Statement by **Frank McDonald**, former Environment Editor of the Irish Times, to the Oireachtas Banking Inquiry

I have been an observer of urban development in Ireland, especially in Dublin, since the late 1970s -- latterly as Environment Editor of the Irish Times and previously as Environment Correspondent from 1986 to 2000. I have also written about the subject in a number of books -- >The Destruction of Dublin< (1985), >Saving the City< (1989) and >The Construction of Dublin< (2000), as well as >Chaos at the Crossroads<, a 2005 book with James Nix detailing what we would call the environmental destruction of Ireland during the boom years, and >The Builders< (2008), which I co-authored with Kathy Sheridan, dealing with the developers and others involved in the era's casino culture.

The close relationship between the construction sector, including property developers, and the world of politics is well-established not only in Ireland but throughout the world; the Galway Tent was our version of it, until recently. This nexus became visible as long ago as the 1960s with the formation of Taca, a Fianna Fáil fund-raising organisation whose £100-a-plate dinners were one of the scandals of that era. It is known that there were close connections between leading property developers and senior politicians, as the latter could facilitate the former in securing State tenants for planned office buildings, particularly in Dublin, to cater for a growing Civil Service.

Politicians at local level also played a crucial role in facilitating ambitious plans. Since the 1963 Planning Act came into force in October 1964, it has been a "reserved function" of councillors to make decisions on the content of city or county (or indeed town) development plans. What this meant was that they were in charge of zoning land -- making decisions about which land would be designated for development and which land would not be so designated. They had the power, in other words, to transform the value of agricultural land anywhere in Ireland, multiplying it by a factor of 10 or more. So there was a lot riding on such decisions.

Land values in the Dublin area soared by 530 per cent between 1963 and 1971 as the scale of the development opportunities became evident and speculators scrambled to buy up land likely to be rezoned for housing, industry or whatever. The then Fianna Fáil government established a Committee on the Price of Building Land, chaired by Judge John Kenny, to recommend ways of curbing such speculation, and it proposed that all land required for development should be designated and then acquired at its existing use value, plus a premium of 25 per cent. Over the past 40 years, however, no government has acted on Kenny's recommendation.

It was inevitable under these circumstances that land speculation would continue and that zoning would become tainted by corruption. Allegations that "brown envelopes" were changing hands first surfaced in 1974, but a Garda investigation got nowhere. Subsequent Garda investigations in the late 1980s and again in 1993 also got nowhere. The latter investigation, incidentally, arose out of a week-long series of articles in the >Irish Times<, written by Mark Brennock and myself, on suspicious land rezoning decisions in Co Dublin; it led off with a news story on the front page, headed "Cash in brown paper bags for councillors".

An advertisement placed by a firm of Newry solicitors offering a €10,000 reward (on behalf of then anonymous clients) for information that would secure the conviction of persons for engaging in land rezoning corruption ultimately led to the establishment of the Planning Tribunal, chaired first by Judge Feargus Flood and later by Judge Alan Mahon. The tribunal heard voluminous evidence from witnesses with first-hand experience of corrupt payments, and drew a number of conclusions in this regard that were later deemed technically unsound following a Supreme Court ruling. However, I have no doubt that corruption lay at the heart of Dublin County Council's most contentious land rezoning decisions.

One has to remember that the Planning Tribunal was dealing only with Co Dublin (as it then was). I have no doubt that there has been corruption elsewhere; otherwise, decisions made by elected representatives against the advice of planning officials are inexplicable. After all, we have a political system that's based on clientilism -- doing individual favours for individual constituents, in effect turning citizens into clients. How much more of a step is it really to seek "political donations" in return for performing such "services" as rezoning such-and-such parcel of land rather than such-and-such another parcel? Not much, I would suggest.

Local area plans that were intended to give people more control over what happened in their own areas were turned instead into vehicles for land speculation. Laois, Monaghan, Westmeath and Wexford were among the counties that fell victim to this trend. But every council in Leinster, it seemed, wanted to secure a slice of Dublin's development

Throughout Leinster, there was massive over-zoning of land during the boom. In some cases, so much land was being zoned under county and local area plans that it could cater for decades of development. Every county was making these decisions in disregard for what other counties were doing, or not doing. Pressures from farmers and other landowners to have their patches of land zoned for development reached fever-pitch in 2006-2007, as the property bubble inflated to its full overblown size. It was little short of a frenzy. There was a sense of "it's now or never" in the air, and some feared that they had already missed the boat or, rather in this case, the hot-air balloon.

Pumping up this balloon for most of the period under review was an array of lucrative tax incentives. There was the long-established Section 23 incentive for "buy-to-let" apartments or houses, and other tax breaks for the development of run-down seaside resorts (a measure introduced by the Fine Gael-Labour coalition in 1996), hotels, multi-storey carparks, student housing and a specific area-based Upper Shannon Rural Renewal Scheme, which applied to all of counties Leitrim and Longford as well as parts of Cavan, Roscommon and Sligo. In theory, nearly anything developed anywhere within this vast designated area would qualify for tax incentives under the scheme, introduced in 1998 by then Finance Minister Charlie McCreevy.

It is hardly surprising then that among the counties severely hit by the phenomeon of "ghost estates" were Leitrim and Longford -- because not only was there massive over-zoning, but also massive over-development. Laissez faire planning policies, largely landowner or developer-driven, created the framework for it all to happen while the advent of motorways facilitated and encouraged the sprawl of Dublin and other urban centres, by leading people to imagine that they could live up to 100km from where they worked and get there and back by car. In Gorey, Co Wexford, for example, more than 70 per cent of new residents were commuting to work in Dublin nearly 90km to the north. The same was happening all over Leinster and even parts of Ulster.

Yet the Strategic Planning Guidelines for the Greater Dublin Area, adopted in 1999, had stressed the importance of consolidating the metropolitan area; in other words, it was anti-sprawl. If the guidelines were to mean anything, they would have to be enforced. But no effort was made to do this, either at local or central government level. If the suburbs of Dublin were springing up in such unlikely places as Rochfortbridge, Co Westmeath (80km from the capital), well that was just market forces and people would come to their senses when the houses lost their value, which has certainly happened now.

The Government even used escalating house prices in Dublin to promote its controversial "decentralisation" programme, noting that public servants with homes in the capital would do well on selling them and then buying a much cheaper house in one or other of the 53 locations to which more than 10,000 of them were to be dispersed. The other beneficiaries, of course, were the business community in the towns where new Government office blocks were to be built -- estate agents, shopkeepers, publicans, providers of other local services and fellows with sites for sale. It was the same with the property-based tax incentives. As more and more investors availed of them, a whole sector of society had a major vested interest in ensuring that the incentives continued for as long as possible.

The Banking Inquiry Committee needs to inquire into why the property -based tax incentives were continued for so long, even though the construction industry was having its biggest, most profitable spree ever. It was perfectly justified to introduce the Section 23 incentive in the late 1980s when the industry was on its knees and desperately needed a lift, but to persist with it when construction was leading the boom was the height of folly. The Government was, in effect, adding fuel to the fire, stoking an already hot furnace. The Committee needs to ask former ministers for finance of the period precisely why they decided that a range of property-based tax incentives should remain in place, because certainly no public interest reason can be offered to justify such an irrational fiscal policy.

The availability of lucrative tax incentives combined with cheap credit and laissez faire practices, both in the banking and planning sectors, created and sustained the property bubble. Bankers also played the role of touts for developers. Frequently, it was the bankers who spotted the potential of a well-located site and would then “line up” one of their client developers to run with it -- the bank providing all of the loan financing, of course. So developers ended up “leveraged up to their eyeballs”, as one observer put it. What the banks were counting on was that their previous performance as men with the Midas touch would be repeated again and again, as more sites came onto the market -- even with eye-watering price tags.

So many of us were caught up in the bubble that we couldn’t see it in perspective, or at all. It became normal that fairly average semi-detached houses could be “worth” a million euro or more, or that Dublin property prices were higher than Paris in terms of the cost per square metre of residential accommodation. Every day, banks sought to persuade us to take out loans for new cars, holidays, home improvements, or whatever -- and we did, in droves. That’s why economist Morgan Kelly’s warning of an imminent collapse of the property market, published by the Irish Times in December 2006, was regarded by many as heretical as Martin Luther nailing his demands to the great west door of Wittenberg Cathedral.