Chairman: It is slow business here, but there is a difference between slow business and show business, Mr. Wright.

Mr. Rob Wright: And good business. In my opinion there are a few issues in the future and one is the medium-term agenda. The Ministers identified a couple of key instruments and there are others that the committee should note.

I refer to a model to consider. I had the good fortune to be the high commissioner to New Zealand for two and a half years. I have not been back in 20 years but after their crisis they were very bloody-minded in terms of the process of dealing with policy and getting a very effective streamlined tax system and other systems that yield efficiencies in a small open economy. The Ministers hooked on to the financing instruments for small and medium enterprises. Anything that expands on removing barriers to entry for those on lower income to get higher paying jobs and training, these are all investments in the future. On fiscal management I imagine when Ireland gets its fiscal council, some of the things it will be engaged in will be some fiscal anchors over the short and medium term - which for Ireland are perhaps quite different - and more issues that Ireland can manage to ensure it meets the broader objectives of the European Union. If there was a common view in this Parliament that given the framework going forward and the obligations of the country, should the programme for Government identify or be committed to reallocating to meet any additional spend or should it be more focused on medium term instruments that enhance the economic prospects enough to pay for some of these initiatives? That would be a big issue politically for the political parties to consider. I just throw it out there. I do not think there are many Secretaries General in the Irish system that would do that.

On the focus on the limited options if there is a surprise to the upside and the committee's engagement on what would the Minister for Finance want from his colleagues in government, and what are the real limits on the spend if there is something to the upside, I would say, medium-term economic agenda, what are the fiscal parameters over the short term and how to be very specific in terms of the programme for Government, whether it is self-financing or some commitment to the fiscal necessities in that framework. Maybe there is some work the committee should do on the right and most constructive re-engagement on the social partnership to ask what are we going to do together and to have a very open dialogue about not just the limits of what we can do but the potential of what we can do in this new world. It is a question of building balanced growth for the future and ensuring a broad participation in that growth.

Chairman: I thank Mr. Wright for his participation in the inquiry today. It has been a very informative and valuable meeting which has added to our understanding of the factors leading to the banking crisis in Ireland. I welcome the engagement of Mr. Wright with members, I thank him for giving of his time to the inquiry and the distance he has travelled.

I propose that the witness be excused, that the gallery be cleared and that the committee meet in private session.

The joint committee went into private session at 1.20 p.m. and adjourned at 3.15 p.m. until 9.15 a.m. on Thursday, 15 January 2015.