HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 17 Meitheamh 2015

Wednesday, 17 June 2015

The Committee met at 09.30 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.

Nexus Phase

Department of Finance - Mr. Tom Considine

Chairman: All right, as we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? In commencing session 1 today, we will be hearing from Mr. Tom Considine, former Secretary General, Department of Finance. I would like to welcome everybody to the public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today we begin a series of hearings with senior officials from the Department of Finance who had key roles during the crisis period. At this morning's session, we will hear from Mr. Tom Considine, former Secretary General, Department of Finance. Tom Considine joined the Department of Finance in 1974. He was Secretary General of the public service management and development section of the Department of Finance from 2002 ... or from 2000 until 2002. Mr. Considine succeeded John Hurley as Secretary General of the Department of Finance in March 2002, a position he held until his retirement in 2006.

Mr. Considine, you're very welcome before the inquiry this morning. Before I hear from you, 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 to their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. The utmost caution should therefore be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry.

So, with that said, if I can now call on the clerk to administer the oath to Mr. Considine, please.

The following witness was sworn in by the Clerk to the Committee:

Mr. Tom Considine, former Secretary General, Department of Finance.

Chairman: So, once again, welcome before the inquiry this morning, Mr. Considine, and if I can invite you to make your opening remarks, please.

Mr. Tom Considine: Thank you very much, Chairman, good morning, and members of the committee. I thank you for allowing me to make this opening statement and I'll draw on my witness statement and summarise a number of points - the international and domestic background, the system of financial regulation, fiscal policy and the risks as they were seen in 2005 and 2006.

In relation to the international and domestic background, by 2006 financial markets had become increasingly globalised. They had become accustomed to readily available credit, significant product innovation, greater financial integration in the euro area, large current balance repayments in balances and lower risk premiums. Technology had transformed the efficiency, speed and complexity of financial instruments and transactions. This was supported by a strong belief that new modes of finance had reduced systemic risk. Against that background, Ireland experienced an extended period of strong economic expansion, interrupted only by lower growth rates in 2001 and 2002. Consequently, Irish expectations were high that living standards and assets ... asset prices would continue to advance. This, in turn, was reflected in strong demand for credit in housing. The Department's statement of strategy, particularly fiscal policy, was strongly influenced by the provisions of the programme for Government published in June 2002. The Social Partnership Agreement 2003 to 2005, entitled Sustaining Progress, also had a strong influence on fiscal policy. Fiscal policy, incomes policy and regulation were the key policy instruments available to the Irish authorities to manage the domestic economy within the euro area. This was recognised from the outset of our EU membership. The Department of Finance established an internal working group to examine the implications of EU membership. The report, entitled The Implications of EMU Membership for Various Aspects of Public Policy, was approved by the Minister of Finance for publication in October 1999 on the Department's website. And at page 10 that report states:

> The "Celtic Tiger" economy is already having a major effect on expectations in terms of income, taxation and expenditure policy and it is clear that, far from moderating, these pressures are likely to continue to grow. In the circumstances, it will undoubtedly prove extremely difficult to persuade the social partners, interest groups and the public in general to accept a prudent fiscal stance.

Being a euro area member state, the Irish Government had no function in relation to official interest rates or the euro exchange rate. During the period 2002 to 2006 Ireland had a AAA credit rating and Irish banks were able to borrow wholesale funds at competitive rates.

Turning to the system of financial regulation, in October 1998 the Government agreed in principle to establish a single regulatory authority and established an implementation advisory group chaired by Mr. Michael McDowell, senior counsel. The group reported on 19 May 1999 and recommended that the single regulatory authority, or the SRA, should be an entirely new, independent organisation. As a member of the implementation group, I proposed an alternative model on behalf of the Department of Finance. This model located the SRA within a restructured Central Bank and provided for increased autonomy for the regulatory function but under the direct control of the Central Bank board. This alternative model is at appendix II of the report, page 79. In the event the Government legislated for a model with a separate board for regulation but within an overall Central Bank and financial services authority framework. The new model came into operation on 1 May 2003. The Government's White Paper, Regulating Better, was published by the Department of the Taoiseach in January 2004. It identified what the Government saw as the principles of good regulation, namely, necessity, effectiveness, proportionality, transparency, accountability and consistency. The White Paper advised, "The recommendations and actions in this White Paper are best seen in the context of the continuing drive for competitiveness and people's expectations of high quality public services."

The 2006 annual report of the Irish Financial Regulator, at page 26, refers to its approach to regulation in the following terms, "In order to ensure that our regulatory requirements do not become a barrier to competitiveness and innovation, we apply the Better Regulation principles which the Government published in January 2004 [...] and are an active member of the Taoiseach's Better Regulation Group." This approach in turn appeared to be aligned to the prevailing EU and wider international belief in the economic benefits of rational self-correcting markets and the merits of financial intermediation.

On fiscal policy, over the four years 2002-2006, each year the Department of Finance engaged with the Minister on the preparation of the budget strategy memorandum that was submitted by the Minister to the Government at mid-year. The Government decision, based on that memorandum, formed the basis for the preparation of the spending, taxation and borrowing ... and deficit-surplus framework for the upcoming budget. Government Departments were required to submit their spending proposals by early autumn, based on that Government decision. The Department of Finance would also prepare an estimate of the cost of funding the existing level of public services during the following year and this would be used as a reference point in discussions with Departments-Ministers in the lead-up to the budget. The budgets for 2003 and 2004 were difficult because, in each case, Departments were required to prepare their pre-budget expenditure figures at a level significantly below what the Department of Finance estimated it would cost to fund existing service levels during the following year. For the 2003 budget, the required reduction was €900 million and, in the case of the 2004 budget, the corresponding figure was €500 million. In the case of the 2004 budget, line Departments contended that the Department of Finance base was €2.1 billion too low. These two budgets were naturally unpopular and subject to criticism.

When it came to preparing the 2005 budget, the political pressure to ease up on what were seen as expenditure cuts was very strong. In addition, the pressure was more difficult to resist because the economic recovery from the 2001-2002 downturn was more firmly established. Against that background, Government decided, on the recommendation of the Minister for Finance, that Departments should prepare their Estimates for 2005 on the basis of the Department of Finance Estimates of the cost of funding the existing level of services in 2005 and that, in addition, €900 million would be provided to cover the cost of the budget day social welfare and tax changes. In the event, the budget strategy memorandum targets were exceeded by approximately €1 billion in gross terms. The budget day tax package accounted for almost €580 million and gross public expenditure accounted for the remainder of the €1.9 billion. The year-on-year increase for gross voted public expenditure was just over 9%.

In preparation for budget 2006, the Department tabled a paper for the ministerial management advisory committee of 2 February 2005 entitled, "Draft Framework for Developing the Budget Strategy Memorandum 2006-2008". I enclosed a copy with my witness statement. That paper recommended that the target for capital expenditure be about 5% of GNP and that gross voted current expenditure be increased by 6.6% over its 2005 level. In the event, the 2006 budget strategy memorandum was based on an increase of about 7.5% in gross current expenditure and gross voted Exchequer capital of 4.6% of GNP. Post-budget, the gross voted current expenditure increase was 10.9% and gross Exchequer capital was 4.7% of GNP. From a sustainability viewpoint, gross voted current expenditure is particularly important because of the difficulty in reversing welfare, pension and pay increases once granted. The gross 2006 cost of the budget day tax package was €763 million.

During each of the four years ending 31 December 2006, the general government was in surplus and these surpluses ranged between 0.4% of GDP in 2002 and 2.9% of GDP in 2006. During the same period, the general government debt declined each year as a percentage of GDP from 32.2% in 2002 to 24.7% in 2006. The European Commission recommendation on the Irish stability programme update of 22 February 2006 to the Council of Ministers stated, "The fiscal position can be considered [as] sound and the budgetary strategy provides a good example of fiscal policies conducted in compliance with the Stability and Growth Pact."

On taxation of housing and property, the 2005 Budget Statement delivered by the Minister for Finance in December 2004 announced that the Department of Finance and the Office of the Revenue Commissioners would undertake, in 2005, a detailed review of certain tax incentive schemes and tax exemptions in the areas of property and housing. Arising from the review, the Minister for Finance in his 2006 Budget Statement announced a broad range of changes including the ending of a number of property based tax incentive schemes, subject to certain conditions. The main condition was that the period during which the qualifying expenditure can be incurred was extended to end July 2008. This extension was limited to projects that had already satisfied the terms of the particular scheme. The Minister also introduced with effect from 1 January 2007, a new measure to limit the use of tax breaks by those with high incomes.

Turning to risks, publically acknowledged in 2005, the annual financial stability report was produced jointly by the Central Bank and the Financial Regulator. The two boards came together to approve the document. Despite this level of co-operation, I consider that the single board structure, recommended by a minority of the McDowell group, was the best option and in the aftermath of the crisis, the Government reverted to a single board structure. The 2005 financial stability report published on 1 November 2005 identified the primary risk to be credit growth and indebtedness levels. This risk was placed ahead of the risk in unanticipated and sudden fall in residential property prices because of a moderation in house price growth since the 2004 report. However, the report notes the emergence of tentative evidence that this moderation may not have persisted and goes on to state that if house prices were to accelerate this would increase the risk of a sharp correction to house prices.

The report went on to conclude, "The stability and health of the Irish banking system appears generally sound, according to the standard indicators of financial health such as asset quality, profitability, solvency, liquidity and credit ratings." This view was broadly shared by the IMF and the OECD. The IMF executive board published an assessment of the Irish financial system in August 2006. That assessment stated, "Directors welcomed the Financial System Stability Assessment Update, which finds that Ireland's financial sector soundness indicators are generally strong and that the major lenders have adequate buffers to cover a range of shocks." In March 2006 the OECD economic review of Ireland had stated at page 118, "The most likely scenario is that prices stabilise and the housing market stays flat for some years."

Regarding the fiscal situation, the 2006 budget material made clear that as a small open economy, Ireland was particularly vulnerable to changes in the world economic outlook. Among the significant international and domestic downside risks highlighted was the following:

> Given the loss of competitiveness in recent years, the economy is vulnerable to any further deterioration. In addition, the fact that the construction sector now accounts for a historically high share of economic activity and employment, implies that the economy is vulnerable to any shock affecting this sector.

In this context, the December, 2005 ESRI Medium-Term Review, 2005-2012, included an economic assessment of a housing shock. The ESRI stressed that the assessment was not a forecast. For illustrative purposes, it calibrated a housing price shock with a fall in house prices of approximately one third in 2007 and with house prices only beginning to recover after 2010. They analysed the potential impact of these major changes on the economy over the period 2007 to 2010. The study concluded that annual housing completions would not fall much below 40,000 and GNP would fall sharply in 2007 but remain above 1%. Unemployment is shown increasing sharply and peaking below 12% in 2009 before beginning to ease back, with the rate of wage increases falling sharply to just above zero. Considering a scenario where the Government allowed the deficit to rise without responding, the paper concluded that the impact on the public finances would be quite large, with a peak Exchequer deficit in the range of 4.5% to 5% of GNP in 2009. However, despite the acknowledged risks, the consensus view remained that the external environment was broadly positive, with international forecasting agencies projecting continued strong growth in the world economy in 2006 and 2007.

In summary, against the background of the financial stress tests and the outcome of the ESRI assessment of the fiscal impact of a severe housing shock, the available safety margins seemed to be more than adequate.

In a budgetary context, this safety margin can be summarised as follows: in 2006, the general government surplus was 2.9% of GDP and the general government debt was the second lowest in the euro area at less than 25% of GDP when the Stability and Growth Pact reference point was 60%. Ireland had a AAA credit rating, was financing a major capital programme from current revenue, and, by end-2006, the National Pensions Reserve Fund had a balance of €18.9 billion. The then consensus view of economic commentators, including the EU Commission, the IMF and OECD, was that the domestic and international economic outlook was broadly favourable. The Government's 2006 budget had included measures designed to help ease pressure in the property market and these pressures were further eased by increasing interest rates and the requirement on banks to hold higher capital against some higher risk loans. Measured by reference to 2006 GDP, the safety margins I have outlined above had a value of up to €95 billion. However, that safety margin and the measures taken in 2006 proved to be inadequate in the face of the crisis that reached seismic proportions in September 2008. In this regard, I note a conclusion of the US Financial Crisis Inquiry Commission report of January 2011:

> ...the ... inconsistent handling of major financial institutions [by the US Government] during the crisis - the decision to rescue Bear Stearns and then to place Fannie Mae and Freddie Mac into conservatorship, followed by its decision not to save Lehman Brothers and then to save AIG - increased uncertainty and panic in the market.

We now know that Ireland did not have a sufficient safety margin in place to withstand the domestic and international pressures that emerged in September 2008. In the event, our exposure to private sector debt and the direct and indirect impact of the property crash on the Exchequer were more than we could manage without outside assistance. I very much regret that I did not see that as a likely outcome in June 2006 or earlier. Thank you for your attention. I am happy to assist the committee and to answer your questions.

Chairman: Thank you very much for your opening comments, Mr. Considine. And if I can invite Deputy Joe Higgins to lead off in questions this morning. Deputy, you have 25 minutes.

Deputy Joe Higgins: Thank you. Good morning, Mr. Considine. Mr. Considine, you were on the board of the Central Bank of Ireland from 2002 to 2006. Over that period, from your observations and experience, do you think that board members had the knowledge and expertise necessary to judge on the macro-financial stability matters that arose?

Mr. Tom Considine: I would say that they had. I mean, the ... there was a structure in place. It wasn't, obviously, just the board members. The Central Bank and the Financial Regulator had established a section which examined financial stability issues and brought their conclusions to the board. And the two boards came together to decide on the content of the annual stability report. So, I think when you look at the membership of the boards, I mean, including, say, you know, the Financial Regulator, there were people there with significant financial experience ... insurance, markets, banking, NTMA, and so on. So ... I mean, given my experience of boards down through the years, I wouldn't say that that was an issue. The issue was, really, how to evaluate the information that was coming. And that information included assessments by the IMF and others and, say, in 2005, the last one I was there for ... I mean, the conclusions that were reached on that were based on the belief that a lot of the increases in Irish house prices could be explained by the rapid growth in population. The large numbers of additional people who were on the labour force, in the previous ten years, it was something like 600 and ... if my memory tells me right, 650,000 or something like that. And in addition to that, salaries, wages, and so on had gone up. And there was also a fairly widespread belief that supply and demand would eventually balance out. And particularly in, I think, the ... from, say, the start of the second quarter of 2005 up until after the summer break, there was a general view around that the property market was coming off the boil.

Deputy Joe Higgins: But there were more overall facts as well, Mr. Considine, particularly with relation to the rapid growth in the banks. Can I quote to you from the then Governor, or at a later time Governor of the Central Bank, Patrick Honohan, in the report that he did into the banking crisis, page 217:

> A very simple warning sign used by most regulators to identify a bank exposed to increased risk is rapid balance sheet growth. An annual real growth rate of 20 per cent is often taken as the trigger. ... So this was a very obvious and public danger sign not only for these two banks, but because of the potentially destabilising effect of reckless competition on the entire sector.

Now at previous hearings, Mr. Considine, we don't need to rehearse it again tonight, but we showed the figures, in the time that you were on the Central Bank board, for Anglo Irish Banks, for Allied Irish Bank and for Bank of Ireland, of astonishing rates of lending, astonishing rates, and astonishing increases in profits. And we had evidence from Mr. Bill Black, a famed US former regulator and bank expert, that growth of this type means that the alarm bells should be ringing for regulators, for people like yourselves who are supervising the whole system. Why weren't there alarm bells ringing in your head and in the board at that time?

Mr. Tom Considine: Well, Deputy, it depends on what you mean by alarm bells. The financial stability reports do recognise these risks. The problem, with the benefit of hindsight, is that the evaluations that were done didn't suggest that the outcome could be anything like what was ... what was ... what eventually happened. If you read the financial stability report, say of 2005, I mean, the risks are set out. I referred to them in my opening statement. But the judgment that was arrived at really was that these could be explained to a great extent by what was happening in the real economy. It was, as I said, I don't want to repeat it again, but, yes-----

Deputy Joe Higgins: Yes, I heard you saying it first time, Mr. Considine.

Mr. Tom Considine: -----yes, yes.

Deputy Joe Higgins: But, I mean, Mr. Considine, you were a long, long time in around finance issues. You must have been aware, for example, of the Scandinavian banking crisis in the 80s and into the 90s based on speculation, property, and massive over-lending by the banks. Would that not have caused you, and indeed other board members, to fear and to understand indeed, that the same could happen here?

Mr. Tom Considine: Well, Chairman ... or, sorry, Deputy, the ... in my opening statement I refer there to an exercise that the ESRI did in December 2005 in their 2005 to 2012 medium-term review, and in that there is a table which shows all these previous crashes. And they modelled at the time a crash of a third in the Irish housing market. The problem is that the results of it, it ... even if it happened, and it wasn't expected, it wasn't a forecast, it was a modelling exercise, even if it happened it didn't seem to threaten the stability of the Irish financial system. And the reason for that was that there seemed to be so many buffers in the system: we had a big surplus; we had low debt; we had a pension reserve fund; and we were funding our capital budget from current revenue. And people like the EU were saying, "This is a model of how you should manage your public finances." So I know with the benefit of hindsight I've no problem, that ... that is not what happened.

Deputy Joe Higgins: Mr. Considine, there were voices from early in the 2000s, loudly raised, warning of the dangers. Did that not make any impact on people like yourself?

Mr. Tom Considine: Well, Deputy, I think, you know, I, as you say, I've been around a long time. I never remember a time when there weren't voices threatening, you know, or listing out risks and we listed them out as well. The Minister for Finance in particular, in the run-up to the 2006 budget repeatedly - and in the budget material itself - stressed the risks but, at the end of the day, you have to come to a conclusion. And the conclusion that was arrived at was that the system had sufficient buffers in it to cater for any likely shock. Now that has turned out to be wrong but I heard, at one of your sessions here last week, somebody saying this was a one in 100-year event. But, whether it was or it wasn't, it was certainly a very unusual occurrence and, I suppose, that ... the only thing I can say to you is I didn't see that as ... as the likely outcome.

Deputy Joe Higgins: Thanks, Mr. Considine. Some people would say that notwithstanding the international storm that the ... there was sufficient elements within the Irish situation for a blow-up and a crash in any case but I want to move on-----

Mr. Tom Considine: Sorry, excuse me, I ... I, just to be clear, I'm not disputing that. If we had had, you know, greater buffers in our system, say, just for argument's sake, twice as much as we had, we would have been able to withstand this, so, I'm not saying that we're not responsible for what happened to us. But the trigger for it ... the trigger, what set it off, is all I'm saying, came from outside.

Deputy Joe Higgins: Mr. Considine, was the Department of Finance ever asked to undertake studies on the effects of the strong credit growth of the Irish banks, the effect that that might have on financial stability generally?

Mr. Tom Considine: Well, the model ... the model that we had - and, you know, I know it has been criticised in some of these reports - was effectively that the Department of Finance and the Minister were essentially responsible for putting in place a structure to manage the financial system, including to regulate it. And, if you look at, say, the 2003 Act that set up the regulator, you would see in that there are clear structures set in place, functions assigned to the board of the regulator, their strategy statement required to be submitted to the Minister, laid before both

Houses of the Oireachtas, performance reports and so on - the same thing. So that was how we operated. We are a small country and we ... one of the difficulties that we had down through the years in finance, was retaining people with financial expertise and, essentially, that's why the NTMA was set up in 1990. We couldn't keep people in the Department because the wages that we were paying were so much below what was paid-----

Deputy Joe Higgins: I ... I have no doubt that other Deputies will get on to that, Mr. Considine, but just ... I know you did ongoing monitoring etc., but that there was no specific request to the Department in relation to a very rapid growth in the banks in your time?

Mr. Tom Considine: No.

Deputy Joe Higgins: Okay, can I move on to a different thing. John Hurley was Governor of the Central Bank in your time, yes? In his opening statement, on page 12, he said, "I was not aware of contrarian views within the Central Bank, which differed in substance from the Bank's overall assessment." And again said, "Views, which set out a different risk assessment, were not made known to me or to the Board in my presence." Now, Mr. Tom O'Connell, who was head of economics and research within the Central Bank from 2005 to 2010, in his evidence, page 3, said:

> While the Central Bank in its public utterances presented a low-key assessment of what was happening, that is not to say that it was not fully aware of the major excesses ... Patrick Honohan's report acknowledged that the three major excesses were well recognised in the [financial stability reports]; [that's] the huge increase in bank lending ... concentration ... [on] property ... and the ... reliance by the banks on potentially volatile wholesale funding ...

Mr. O'Connell then says:

> In fact, I should say that one member of the board did have grave doubts, to the effect that I can recollect his words still ringing in my ear, "It was all a house of cards and would all end in tears". However, his views appear not to have had any impact on policy-making in the bank.

And Mr. Honohan said again in page 10 of his report, "More generally, a rather defensive approach was adopted to external critics or contrarians." And finally on the same subject, Mr. Considine, the Nyberg report in its executive summary said:

> A minority of people indicated that contrarian views were both difficult to maintain during the long boom and unhealthy to present to boards or superiors. A number of people stated that had they implemented and consistently supported contrarian policies, they may ultimately have lost their jobs, positions or reputations. Other signs were also noted pointing to sanctioning diverging or contrarian opinions as well as self-censorship because of this.

Now, can I ask you starting in the Central Bank first, were you aware of people who had an opposite view to what was generally accepted in relation to the credit growth, the property speculation, etc.?

Mr. Tom Considine: I got ... you sent me ... the committee sent me Tom O'Connell's opening statement ... so I didn't ... you know ... it didn't ring any bells with me. I don't remember any such views being expressed to the board but I think there is an issue around house ... there is an issue around asset pricing. Sometimes, as in the case of our own housing situation, prices can rise for a very long time without anything happening.

Deputy Joe Higgins: Yes. Now we've done that-----

Mr. Tom Considine: No, no ... we haven't. The point I want to make is that if you start off ... your point was about contrarians and what might happen to them, but for argument's sake, if you start in year 3 and you start telling people that there's going to be disaster, by year 8, you will have lost your credibility. That's just a fact of life and there is a-----

Deputy Joe Higgins: Mr. Considine, with respect, was there any serious debate inside the board, for example, where one or two members, for example, were arguing strongly about serious dangers and that that made a mark-up on you and other members? Did that happen?

Chairman: If I can assist for a second here, Deputy Higgins. Mr. Considine, we can get a secondary opinion and subjective opinion from other witnesses in terms of ... you're in here this morning and we'd like to be talking to you about your contributions, what were your advices, what actions did you recommend and what actions did you personally take. So, if you could respond to Deputy Higgins in that manner, please.

Mr. Tom Considine: I am not aware of anybody having a difficulty with the position that was arrived at, say, in the stability report. In every board that I was on, there'd be debates about things but I don't recall anyone saying, "Look, I'm very uncomfortable with what we are saying here; I don't think that's what's going to happen." I don't recall that happening. No.

Deputy Joe Higgins: Okay, thank you for that. And then, Mr. Considine, within your own Department ... in recent years, newspaper reports emerged that there were a number of people who had a very seriously different approach and were attempting to raise red flags about a property crash, for example, housing crash, etc., in the middle of the 2000s. Were you aware of this?

Mr. Tom Considine: One of the things that we did every year was to meet every assistant secretary and their staff and during the course of those meetings, particularly with the economic side, such issues would be discussed. And I see in the core papers there, there's position notes developed for MAC meetings and they would have been discussed. But the bottom line really is somebody has to arrive at a conclusion at the end and when there's a meeting to discuss an issue, if you don't manage to persuade your colleagues of your position, then it won't be adopted but, you know, there is nothing unusual about that. And there was no issue about trying to stymie these comments or in any way close them down.

Deputy Joe Higgins: But, for example, Mr. Considine, there was an allegation that in relation to answering parliamentary questions, etc., when there were shock warnings of the extent of the credit growth, the property market and the danger of a crash, that the official or officials concerned were instructed to change that. Is that true?

Mr. Tom Considine: It wouldn't surprise me, if it was out of line with what the general view of the Department was. One of the things I used to do as Secretary General was to read all the replies to PQs, every single one of them, to make sure that they weren't representing the views of the Department differently to what the Minister and the Department had decided. And we, no organisation I think would actually send out material which didn't accord with its central beliefs.

Deputy Joe Higgins: Right. Move on again so, Mr. Considine. The Regling and Watson and indeed many other reports and individuals highlighted the over-exposure of banks to commercial property, including land and development sites. Was your Department aware of the risks as they emerged or as that ... the speculation and so forth intensifies and were any steps taken in relation to that?

Mr. Tom Considine: Well, there are two levels of that, two levels at that. The first one is I suppose in so far as fiscal policy was concerned and in my opening statement and in my witness statement I outlined the measures that were taken in 2005 and in the ... for the 2006 budget to phase out a whole range of, you know, of supports for the property sector. So that's one thing. The other thing then is in relation to individual banks. Now the regulation of individual banks was at arm's length from the Department of Finance and I mentioned that in my witness statement. One of the results of the new arrangement, if you like, the two-board structure, was the Department of Finance didn't have any representative on the board of the Financial Regulator. So we would have been at arm's length from the actual regulation of individual banks.

Deputy Joe Higgins: Okay. Could I turn then ... a continuation in some senses of ... of this question, to Vol. 1 of your core evidence document. And that's page 155 which is DOF and then 001. It's the ... a letter from the Irish Auctioneers and Valuers Institute to Mr. Charlie McCreevy TD, Minister for Finance. That should come up on the screen.

Mr. Tom Considine: Yes, I have it.

Deputy Joe Higgins: You have it there yes?

Mr. Tom Considine: I do, yes.

Deputy Joe Higgins: And then if ... so it's the auctioneers association lobbying the Minister for Finance in June 2003 and we then turn to page 157.

Mr. Tom Considine: Sorry, I must have the wrong ... I must have the wrong ... yes ... no, I-----

Chairman: It's Vol. 1, Mr. Considine.

Mr. Tom Considine: Yes, yes okay. 150-----

Deputy Joe Higgins: Page 157 now, we can ... if ... can that come up on the screen now as well?

Chairman: 157, yes.

Deputy Joe Higgins: It's 003-----

Mr. Tom Considine: No, I have it, Deputy, thanks.

Deputy Joe Higgins: Yes, and I just want to refer to four, "The IAVI recommends consolidation of the legislation surrounding compulsory purchase rights, but is strenuously opposed to any amendment to the fundamental principle of compensation being open market value.", and they are talking about land here. Can we go to the next page then please on the screen? Sorry, two pages down, page 159. Just the next one, thank you.

Chairman: What is that Deputy, now-----

Deputy Joe Higgins: Yes and down at the bottom of that page, "Conclusions". Yes, if you see "Conclusions"?

Mr. Tom Considine: Yes.

Deputy Joe Higgins: The IAVI, ''Believes that the market for housing and housing lands is heading towards equilibrium and will, if not have interfered with, find that level of equilibrium in the next 24 to 36 months and is best left alone to achieve that.'' And finally, the next page, please and the last paragraph there, Mr. Considine, ''The IAVI is totally opposed to any system in which individual landowners are deprived of the open market value of their land in the interests of favouring other more disadvantaged members of the community.''

Chairman: And that's 30 May 2003, that document. Just to ... just to give it a timeline, it's May 2003.

Deputy Joe Higgins: Yes, "It is the view of the IAVI that any subsidy of housing costs should be borne by the tax payers at large rather than penalising individual landowners." Very, very strong lobbying, would you agree or not, on behalf of the property industry? Was this common and what impact did this have on Government policy?

Mr. Tom Considine: It was common, yes. We received about 350 pre-budget submissions and if you actually count them, you know, that's not counting duplicates. If you count duplicates we received about 1,000 or 1,200. We count them now for FOI and that's what the figure was last year I'm told. So some of the bigger representative ... it's a standard thing for representative bodies to make submissions, pre-budget submissions and some of the bigger ones, at least, will look to see the Minister and they will meet the Minister most of the time, I would say. And others might meet the head of the division, the taxation division or whatever. But this ... all this material is fed into the system ... that ... that produces the tax, the finance Bill.

Deputy Joe Higgins: Yes, but would the record show or not, Mr. Considine, that, in fact, this carried huge weight with the Government in the huge, by common consent, very large concessions that were given in tax breaks for developers and so forth?

Mr. Tom Considine: I doubt it in the sense that, well ... the following year, I mean, we embarked on a ... the Minister embarked on a study which ended up phasing out most of these.

Deputy Joe Higgins: Over a long time, was it?

Mr. Tom Considine: Well, that's all set out in the budget, if you want me to go into it, I will, but it starts to phase out from the end of 2006 or ... yes, at the end of 2006.

Deputy Joe Higgins: Okay, so, just to conclude then, that last paragraph again, "The Irish Auctioneers and Valuers Institute is totally opposed to any system which individual landowners are deprived of the open market value of the land in the interests of favouring other more disadvantaged members of the community." We know, by common consent, there was massive speculation in building land, which hugely drove up the price of homes, etc., for ordinary people. Who do you think came out best? Who was "favoured most" to use the language there, Mr. Considine, by Government policy - the landowners and those who speculated with land or the more disadvantaged members of the community - during that whole period of the bubble?

Mr. Tom Considine: It's a very political question, Deputy. I mean, basically, at the end of the day, I mean ... these pre-budget ... this is almost an industry, you know, submitting pre-budget submissions and what you expect these people to do is what... a term they use in financial markets is to "talk their book". I mean, you know what else would they say? But, like, this is only part of the policy making, you know, input and people are entitled to say whatever it is that they feel, you know, is ... represents the views of their sector and, you know, whatever decisions are made, at the end of the day, is a matter for the democratic system and whoever gets elected by the people decide whether to, you know, go along with this submission as opposed to this other one, or whatever. So I don't ... I don't feel I can answer that question.

Deputy Joe Higgins: But is it-----

Chairman: Briefly now.

Deputy Joe Higgins: But is it manifestly clear or not, Mr. Considine, that, for example, the young people buying their first home between ... who saw between '96 and 2006 the price of home increase by the equivalent of the average industrial wage each year, much of that driven by the land price ... Is it clear or not clear who won out in that circumstance by the policy that was actually implemented?

Mr. Tom Considine: Well, there was ... I mean, there's no doubt about it what you're saying in relation to house prices, you know, they did increase rapidly, but there were lots of contributors to that, including wage increases, strong wage increases and so on, but, at the end of the day, like, this was a long game and, at the end of it, I'm not sure who won out. Not too many did at the end of it.

Chairman: Okay, thank you, Mr. Considine. Senator O'Keeffe please. Senator, you have 25 minutes.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Considine, did you ever, in your ... in the public arena, ever have cause to criticise any colleagues or people working in the Department of Finance or the Central Bank, or any other organisation? Did you ever offer criticism in the public arena?

Mr. Tom Considine: No.

Senator Susan O'Keeffe: No. Do you accept, or not, that the Irish economy overheated quite dramatically during your tenure as Secretary General of the Department of Finance?

Mr. Tom Considine: No, it ... it ... in the early part of it ... we were coming out of the dotcom bubble, 9/11, all that sort of thing. It certainly picked up in, you know, moving into 2006. But it wasn't anything like as overheated as it had been, say, before the dotcom bubble period.

Senator Susan O'Keeffe: Various people have given evidence here, including Mary O'Dea and others, that the damage, if you like, to want to put it in the broad term, was done by 2005-2006, that in other words we were always going to be scrambling thereafter. Would you accept that?

Mr. Tom Considine: I saw ... I heard her giving that evidence. I wouldn't, really, no-----

Senator Susan O'Keeffe: Where do you think the damage was done in that case?

Mr. Tom Considine: No, I think ... I think what she was talking about was in terms of lending and the impact it had on the banking crisis. There's two sides to the balance sheet obviously. One, on the funding side, if you decided in the middle of 2006, you woke up some day ... some morning, and decided that you wanted to take measures to insulate the banks from a possible shock, you could have raised extra capital, you could have lent the maturity of your ... of your wholesale funding and so on. So there was quite a lot that could be done. If you look at the core documents that are here in ... given for this session, one of them shows the amount of mortgages that were issued each year. 2007 was the biggest year ... second biggest year, in that table.

Senator Susan O'Keeffe: But 2007 didn't occur in isolation. I think you'd agree that there had been-----

Mr. Tom Considine: There is momentum, and this is why-----

Senator Susan O'Keeffe: And I'm asking about your tenure and what momentum you believe, or not, was built up, and what your ... you and your Department's responsibility might have been during that time. And I'm just trying to gauge how responsible do you believe you might have been, your Department in that time, for what happened.

Mr. Tom Considine: Well, I think the ... there are two responsibilities which we had in particular. One of them was fiscal policy and I've gone into that in quite detail in my witness statement, and touched on-----

Senator Susan O'Keeffe: -----now, thank you.

Mr. Tom Considine: Okay. Now, in relation to the financial markets, the view in my Department that time and, you know, it is challenged, you know, by some people as to whether that was the right view or not. But we had a model of ... for managing the regulation of banking. And that model was that the Department of Finance provided the structures, the legal structures and so on.

Senator Susan O'Keeffe: Sorry, just to interrupt you for a second, Mr. Considine. Just set aside the Central Bank for a moment, because I'm going to come back to that. I'm actually talking here about the Department of Finance and, if you like, your ... your relationship with the Minister, and how it arose that during that period of time, you know, tax breaks were introduced, serious tax reductions were made at each budget. People would say that the policies that emerged during that period of time contributed to the economy overheating. And I'm asking you whether you believe you made a contribution to that or not. "You", meaning your Department, not you personally.

Mr. Tom Considine: Yes. I ... I think if you look at, you know, the Vol. 1, TCO, page 53, there is there a chart showing the budget packages, you know, the advice that was given by the Department and-----

Senator Susan O'Keeffe: How did you rate that advice?

Mr. Tom Considine: Well, if you look at it there, the years that I was ... you're asking me about, 2003 is the only year that actually less was ... the budget cost less than we recommended. Every other year it cost more. But I'd like to stress though, that what happened was, and this is a very important point, that that advice was actually signed off by the Minister for Finance. So, what happened was, in the autumn when the horse trading took place between the Department of Finance, the Minister for Finance and other Departments and Ministers, then it wasn't possible to hold the line. The political pressure to spend, to give extra tax relief, and so on, was too strong and-----

Senator Susan O'Keeffe: Is that how you describe it, Mr. Considine, "horse trading", that's what goes on before a budget?

Mr. Tom Considine: Yes, it is yes, basically, because every Minister in a line Department, if you're Minister for Social Welfare, if you're Minister for Health, you're trying ... I'm sure you believe that you need extra resources and if you take, say, in 2000 ... in my witness statement there and in my opening statement, we had huge problems in 2003 and 2004 because we cut back €900 million in 2003 and €500 million in 2004 from the cost of paying for the existing level of service the following year. Now, when it came to the 2005 budget, because the economy ... we were able to do it in 2003 and 2004 because the economy had turned down, but when we came to 2005, the political pressure to ease up on this was enormous.

Senator Susan O'Keeffe: But, Mr. Considine, most members of the public would believe that a Government, a Cabinet would sit down and construct a budget that was appropriate for the country and for its economy and for its sound economy, and that civil servants advising any Government would also have that in mind, and that it not be a moment for horse trading, for people trying to take their piece so I'm-----

Mr. Tom Considine: Just so, Senator. That is exactly what the Government does every ... or did anyway when I was there every year at the middle of the year. And if ... I took some trouble in my witness statement to show how that evolved in 2005 for the 2006 budget. We actually started in February of 2005 looking at how we should frame the 2006 budget and we anchored it on competitiveness, the competitiveness of the economy, and the challenges that we saw down the road. We had ... in 2003, we had a working group, which was well supported by economic talent, that looked at what were the consequences up to 2050 of the emerging trends in public expenditure.

Senator Susan O'Keeffe: So how did it end up that the Indecon report in 2006 valued the property-based tax breaks that had been granted in the previous years at costing the State €6.8 billion? How did that arise if what you were doing, you and everybody else, was in the pursuit of a sound economy?

Mr. Tom Considine: When you talk about some of these tax breaks, like, they are things like mortgage interest relief, the various personal allowances and so on-----

Senator Susan O'Keeffe: I'm looking at the total price of it and I am saying €6.8 billion is a considerable sum or perhaps you don't think it is. I'm not sure.

Mr. Tom Considine: Oh, indeed, I do, Deputy, and you're talking to the converted. My view would have been that, wherever possible, Governments should actually spend money as opposed to give tax breaks because-----

Senator Susan O'Keeffe: So how did it arise that these tax breaks came at the cost they did and at the extent they did if you were of a different mindset?

Mr. Tom Considine: Because, well, I was not elected, Deputy. You know, if I had been, I'm sure I could answer that question.

Senator Susan O'Keeffe: So it was a political decision.

Mr. Tom Considine: It was, of course, yes, of course it was.

Senator Susan O'Keeffe: So how then ... just explain to us what happens then if you as a Secretary General are giving advice based on your Department's experience and capacity, and you bring that advice to a Minister and a Cabinet and they say, "Well yes, political ...". Just explain what happens there? Is it another sort of horse trading?

Mr. Tom Considine: No, if you look the first ... again at this chart, there's two halves to this. In the start of the year, the Department does out its work and prepares its advice and, by and large, the Ministers for Finance bought into that. If you take 2006, for example, the paper that we produced in February recommended a 6.6% increase in gross public expenditure. The figure that went to the Government for approval in June or July was 7.5%; it's not a million miles away from it right. But the problem arises then. The Government decides that ... they sit down the way you are sitting around the table and they decide that, but when the rubber hits the road and you come back in the autumn and health says, "Well, you know, we can't live with that. We need to do X, Y and Z." One example might be, in 2003, the Government decided it had to do something about controlling public sector numbers. It took a decision that it was going to stabilise them, I think, and cut them by 5,000 over the following three years. Now the Civil Service actually delivered on that because we were in a position to actually exert enough influence but political pressure caused numbers in health, education and elsewhere to keep on going.

Senator Susan O'Keeffe: What words would you use to describe the level of tax breaks and the level of spend that occurred in that period of time? Looking at it, what words would you use, now that you are at this inquiry? You may not have been able to do it before, but perhaps you can have the opportunity now.

Mr. Tom Considine: Well, I was able to do it, Deputy. There was no one ever-----

Senator Susan O'Keeffe: Well, perhaps you can do it in public now I mean, not in private.

Mr. Tom Considine: Senator, nobody ever-----

Senator Susan O'Keeffe: No, I wasn't suggesting that. I meant this is a public arena and you have the opportunity now.

Mr. Tom Considine: No, I mean, the reality of it is that every year, you know ... first of all, in relation to taxation, which is what you're trying-----

Senator Susan O'Keeffe: Sorry, Mr. Considine, I'm just asking if you might just tell me what you think of what happened. Just what words would you use to describe the level of spend and the amount of tax breaks that occurred in that period of time?

Mr. Tom Considine: I don't know what ... how you think I should describe it. But it is the result-----

Senator Susan O'Keeffe: Good, bad or indifferent?

Mr. Tom Considine: It's the result of the democratic process. Basically, budgets are about ... you can see it in the public domain now ... you have a fiscal council. The fiscal council give advice, the Government decide is it going to take it or isn't it going to take it and if you want to evaluate whether the advice given in this chart here over that period was any more or less successful, well, you have it in the public domain.

Senator Susan O'Keeffe: Yes, I suppose because you were a person with considerable experience of the Department of Finance, I'm interested in your own view of what happened at that time as you are now in front of this inquiry. Your view, not the evidence, your opinion and your view.

Mr. Tom Considine: Absolutely. No, we weren't successful in ... we weren't successful in either ... most of the time, apart from 2003 and 2004, you know, we weren't successful most of the time in making our advice stick. Now, people have said if we had presented it differently or whatever and look, I'm not going to argue with that. You can always present things differently. But to be quite honest, and I'm sure you want the facts here, it's a political system. We are operating in a political system. I have worked in commercial operations; they're totally different. You know, this is a political system and, you know, advisers are there to advise, politicians are there to make decisions and that's where it ends up. Now you can always criticise us for saying if we had provided the advice, if we had shouted louder or something, but you know, you can't ignore the fact that that's how it works.

Senator Susan O'Keeffe: You were on the McDowell group that reached the decision about the new Financial Regulator. The decision was that there would be ... that the Financial Regulator would be separate from the bank. That was what they were asked to look at that and that's what they came back with. And I'm asking, do you think ... that's not what happened in the end, of course. Do you think that the governance structure that was put in place for the Central Bank and Financial Regulator was effective and appropriate, the one that emerged?

Mr. Tom Considine: Well, Senator, I was on the McDowell group but I didn't subscribe to the conclusion. I put in a minority report which was supported by the Central Bank.

Senator Susan O'Keeffe: Why did you not agree with the conclusion of the report?

Mr. Tom Considine: Because I thought it was ... I thought it was a dangerous way to go about regulation in the Irish context.

Senator Susan O'Keeffe: Why?

Mr. Tom Considine: My experience of regulation down through the years, and I have been working in it for an awful long time, is that the more fault lines you open up - and, by fault lines, I mean where different institutions have to come together, they have to rely on each other and so on - the greater the risk that you're going to end up with things falling between the cracks and one saying, "No, that's not my issue, it's your issue", and so on. And one of the key things when a crisis comes around really is that you need to have all the people moving quickly, very quickly. And also I had experience. Prior to that, there was an awful lot of trouble because the Central Bank, because of ... you're familiar here with 33AK. Well, there was a version of that before 33AK came in and it made it very difficult for the Central Bank to pass information about, say, a wrongdoing that came into its possession, say, to the consumer director at the time, who was ... it was separate, right. So what I wanted to do really was to keep them under control of the same board so that we could get rid of these issues and you couldn't have people coming up and saying, "Well, I knew about that but because of the law, I could not do anything about it." And that's why I was-----

Senator Susan O'Keeffe: Would you say or not that the resulting body that was set up then in 2003 was a creature of the Department of Finance?

Mr. Tom Considine: It certainly wasn't. My ... my creature is there ... you're talking about did I ... what I did in public. It's there on page 79 of the McDowell group and what was ... what was set up there was not ... was certainly not that anyway.

Senator Susan O'Keeffe: On page 61 of Vol. 1 of your book of evidence, Mr. Considine-----

Mr. Tom Considine: Vol. 1.

Senator Susan O'Keeffe: Vol. 1, page 61.

Mr. Tom Considine: Is that the one, TOC?

Senator Susan O'Keeffe: It'll come up ... Vol. 1 of your own book.

Mr. Tom Considine: Yes, okay.

Senator Susan O'Keeffe: Tom Considine, TCO.

Mr. Tom Considine: Yes.

Senator Susan O'Keeffe: It talks about the Department facing a specific skills challenge, and I'm sure you'll recall this, with a broad spectrum of skills requirements between others in banking and finance and it says, "At present, the main-----

Chairman: I think it's actually on your screen there, Mr. Considine. It'll save you going looking for it.

Mr. Tom Considine: Yes, okay.

Senator Susan O'Keeffe: -----skills in short supply are economic modelling along with banking, accounting and legal skills." Now, we see from the Wright report that emerged much later on that there was still shortages of skills at the Department of Finance and various people raised it in their own evidence to the Wright report. So, I'm wondering what did you do in your tenure to try to address that skills shortage and, indeed, what difficulties may you have faced in trying to address them?

Mr. Tom Considine: Well, first of all, what did I do: we modernised the legislation for recruiting public servants - that's one thing that we did - and I used that legislation to recruit eight administrative officers, you know, graduates, in the first quarter of 2006. Three of those had master's degrees in economics and the rest of them had various kind of qualifications that we had specified. And, in March 2006, the management advisory committee agreed to recruit another ten. I assume ... I don't know what happened to that, but that's what the decision was anyway when ... you know, in March 2006. In addition to that, we felt that there was a need to strengthen analysis, not just in the Department but throughout the public service, and we launched a programme allowing suitably qualified assistant principal officers to do a two-years master's in policy analysis and generally we stepped up our support for policy analysis all over the place; you know, five-day programmes, diplomas, that kind of thing. And I-----

Senator Susan O'Keeffe: But it obviously wasn't enough.

Mr. Tom Considine: Pardon? No-----

Senator Susan O'Keeffe: It obviously wasn't enough.

Mr. Tom Considine: Well I ... look, I don't ... I mean, in my view, it's the constant challenge to keep up. It has never been different. As I started to say to Deputy Higgins, back in 1990 that was the reason the NTMA was set up, because you couldn't keep people from the financial sector in the Department of Finance and, by ring-fencing it, you know, you could pay the going rate, or whatever. So that ... you know, it was a challenge but it was a challenge though that, you know, it was worth dealing with and I felt, you know, that if we kept doing what we were doing, which was bringing in and targeting, you know, the particular skills that we needed, that

that would build up. But one of the things that happened, you see, was because we were part of a wider Civil Service promotion system, all these bright people ended up departing pretty quickly, so that was ... you know, that's a problem.

Senator Susan O'Keeffe: In the time that you were in the civil servants and attached to the Department of Finance, and as you came close to the end of your period of time, would you have said that the centre of power, for want of a better expression, shifted at all from the Department of Finance to the Department of the Taoiseach or was it more equal, or was there any change. Because, arguably, people would've said the Department of Finance was more powerful at the end of the 20th century than it was in the beginning ... or in the middle of the 21st century, in the decade that we had, or would you have any comment to make?

Mr. Tom Considine: Well, I think, as a general rule, it's much easier for the Department of Finance to operate in fiscal policy - and by that I mean expenditure and taxation - when money is in short supply. If ... to put it crudely, if you don't have it, it's a good excuse. When there's a perception ... and, you know, the two things I think that made a big difference were the programmes for Government and how they became increasingly more ... more detailed. Like, for example, I think the 2002 programme had ... had a provision in it that old age pensions would be increased to at least €200 a week - at least. Now, not that I have any judgment to make about what old age pensions should be but, in the political world, if you see a statement like that, what it tends to signal to people is "Well, we have at least 200, so what ... what more can ... can be delivered?" So, the way programmes for Government and the agreements with the unions worked, once they were there they had their own structure for monitoring were they being implemented. So, the ... I mean, it wouldn't have been just, say, civil servants but I think some backbench Deputies might have felt as well that this was a major driving force and Wright, I think, mentions that in his report fairly clearly. So, in that sense, like, you were centralising power not so much in the Taoiseach's Department or, you know, anywhere. They did have a role because of their role in the social partnership agreement but it was more to do with, you know, how programmes for Government and the agreements with the unions actually drove things.

Senator Susan O'Keeffe: As financial markets became more global, particularly, say, up to the time you were finishing at the Department of Finance, what impact did the International Financial Services Centre have, if any, do you think, on the way in which the Department of Finance operated and, I suppose more importantly perhaps, in the way the Financial Regulator and the Central Bank operated? Did the presence of it in Ireland change the attitude to finance, to regulation, to competitiveness?

Mr. Tom Considine: Well, I suppose, you know, as the Department of Finance, I mean, I would always have seen it as my job, you know, to make sure that Ireland was competitive in every sector and the financial sector wouldn't be any different from that. In my mind, like, there was no issue there between that and regulation, you know, sound ... in fact, I would have the view that if you engaged in sort of dangerous regulatory practices that you would probably suffer in terms of, you know, your business, as opposed to anything else. But, listening to some of the people that gave evidence to this committee, I could see that, down the line, that message may ... you know, it may have come across differently. There's always that risk that, you know, you ... you give out a message and the people who are giving it out maybe understand it, hopefully, but when it gets translated down several steps ... I heard what they said and I have no reason to believe that it's not right.

Senator Susan O'Keeffe: Just to go back, if I may, to finish, when we talked about the various sorts of tax breaks and they broke down into, you know, very specific ones for car parks and nursing homes and holiday homes and guest houses and seaside resorts and so on, did you think yourself, when you saw the range and the depth of those tax breaks, did you have an image in your head of what might happen, literally, around the country? Did you see that those would suddenly develop, that all sorts of buildings would arise, in all parts, particularly in rural Ireland? Did you ... did you actually translate that into what would happen or did you see it simply as a piece of financial, you know, construct that you needed to deal with or to advise on?

Mr. Tom Considine: I hope not. I did see, you know ... and the problem with tax reliefs really again, in a political system, is ... and particularly when you have area-based tax reliefs, originally they tend to get introduced for some specific reason which kind of makes sense but very quickly then demands start to come in, like, "Well, we should have some as well", and so on, so they can get out of hand. And, I suppose, when you look at those tax reliefs, I mean, they should have been phased out earlier. But I have to say that the reason for that was there was a great nervousness about doing this. Back in 2000, you know, the Bacon reports and so on, when they moved to make purchasing property less attractive to the buy-to-let people, and they saw the consequences of it in terms of higher rents and all that, it made everyone in the whole system - in fact, I reviewed those papers - it made them very nervous about touching the property market and it wasn't until, you know, 2004 that ... you know, that we actually set about ... and there was a good job done on it then but, I think, obviously with the benefit of hindsight, it should have happened a lot earlier.

Senator Susan O'Keeffe: Thank you, Chair.

Chairman: Thank you very much. I just want to deal with one or two matters then I'll bring in Deputy O'Donnell and we'll take a break at that time then, Mr. Considine. Mr. Considine, if ... just locate something for a moment and just familiarise myself. From the period of 2002 to 2006, you were both the Secretary General of the Department of Finance and you were also an *ex officio* member of the Central Bank. Yes?

Mr. Tom Considine: That's correct.

Chairman: So those two roles are held concurrently, those two senior positions. Okay. Sorry, so after 2004, the IMF, the OECD and the ECOFIN all clearly recommended a tighter fiscal stance and a building up of a cushion for the time when income from property-related transactions would fall. That was a consistent message coming from those very, very senior observers. And, in fact, in the Regling and Watson report looking back upon that period, it talks about one of the difficulties ... it's on ... I won't take you through the reference documents, as such. What's relevant to you, Mr. Considine, I'll bring up on the screen. But, in page 43 of Regling and Watson, it talks about the "light-touch approach to supervision has been discredited: it sent wrong signals to banks and left supervisors poorly informed about banks' management and governance, potentially impairing crisis [driven] response capacity also", which is the type of cushion type of things we would be looking at.

So I just want to go on now Mr. ... and I'll bring up on the screen, it's related to pre-budget letters from the Central bank in around the period 2004. And this is a narrative document and I just want to take you through two sections of the pages in front of you. The first one is the pre-budget letters to budget 2004 and if you look at the italics section there it says:

> Fiscal policy could also play a role in smoothing the adjustment of demand for property by limiting its more speculative components. In this regard, it would seem more appropri-

ate, for example, to allow no further extensions to the termination date of mid-2006 for a range of tax driven incentive schemes for housing.

So there's an early flag up in 2004 there, that something should be done with regards to the tax incentivisation for the property market. Down at the end of the page then, it says in the second last bullet, "After the budget was announced, the board discussed the budget outcome and it was noted that the advice from the Governor was not fully adhered to." I might come back to that in a moment. So, this is a board that your sitting on. Would you have been privy to these documents in your role as the Secretary General the Department of Finance and in your role on the board? Would you have been familiar with these devices and these documents at that time?

Mr. Tom Considine: Oh, I would, yes.

Chairman: Okay. So we'll go on a small bit more then. And its ... the next document is a pre letter in 2006 and there's a box here. If you look at the section ... the mid-section in the box it says, "Another indicator that house prices are becoming overvalued is that, based upon a debt service threshold of 40% of disposable income, an increase in proportion and potential buyers are being priced out of the market." So this is 2006, house prices are still going up. 2004, there's discussions with regard to tax relief being a difficulty. In 2004, there is commentary with regard to the Governor's advice not being adhered to and so on.

Then I'll just ... to finally to go on to the Honohan report, and that'll come up on your screen there, where he makes a general commentary on the annual pre-budget letters ... these are the sort of documents that I just discussing a moment ago. And if you look at 7.8 and take it from the second sentence in, it says. "These letters regularly highlighted the issue of house price inflation and the size of the construction sector, particularly in the letters of 30 September 2004." This is well before 2006. It's a year into your tenure as the ... as the general secretary of the Department of Finance. "The level of house prices, along with continuing high rates of increase in prices, posed macroeconomic as well as financial stability risks" - stability being a responsibility of the Central Bank, regulatory being an issue of the regulator, but you're on the board of the Central Bank and stability is an issue concerning your responsibility. "There remains a risk, however, that in the current state of housing output is on some estimates very much higher, not far off twice." And this goes back to your earlier statement this morning about housing supply and demand, there's a very, very strong indication here that demand is less than 50% of actually supply ... that there's an oversupply of a very, very high capacity. So, not far off twice the underlying demand for property.

Then the very, very final statement I'll take it ... its the last line on that page and continues into the next page, "In this regard, it would seem appropriate, for example, to allow no further extensions to the termination date of mid-2006 for the range of tax driven incentive schemes for housing." So what we have in the earlier testimony there is back as far as 2003, there is discussion with regard to doing something about the tax incentivisation in the property sector. And here we are out in 2006 and it's still being discussed. Could you explain to us this morning, Mr. Considine, why was the Central Bank's recommendations to the Minister not more forcibly alert to the issue, given that you would have been, maybe, conceived as being the middle man between the Department of Finance and the Central Bank?

Mr. Tom Considine: Well, first of all, I suppose I was a non-executive director of the Central Bank and I don't think there's any issue about the Central Bank's advice not being presented. The Governor would have written the letter and he would have come and spoken to the Minister himself. So the advice was there and it was clear. Now one of the ... the 2007 budget, I wasn't there for the second half-----

Chairman: I'm not really interested in 2007-----

Mr. Tom Considine: Yes.

Chairman: -----I'm interested in your period this morning-----

Mr. Tom Considine: Yes.

Chairman: -----Mr. Considine.

Mr. Tom Considine: Yes, but one of the items that you mentioned there I wasn't there when that happened.

Chairman: But we'll go back-----

Mr. Tom Considine: Yes.

Chairman: But you see, the ... here on the evidence that we have in front of us, this is ... I'm talking specifically about your term. In 2003, there are significant concerns about where the economy is going. There's significant concerns about the inflation that's in property and there's concerns with regard to the taxation measures and how it is affecting the property market. And as Deputy Higgins was referring to earlier, there is an adverse effect to that. While there might be greater profits being made upon the purchasing of homes, the cost of them are increasing significantly and having an adverse effect upon purchasers. So, what I'm kind of trying to drill down to is can you explain why no action was taken by the Central Bank board up until 2006 to start cooling house price measures? Why wasn't that happening?

Mr. Tom Considine: Well, I don't think that's correct, Chairman, because going back to the budget of 2003, was the tightest budget of the whole ten years. So ... now in relation-----

Chairman: Yes, sure.

Mr. Tom Considine: -----in relation to the specific property things, I've already said in reply to Senator O'Keeffe that I thought they should have been abolished earlier but in 2004 the Minister did commence the process of doing this. He assigned the task to the Department and the Revenue Commissioners and we hired in two outside consultants who made recommendations in relation to a whole range of these - about 13 of them in all, I think.

Chairman: Am I being correct, or maybe it's just from earlier testimony, sometimes so much of it comes by us I maybe forget the chronology and the sequence of it, but, by 2003, weren't the measures in the Bacon report being pulled back?

Mr. Tom Considine: No, they were pulled back earlier, but you see the thing about it is that-----

Chairman: And ... but, as a result of that, wasn't the ... all the figures showing that house property was escalating at an increasing rapid rate, that the graph, which was kind of somewhat flat after the Bacon report, started climbing like a ladder?

Mr. Tom Considine: No, I don't think that's a fair representation of what happened-----

Chairman: Well, the graphs in the evidence that we would have before this inquiry, Mr.

Considine, would show that house price inflation in this country significantly grew after the Bacon measures were actually removed in the budget.

Mr. Tom Considine: I know, but I think you need to break it down a bit more than that. Following the ... Bacon did three reports, and the net effect, I think of ... you know, I'm just talking now from my memory what, what ... the main things that were done was people who bought buy-to-let properties were not allowed to offset the interest against their income and stamp duty was put up for buy-to-lets to 9% at max, I think. Now, the effect of that actually was to create a scarcity of rental properties and rent started rising. At the same time, you had the bursting of the dotcom bubble. And for about three months, house prices actually fell and I'm referencing that to the Permanent TSB house price index, right? They fell both for new houses and for second-hand houses. So, the lesson that people learned from that and I think they over-learned it, including myself, was that ... it was you needed to be extremely careful when you were interfering in the property market; you need to be clear. So-----

Chairman: Would the proposition not be put to you, Mr. Considine, that when the taxation was, kind of, put into that area that, paradoxically or ironically, that actually made a bad situation potentially worse because the economy was moving to more and more consumption taxes at that time and away from income tax and one of the biggest consumption taxes, or the biggest consumption tax that was being arrived at, was through people actually purchasing homes and paying stamp duty?

Mr. Tom Considine: Yes, but-----

Chairman: And was that not creating a structural difficulty in the overall macro management of the budget?

Mr. Tom Considine: It does, to some extent, but you need to break them out. I mean, when you arrive at the situation where we were in ... you know, just take stamp duty - if you cut stamp duty, what you do, actually, is boost the property market further. So, you know, the point, really, has more to do with all these individual property things like rural area schemes, urban schemes, car parks, all of that.

Chairman: So we'll equalise that comment - if you cut stamp duty-----

Mr. Tom Considine: Yes.

Chairman: -----you increase house prices.

Mr. Tom Considine: Yes.

Chairman: But you had a whole load of tax incentivisations that were taking place at the vendor end. The stamp duty was at the purchaser end. So why was there not more tax at the vendor end of things?

Mr. Tom Considine: Well, basically, Deputy, I don't think we're ... I think we're just ... I'm agreeing with you, like. I mean, I think-----

Chairman: Well, why didn't it happen, if you're agreeing with me, so?

Mr. Tom Considine: Well, because, as I said, people were very nervous about actually what might happen, that they might bring down the whole market, but nonetheless-----

Chairman: Who was nervous particularly?

Mr. Tom Considine: I think if you review the tax strategy papers-----

Chairman: Was it the Department, the Minister?

Mr. Tom Considine: I'd say the Department and the Minister.

Chairman: Of the day, was very nervous.

Mr. Tom Considine: The experience that they had when they moved on Bacon was that they felt that they nearly toppled over the edifice at the time. And I think that had a sobering influence. But when it came to 2004, that explains, to some extent, the great care that was taken in actually phasing these out, and the fact that they brought in Indecon and Goodbodys to actually evaluate each of them.

Chairman: Just one final question. I'll bring in Deputy O'Donnell then, Mr. Considine. If the tax incentivisations that were being discussed in 2003 in letters coming in from the Central Bank to the Department of Finance and obviously to feed on to the Minister of Finance for that year's budget, starting in 2003, our evidence will show that there was serious concerns with regard to tax incentivisations and that those difficulties and concerns were still there by 2006. If action had been taken earlier to deal with the tax incentivisations and to bring an end to them, would it have cooled the property market and would it have lessened the level of exposure of risk to this country?

Mr. Tom Considine: I think, as a general statement, the answer to that is, "Yes". But I think the property market is a lot more nuanced than people give it credit for. If, for example, you have a scheme in place, just for argument's sake, which gives, say, 50% allowance for spending done in a particular period, if you actually come along and say, "We're going to end this now," one of the effects that happens is there's a rush to hire labour and get the job done within the period that will allow them to claim. So you have to be careful. And that's why when it came to 2000, to the Indecon and Goodbody thing, that you had the phasing out. There was a great fear that you do more harm than good if you just said, "It's all going to end now."

Chairman: Thank you, Mr. Considine. Deputy O'Donnell. Deputy, ten minutes.

Deputy Kieran O'Donnell: Thanks, Chairman. Mr. Considine-----

Chairman: Phone.

Deputy Kieran O'Donnell: Apologies.

Chairman: I find it works if you turn it off.

Deputy Kieran O'Donnell: I'm trying my best, Chairman.

Chairman: Deputy O'Donnell.

Deputy Kieran O'Donnell: Yes. Thank you. Mr. Considine, during your tenure as Secretary General, what was the role of the Department of Finance in overseeing the Financial Regulator and was that ... was this role restricted to legislative issues related to the implementation of the new regulatory system or did it expand beyond this? I suppose, in simple terms, what was the role and, for instance, what was your role with the IFSC?

Mr. Tom Considine: The IFSC was part of ... we would have seen it ... two dimensions to it. It was part of the economy and, as such, we would have been anxious to develop it, make it a significant contributor to employment and growth. That's ... now, side by side with that, we would have certainly seen that an essential element of that was sound regulation, because if we got a bad name of, you know, running the thing loosely, it couldn't but do us harm. So that's the way we looked at it.

Now, when it comes to legislation and the Financial Regulator, the legislation is actually very specific. If you take, you know, the specific ... I saw Mr. Patterson giving evidence there, and the actual format of the strategy was set out in legislation. So it wasn't just, you know, that the legislation didn't just say, "You should produce a strategy statement." The legislation said, "You should produce a strategy statement with A, B, C, D and E in it." And our job was to make sure that that was done.

The next thing that happened was that that strategy statement had to be submitted to the Minister and then placed before both Houses of the Oireachtas, and it was open to scrutiny. I don't know to what extent that happened, but I know they were up before some committees. Then following that then there was a requirement for an annual report. And the same thing happened there. They were required to report on what was in the strategy statement and that, again, went to the Minister.

Deputy Kieran O'Donnell: Who was preparing that strategy statement?

Mr. Tom Considine: The regulatory authority. And it's absolutely clear. It says, "The regulatory authority shall at least prepare a strategy statement."

Deputy Kieran O'Donnell: What role did you have in terms of the overseeing of financial regulation apart from ensuring that these statements were completed? Did you have a role in terms of an analysis of these statements? Did you have a role in terms of overseeing how the IFSC was functioning?

Mr. Tom Considine: No. Our role was basically to make sure that the structures were in place and that they operated as they were supposed to in the sense that we provided the regulatory authority with whatever support it needed in terms of resources and so on, again as part of the legislation that set it out. And I think there is more or less universal agreement that there was no ... certainly during my time, I never remember anybody being refused extra staff. There was a problem all right in recruiting staff, and that goes back to what I was talking to Senator O'Keeffe about.

Deputy Kieran O'Donnell: And when you say there was never an issue in terms of extra staff being refused, who would that request have come from to the Department? Would it come from the CEO of the Financial Regulator or the board?

Mr. Tom Considine: No, actually it was done within the regulator. Our function was mainly around who was going to pay for it, right. And initially, as I recall it, 50% was levied on the industry and 50% came from the internal resources of the Central Bank. Originally, I think the McDowell group recommended that the industry should pay the whole lot. And, obviously, you can make a case for that.

Deputy Kieran O'Donnell: So any questions that have come up ... and we've had various witnesses in before us ... there was an issue in terms of extra staff being forthcoming in the Financial Regulator, that it was purely an internal issue for the Financial Regulator. If a request ever came to the Department, you approved that request?

Mr. Tom Considine: It didn't come to us, you see. It didn't need to come to us. They had the capacity to do it themselves.

Deputy Kieran O'Donnell: Can I just go back on a quick note. You were Secretary General of the Department of Finance for four budgets, the '03 budget, which was in December '02; the '04 budget, December '03; the '05 budget, December '04; and then the '06 budget in December '05. Am I correct in that?

Mr. Tom Considine: Yes.

Deputy Kieran O'Donnell: Okay. Over that period, how many Ministers did you deal with?

Mr. Tom Considine: Two.

Deputy Kieran O'Donnell: And which ... can you tell me which Ministers would have been dealing with which budget?

Mr. Tom Considine: It's ... the first two-----

Deputy Kieran O'Donnell: '03 and '04.

Mr. Tom Considine: -----yes, were Mr. McCreevy. And the actual submission to the Government for the 2005 budget from the Department and the Minister was also Mr. McCreevy. Mr. Cowen didn't become Minister until - I don't know - late September-early October.

Deputy Kieran O'Donnell: He became Minister on 29 September, correct. And then in '06? That's Mr. Cowen.

Mr. Tom Considine: Well, that was ... that was for the '06 budget, yes.

Deputy Kieran O'Donnell: And there appears to have been a marked shift, '03 and '04, there was ... there were ... there were reductions in the spending in both budgets of €900 million for December budget '03 and €500 million for budget 2004. And we find in '05, suddenly almost overnight that you had an increase in expenditure of €1 billion in '05, and '06 you had an increase overall from the previous year of around ... nearly 11% by the end, when it eventually arose. How did that arise, because the fundamentals appear to be in relatively the same over those four years? Was it a ministerial decision?

Mr. Tom Considine: No, the fundamentals weren't the same.

Deputy Kieran O'Donnell: The growth, the GDP was going up, I mean it was increasing in '03 and '04, '05 and '06.

Mr. Tom Considine: But the background though was you were coming out of the recession or the downturn that was caused by the dotcom bubble, 9/11 in the US and foot and mouth disease here.

Deputy Kieran O'Donnell: So did your Department in the '05 budget argue for that €1 billion of an increase in spending?

Mr. Tom Considine: The, the submission that was made to the ... if you look there on page

53 of the TCO - Vol. 1, you will see the graphs there. I mean essentially in 2003, it's the only year where actually expenditure was less than what was recommended. And when I say expenditure, it's the cost of the budget, it's both tax and-----

Deputy Kieran O'Donnell: Do you agree that in the budget 2004, there was a reduction in expenditure of coming up nearly half, of half a billion?

Mr. Tom Considine: There was, but you see, the thing about it is that ... what, what we were faced with then was increasing pressure on the political system because we were holding back, you know.

Deputy Kieran O'Donnell: How do you define increasing pressure on the political system? How do you define that?

Mr. Tom Considine: The difference between what was recommended in the budget, you know in the budget strategy-----

Deputy Kieran O'Donnell: Why suddenly did you have pressure on the political system in '05 and '06 and you didn't appear to have it in '03 and '04?

Mr. Tom Considine: Well you did have it, and in '03, for example, we had to bring in a group of three independent, sort of, honest brokers to try and get agreement.

Deputy Kieran O'Donnell: But why didn't you bring those in in '05 and '06?

Mr. Tom Considine: Well these things don't tend to work, you know, they don't, you know, you play a hand of cards and that wasn't considered to be of help.

Deputy Kieran O'Donnell: Why not? But you see, for the ordinary person looking in you had the credit growth rate in those years between '04, '04 and '05, the ... dare I say it, the credit growth was ablaze like a burning fire. So, what I'm trying to understand, and for the ordinary person out there is, how do we suddenly come to a situation were you had budgets in '03 and '04 that were conservative budgets-----

Chairman: Question there Deputy-----

Deputy Kieran O'Donnell: -----and then '05 and '06, you need to explain the process. And did you have reservations about your budgets in '05 and '06?

Mr. Tom Considine: Well, first of all I think in '05, I mentioned in my witness statement that by the 2004 budget there was serious concern throughout the spending Departments that what we were doing was really depressing spending. There's a figure which I took from ... a memorandum for Government that the view was that the base was €2.1 billion too low, right? So, when we came in to preparing the 2005 budget then, the economy had picked up and the case, it became increasingly difficult to actually keep the same pressure on. So the decision, and I know you're trying to figure out, this wasn't anything to do with changes of Ministers, this had happened-----

Deputy Kieran O'Donnell: I didn't ask that question-----

Mr. Tom Considine: No, but you did ask me-----

Chairman: You have only one supplementary, Deputy, so don't use it yet.

Mr. Tom Considine: So, it's, it's ... that's the background to it. I've set it out in my witness statement I can go through it again if you wish.

Chairman: Ask the supplementary and we will have the break then.

Deputy Kieran O'Donnell: And final supplementary, in the property schemes that were in place, they were supposed to finish at the end of 2004. You were general secretary over that period, they were extended for another four years, right, up to 31 July 2008.

Mr. Tom Considine: In ... oh sorry, yes, yes.

Deputy Kieran O'Donnell: 31 July 2008. So, the question I'm asking you is, did you, as general secretary of the Department, stand over those pushing out of the deadline dates on an annual basis? Did you stand over that?

Mr. Tom Considine: But that's not what happened, Deputy. I mean I, I have explained, I think fairly clearly, that at the end of 2004 the Minister decided that all these would be evaluated, all these schemes would be evaluated. And they were evaluated by the Department of Finance and the Revenue Commissioners, with the help of Indecon and Goodbody Consultants, and the decision to extend them subject to phasing, they weren't, they were being phased out gradually from the end of 2006. That decision was based on that advice and that work that was done and it's published and it's available in the budget booklets in great detail.

Chairman: Okay, just explain this one thing just to finish off Deputy O'Donnell's questioning and we'll go for a break then. Yes, they were commissioned in 2004, why did it take so long for them to actually come home with the recommendations, as publication didn't actually take place until 2006 and then it wasn't acted upon until 200-----

Deputy Kieran O'Donnell: Chairman, can I just-----

Chairman: No, let me just get this answer-----

Deputy Kieran O'Donnell: No, no but Chairman, this-----

Chairman: I'll bring you back in Deputy, please. Can you just explain that? It was the, they were commissioned in late 2004, published in 2006 and not acted upon until 2008. That's a four-year turnaround.

Mr. Tom Considine: No, that's not correct, they were acted on from the end of 2006. The, the percentage that you could claim was reduced, I, I think-----

Chairman: But not abolished.

Mr. Tom Considine: Pardon?

Chairman: But not abolished.

Mr. Tom Considine: They weren't abolished entirely until-----

Chairman: Okay, Deputy O'Donnell, quickly.

Deputy Kieran O'Donnell: Okay, in the budget 2004, well before this report was ever commissioned, the incentives were extended for another two years to 31 July '06. So it, they were extended for a further two years before this report. So why didn't you look for report to be commissioned in 2003 before the schemes were finished in 2004, would be, would strike anyone looking in as maybe, would you not think as being, the, maybe the more clinical process to put in place?

Mr. Tom Considine: I think, as I said to you, I have reviewed the tax strategy papers and so on and I think the explanation for that really was that there was a general nervousness, which extended back to the experience after the Bacon report in actually interfering in the housing market and I'd say that's what delayed it. That's to the best of my knowledge.

Chairman: I propose that we break until 11.30 a.m., if that's agreed, we'll do it. In doing so, I'll just remind the witness that once he begins giving evidence he should not confer with any person other than his legal team in relation to his evidence or matters that are being discussed before the committee. With that in mind, I now suspend the meeting until 11.30 a.m., and remind the witness that he is still under oath until we resume. Is that agreed? Agreed.

Sitting suspended at 11.17 a.m. and resumed at 11.39 a.m.

Chairman: Right. I now propose that we go back into public session. Is that agreed? Agreed. Okay, and I'll invite Deputy Murphy to continue the questioning. Deputy Murphy?

Deputy Eoghan Murphy: Thank you, Chairman, and thank you to the witness, you're very welcome. I want to return to an area of questioning that Deputy O'Donnell raised earlier, if I may. And it's in relation to the introduction of the new regulatory structure in 2003. When that new structure was put in place do you believe that there were effective instruments available to it to deal with excessive credit growth and sector risk concentration?

Mr. Tom Considine: Yes, I do believe that but, I suppose, the approach to regulation would have made it very difficult for them to use those but they were there. For example, you could attach conditions to a licence, there were a number of things you could do.

Deputy Eoghan Murphy: They had sufficient powers to regulate the banks.

Mr. Tom Considine: I think so, yes.

Deputy Eoghan Murphy: Okay. When things like sectoral limits were breached by individual banks, would the Department be made aware of this by the regulator?

Mr. Tom Considine: No. For, I think that the whole business about sectoral limits is a very complex issue. First of all they were only guidelines from the regulator, that's the first thing. The second thing was the introduction of Basel II effectively took a different approach to this by requiring capital as a solution to these sort of things but, you know, the Department was well at arm's length away from, you know, individual-----

Deputy Eoghan Murphy: You as a member of the board of the Central Bank, would you have been made aware when breaches were reported to the regulator?

Mr. Tom Considine: No, because there was a decision taken not to have the Department of Finance represented on the board of the regulator.

Deputy Eoghan Murphy: But, when the regulator then, when things were reported to the actual Central Bank, the CBFSAI board, which had an oversight role, would those things then be reported in to that board?

Mr. Tom Considine: No, it didn't have an oversight role, it's important, it had a role in relation to stability and the two organisations came together to input into the annual financial stability report, and the two boards came together to approve that financial stability report.

Deputy Eoghan Murphy: Okay, but then in, from your recollection, from your time on the board, you do not remember breaches of sectoral concentration limits being discussed then, in that process?

Mr. Tom Considine: No.

Deputy Eoghan Murphy: Okay. Did the Department review the establishment of the new structure at all in the years following its establishment, when you were Secretary General of the Department of Finance?

Mr. Tom Considine: No, actually, it was very early days, like the first strategy statement that it was required to produce under the Act covered the period up untll the end of 2004, and there was only one annual report actually, I think, published during my time. So it would have been, you know, it would have been pretty early days to do that.

Deputy Eoghan Murphy: You mention this, but also Patrick Neary mentioned it as well, when he was before us, about the limits being more of a guideline. Why were they only a guideline?

Mr. Tom Considine: Well, I don't know. I mean, you know, I shouldn't talk about things that I wasn't involved in. I, I didn't-----

Deputy Eoghan Murphy: But would it not fall to the Department of Finance, in terms of the legislation to establish the regulator, whether or not things like sectoral limits would be guidelines or be strict rules to be enforced?

Mr. Tom Considine: Well, no, I mean, that would be very much, I think, the day-to-day operation of regulation. The Department of Finance was more concerned with structures and so on like that and if you read, say, virtually all the documentation, including McDowell, I mean, there was more or less universal agreement that the regulator should have autonomy on its day-to-day regulation.

Deputy Eoghan Murphy: But when Mr. Neary tells us, as he did, and it's on page 31 of the transcript from his session here, that there was no legal or supervisory remedy in relation to breaches of the limit, the question is should there have been and, if so, did the responsibility not fall to the Department?

Mr. Tom Considine: It would if the regulator had come to us and said, you know, there's a deficiency in the legislation.

Deputy Eoghan Murphy: But the regulator never came to you and said there's a deficiency.

Mr. Tom Considine: Not that I can recall, anyway.

Deputy Eoghan Murphy: Were deficiencies ever discussed during your time on the board on the Central Bank?

Mr. Tom Considine: No, the ... in so far as I can recall, and I've been two days reviewing the minutes of the boards of IFSRA and the Central Bank, and when you review the minutes and I have to be careful about this, but generally, the general impression you get, was that regulation was being conducted as you would expect, and I had some experience of regulation, so I would have been looking, you know, looking at it fairly critically, and it appeared to me to be normal.

Deputy Eoghan Murphy: Okay. But, just to clarify that, the regulator never came to you, looking for-----

Mr. Tom Considine: Not that I can recall.

Deputy Eoghan Murphy: Okay. When the chairman of the regulator, Mr. Patterson, was before us, on page 111 of his transcript, excuse me, he said that the sector concentration limits were relaxed in the 1990s to attract one particular large foreign bank, and as a result the limits were then relaxed for everyone.

Mr. Tom Considine: I heard him saying that, yes.

Deputy Eoghan Murphy: Would you care to comment on it?

Mr. Tom Considine: I don't know, it's news to me, I didn't know about that.

Deputy Eoghan Murphy: You don't recall the concentrations being weakened in the 1990s for one particular bank?

Mr. Tom Considine: No, I don't.

Deputy Eoghan Murphy: You don't recall any discussion of that, then, later on, on in relation to sector concentration limits.

Mr. Tom Considine: No.

Deputy Eoghan Murphy: Okay. I'll move on from that, then, if I may, to the Wright report. You have read the Wright report, I take it? Do you accept its findings?

Mr. Tom Considine: That's a very broad statement. I suppose the first thing about the Wright report is that he found that the Department was fit for purpose, that its advice had been generally stronger and clearer than was available anywhere else. He makes points about the strengthening of the skills, I've dealt with that already. I agree that it was a constant issue to build up the skills and so on. So, some of the things that he says I wouldn't agree with, but you know-----

Deputy Eoghan Murphy: I'll put those things to you, and ask if you agree with them then. On page 23 of the Wright report, "the public and policy makers were insufficiently sensitive to the effects of extraordinarily expansive monetary conditions at the time, and to the fact that fiscal policy was the key potential counterbalance to this pressure". Does this finding apply to you in your role at the top of the Department?

Mr. Tom Considine: Well, I suppose, he doesn't actually say what period he is talking about.

Deputy Eoghan Murphy: That's why I'm asking if it applies to you in your role.

Mr. Tom Considine: Yes, in the four years I was secretary. I don't think so and I took some trouble to set out in my witness statement why I believe that to be the case and the steps that we took to actually try and, if you like, dampen down expenditure as best we could.

Deputy Eoghan Murphy: So on page 25 of the Wright report, paragraph 3.3.7:

> As the representative of the Public Service employers, the Department of Finance had an important input to the Partnership Process, and consistently warned of growing threats to competitiveness. But it did not drive the process, and was reluctant to oppose packages that included outcomes that retained labour peace for the economy as a whole.

Would that be true for your tenure?

Mr. Tom Considine: Well, first of all ... I think the Department of Finance through the public service side of it, was the employer, if you like, in those talks ... for the public service, so that's the first thing. I think in some other report, it notes there, I forget where it is now but, that essentially, the unions and the private sector representatives tended to dominate the, you know, the settlement, and then it was applied to the public service, sometimes with pay pauses of six months or whatever. But the idea that we didn't ... I mean, the document I submitted with my witness statement, I mean, clearly shows that we were anchoring the advice we gave on competitiveness, it was a big issue, and also on the, if you like, the upcoming calls on the Exchequer over a long period out until 2050. So I don't know whether he had sight of these, I don't know that, and we would have submitted those to the Government and then say, you know ... and absolutely fed in; there were four principal officers from expenditure division on the one that reported in 2003.

Deputy Eoghan Murphy: Reflecting on the graph we looked at earlier in relation to the memorandum in June and the budget decisions in December, Wright also says on that same page 25:

> Relatively clear advice to Cabinet in June on the risks of excessive spending and tax reductions was lost by the time of December Budgets. Spending pressures of this magnitude could have been resisted even within the established Budget process.

Do you accept that?

Mr. Tom Considine: No, I don't.

Deputy Eoghan Murphy: You couldn't have resisted the pressures that were coming.

Mr. Tom Considine: Well it wasn't for civil servants to make those decisions. I mean, the reality of government is that these are decisions that are made by Ministers and eventually, you know, approved by the Government.

Deputy Eoghan Murphy: Were they making decisions with the appropriate advice? I ask that because on page 32 of the Wright report:

> There was no analysis or advice on the broader risks to the tax system from a more general downturn in economic activity from levels created in part by pro-cyclical fiscal policy. ... such analysis should have been provided and communicated forcefully to the Minister for Finance and the Government.

Did they have the information to make those decisions?

Mr. Tom Considine: I think so, but I wouldn't be so defensive as to say that this couldn't be presented in a different way. I mean, one of the things that Wright, you know, talks about - and he's not the only one who does this - is that there was a tendency for the advice to come on the financial side from the Governor of the Central Bank and the regulator direct to the Minister. Now, that doesn't mean that we didn't know about it. Obviously, we got the letters and I was on the board of the Central Bank so I, you know ... but, you know, I'm not going to say there couldn't have been a better presentation of this.

Deputy Eoghan Murphy: Just a final question because I'm ... I'm out of time. You said earlier on, "We weren't successful in making our advice stick." So, were the decisions taken in the budget contrary to the advice of the Department?

Mr. Tom Considine: Not alone were they contrary to the advice of the Department but they were contrary to the advice of the Minister for Finance as well, as presented at mid-year when the strategy was set. So, as the year went on then ... in the autumn, the pressures within the system meant that that advice was relaxed and the spending was greater for, as you saw there, for most years, apart from 2003----

Deputy Eoghan Murphy: So, the budgets decided-----

Mr. Tom Considine: -----building in tax-----

Chairman: Briefly, now, Deputy.

Deputy Eoghan Murphy: -----the budgets decided after 2003, were decided contrary to the advice of the Department of Finance was giving for that budget year?

Mr. Tom Considine: I'd like to stress again, in relation to the strategy set by the Minister and the Department - both of them together - I went to some trouble to set out, for the 2006 budget, how that worked. It started in February. The Department set out its stall ... said, you know, "This is the way we think budgets should be determined for this country: they should be anchored on competitiveness; they should take account of the things that we can see down the road." On that basis, we think gross public ... gross current expenditure should increase by 6.6.%. In the event, the memorandum that went to the Government had a 7.5% figure which isn't, you know, unreasonable. It's from there on in the autumn, engaging with the other Departments, it wasn't possible to hold that line.

Deputy Eoghan Murphy: Thank you.

Chairman: Thank you. Deputy McGrath. Deputy Michael McGrath, ten minutes.

Deputy Michael McGrath: Thank you very much, Chair, and you're very welcome, Mr. Considine. You answered a question earlier on from Senator O'Keeffe about staffing numbers and skills and experience within the Department and you made reference to efforts that were made around 2006 to enhance them. Can you answer the same question but about the earlier period of your tenure, 2002 to, say, 2005, what efforts were made to improve staffing levels, resources, expertise?

Mr. Tom Considine: Yes, yes I can. Well, first of all, I think the legislation was kind of ... it was ... it was ... it wasn't very modern. So, we actually modernised the legislation and when we had the modern legislation, we moved to target the particular skills that would fit within the Department of Finance and those people, which was very unusual ... we brought in eight people at the same time in the first quarter of 2006. I'd a belief that, you know, they would feed off each other and they would be good for, you know, the ... the Department. In March 2006 we decided to hire another ten. Prior to that, we did a lot to strengthen ... there used to be a system in the Civil Service where people were trained as analysts and back, I think it was in 2003, we relaunched that and invited applications for suitably qualified assistant principals to do a two-years course in analysis. At the same time, we also had diplomas and other analytical courses. So ... and also coming out of the ... I forget which ... which union agreement it was, we got agreement from the unions that where someone left the public service at, say, at a non-recruitment grade, that we could replace them by open competition ... advertise on the market. So ... and as part of that agreement, we also launched a special competition for people with IT skills. So, I mean, I don't quarrel with Wright, that there was a constant issue around trying to keep the skills up to the level that were needed.

Deputy Michael McGrath: Okay. Correct me if I'm wrong, but you made reference a few moments ago in response to Deputy O'Donnell about three independent brokers being involved in 2003, 2004-----

Mr. Tom Considine: No, 2003. In the 2003 budget------

Deputy Michael McGrath: What were you referring to there?

Mr. Tom Considine: Well, we ... it was a big ask to actually reduce public expenditure by €900 million below the level that it would cost to keep the existing system operating and we got three people in who would be in good standing, let's put it like that, with the wider Departments - Maurice O'Connell, Dermot Quigley and Kevin Bonner, I think - and-----

Deputy Michael McGrath: As negotiators?

Mr. Tom Considine: No, just as, kind of------

Deputy Michael McGrath: As independent-----

Mr. Tom Considine: -----as honest brokers as to how the €900 million cut was to be applied.

Deputy Michael McGrath: Okay. But there was 9.2% increase in spending in 2003, so was it demographic issues that you had to have an actual ... that you would've needed €900 million more?

Mr. Tom Considine: There was a lot of pressure coming on, you know ... coming in to the system and one of the things that we did in 2003, was the Government took a decision to try and cap and then reduce public service numbers because there was quite an amount ... there was a significant amount of spending going on increased numbers.

Deputy Michael McGrath: Can I ask you, Mr. Considine, do you accept now, in hindsight, that the extent of the dependents on cyclical taxes - such as corporation tax, stamp duty, capital gains tax - concealed an underlying vulnerability in the public finances which, when the property market collapsed, was exposed in a very significant way?

Mr. Tom Considine: I do. I accept ... I accept in one sense, like, I mean if you take VAT, which would be one of those big taxes, you can't easily, you know, sort of, distinguish between what happens in the property sector and other sectors. And as I said to the Chairman earlier, once you get into a position where a property market is overheating, it's very difficult. I mean, the obvious thing to say - and it's not a smart comment - is "You shouldn't have allowed it to overheat in the first place". I mean, that is the criticism, if you like. Once you're in there, it's very difficult because if you cut stamp duty, for example, I mean, there's no doubt what you'll do is just drive the market harder and, equally, if it was possible to cut VAT, it would have the same effect. So, once you're in there, it's very hard to get back out of it. Now ... you know, you could argue ... someone could say "Well, you could have offset that by public expenditure cuts" but I think I'm just after demonstrating that we were doing as much public expenditure cuts as we could in 2003 and 2004 anyway.

Deputy Michael McGrath: If I can put it to you, Mr. Considine, an extract from Regling and Watson where they say "The IMF estimates now that in 2007, when the headline budget was approximately in balance [as was reported at the time], the underlying, structural deficit ... had deteriorated to 8¾ percent of potential GDP and amounted to 4 to 6 percent in the run-up to the crisis." So, while large budget surpluses were being reported, in fact, when you stripped out the cyclical element of much of that tax revenue, there were underlying deficits. Do you now accept that?

Mr. Tom Considine: I accept that the cyclically-adjusted ... that the approach to calculating cyclically-adjusted deficits or surpluses wasn't robust enough but the reality of it is that you have to recognise that in the spring of 2006, you had the EU Commission applauding Ireland for the way it was managing its public finances. So, this is all with the benefit of hindsight, people are ... you know ... are doing these exercises and, I think-----

Deputy Michael McGrath: And do you accept it in hindsight?

Mr. Tom Considine: I do, of course, yes.

Deputy Michael McGrath: But it wasn't seen at the time-----

Mr. Tom Considine: No.

Deputy Michael McGrath: -----that this was a risk to the public finances?

Mr. Tom Considine: There was a certain risk in ... as I said, in 2001 and 2002 with the downturn associated with the dotcom bubble, tax revenue fell off by, I think, it was €3 billion between the two years. The reason that sticks in my mind is because I had to answer to that ... for that to another committee, the public accounts committee at the time. So the ... that experience was repeated *ad nauseam* in advice. I mean, there was a recognition that if ... if things went wrong that ... that you would be hit but, as is demonstrated by the exercise done by the ESRI and so on, the problem is it wasn't seen to be anything like what happened and, viewed against the buffers that I listed out at the start, it wasn't seen to be something that couldn't be handled.

Deputy Michael McGrath: Okay, but I would put to you, Mr. Considine, that the evidence shows very clearly that from the late 1980s onwards, there was a gradual increase in the dependence on the cyclical taxes, being corporation tax, stamp duty and capital gains tax. And during your years as Secretary General of the Department, there was a dramatic acceleration in the dependence on cyclical taxes to such an extent that it increased to 30% in 2006. So 30% of all taxation revenue was deemed to be cyclical in nature and dependent on, essentially, temporary factors which, ultimately, fizzled away.

Mr. Tom Considine: I couldn't agree with that. I mean, corporation tax ... what ... you know ... what ... how can that be, you know, it is cyclical but, I mean, what can you do about it?

I mean, we have a ... we have a national policy in relation to our corporation tax rate.

Deputy Michael McGrath: You are disagreeing with the fundamental element of the reports that have been published by Nyberg, Regling and Watson, Honohan?

Mr. Tom Considine: Well, it's the definition of cyclical taxes. If ... if you were to narrow the definition to include taxes arising from property then I would agree that that's the case. But what I would say to you is that by the time you get to 2003 or 2004, the scope for actually moving off that situation that you found yourself in is quite limited. And once you get ... once you get into a situation where the property market is overheating, then almost anything you do to cut taxes will have the opposite effect of what you ... what you would like. In other words, it would stimulate the market as opposed to ... to dampen it down.

Deputy Michael McGrath: Okay, can I ... can I just clarify, Mr. Considine, the role of the advice from the Department of Finance in setting the actual quantum of expenditure? And if we take the example that you went into some detail on, 2006 ... in the February 2005 paper, the draft framework for developing the budget strategy memo '06 to '08, that basically set out an expenditure growth in 2006 of 6.6%. Then by June there was a budget strategy memo, which was based on the Department's advice and was accepted by the Minister, and that pencilled in growth of about 7.5%. And then in the ... in the budget, the increase was closer to 11%. So, okay, in February the Department recommended 6.6%; in June the Department was satisfied with 7.5%; but can you advise between June and the first week of December when all of this horse-trading is going on between Ministers and Department officials, what role did the Department of Finance play in October, in November prior to the budget? Did the Department of Finance say, "We reiterate our position that the growth in expenditure should be no more than 6 or 7%."?

Mr. Tom Considine: The short answer to that is, yes, it did but the longer answer is that this breaks down to individual negotiations between the Ministers for the spending Departments and the Minister for Finance, with officials involved some of the time, and, you know, it's a process that goes on over time and it proved to be impossible to hold that line. That was ... that's it in a nutshell.

Deputy Michael McGrath: Thank you.

Chairman: Thank you very much, Deputy. Deputy John Paul Phelan. Deputy, ten minutes.

Deputy John Paul Phelan: Thanks, Chair. Good afternoon, Mr. Considine. Continuing on from Deputy McGrath's questions, were you happy during your tenure as Secretary General of the Department of Finance that the revenue base of the Exchequer was sustainable into the future?

Mr. Tom Considine: We had concerns about it, as I said. Arising from the experience in 2001-2002, when the dotcom downturn - using short hand-----

Deputy John Paul Phelan: Did you conduct any in-depth analysis of-----

Mr. Tom Considine: Yes, we did. Yes, we did. We tried to ... we did a lot of work and it's on the public record. I ... I appeared before the public accounts committee at the time and I set out, you know ... the problem really with a lot of this is that a big driving force in a small, open economy like ours is the initial forecast for the economy. A lot of the tax revenue hinges on that, right? So if the ... if the initial ... if the forecast turns out to be wrong, you know, if it doesn't happen, which is what ... what, you know, essentially happens when you get a crisis, you know, then-----

Deputy John Paul Phelan: Did you or any of your senior officials raise with Minister Cowen - it would be by 2006 - a concern that almost a third of the tax base was from these cyclical sources?

Mr. Tom Considine: I don't recall putting it that way. No, I don't.

Deputy John Paul Phelan: Can I ask you, in terms of the relationship with ... your relationship with Mr. McCreevy and Mr. Cowen in their roles as Minister, was there a difference in how they approached dealing with officials, dealing with Secretaries General, dealing with the compilation of budgets?

Mr. Tom Considine: I don't think so. I mean, we had you know, I mean, if ... as Secretary General, you would be working very closely with the Minister, all Ministers I imagine, unless there was something very unusual.

Deputy John Paul Phelan: So there was no real difference between ... between either?

Mr. Tom Considine: No.

Deputy John Paul Phelan: Okay, can I ask then in relation to the loss of competitiveness in the Irish economy? You mentioned that the EU Commission was praising Ireland in the 2006 ... aftermath of the 2006 budget. There was also in that budget an indication that, you know, competitiveness had dropped fairly significantly. Were you raising any concerns at that particular juncture with the Minister?

Mr. Tom Considine: I was in the sense ... if you go back to my paper of ... of February 2005, I mean, that is really based on competitiveness. The whole thing is about competitiveness. What can we afford in Ireland? And government is a cost, government is a cost, just as sure as anything else is a cost.

Deputy John Paul Phelan: Did the Minister act on your concerns?

Mr. Tom Considine: He did in the sense that, you know, the recommendation to the Government was ... was, you know, somewhat higher. I mean, you can't afford to ... to ... you can't expect to ... to have 100% success in an argument-----

Deputy John Paul Phelan: What did he do? What did he ... can you point to-----

Mr. Tom Considine: Well, basically we recommended in the memorandum about a 7.5% increase as against 6.6%.

Deputy John Paul Phelan: Can I ask did ... did the Department at that time conduct any in-depth analysis of house price growth particularly with reference to maybe other European economies or other economies ... advanced economies in general and as to how crashes had occurred in other economies?

Mr. Tom Considine: This would have been available to us. You know, the ... as I said, the 2005 ... the December 2005 ESRI report, which is the medium-term review 2005 to 2012, that actually did that you know, and set our you know what it saw the consequences of a 33.33% fall in house prices. And in that, I mean, there is a lot of talk about, you know, there wasn't an awareness. There is a table in that report which sets them all out, you know. I mean, that's there.

Deputy John Paul Phelan: In hindsight, can I ask you what's your view with regard to ... and it was touched upon with one of the previous speakers, that during your tenure, public expenditure increased by almost 44% in the four years that you were Secretary General. I know you have stated clearly that politicians make policy decisions, but do you have any regrets about the fact that expenditure spiralled to such an extent while you were Secretary General?

Mr. Tom Considine: Well, you know, I ... I wish it didn't. I mean, who wouldn't want, you know, a different outcome to what happened? But when I look at ... at ... at the process and as I have set it out, it's for others to judge. But I, you know, I'm satisfied that particularly, you know, in 2006 where I have gone to some trouble to set up the sequence and what happened and how we built our arguments and so on, that we did what you can do as a non-elected official.

Deputy John Paul Phelan: Okay. Can I ask you, during your time, did the Department of Finance conduct any in-depth analysis of the banking sector, particularly with reference to the level of concentration of lending to such a small number of individuals, evidence of which we have heard from several witnesses?

Mr. Tom Considine: Yes. No, we didn't is the short answer to that. And the reason for that is that the model that we had in place assigned that task to a combination of the regulator and the Central Bank.

Deputy John Paul Phelan: Okay, can I ask you to outline maybe ... what is your pension as Secretary General of the Department or former Secretary General of the Department?

Mr. Tom Considine: €118,000.

Deputy John Paul Phelan: Okay, can ... can I ask you how ... how did you come to be appointed to the board of Bank of Ireland in 2009? How did that happen?

Mr. Tom Considine: I received a call from, I think, the then Secretary General of the Department of Finance and he asked me would I ... would I take ... be interested. And I was somewhat reluctant so the then Minister, Mr. Lenihan, came on the phone and he said "Look, you know, I'd like you to do that". So I agreed and that's ... that's what happened.

Deputy John Paul Phelan: Do you believe you're ... have ... it has been a successful tenure as a director of Bank of Ireland ... that you've contributed?

Mr. Tom Considine: I think so, yes.

Deputy John Paul Phelan: Can I ask you is it a remunerated position?

Mr. Tom Considine: Absolutely.

Deputy John Paul Phelan: Are you at liberty to say what the level of-----

Mr. Tom Considine: Well, it's published in the annual accounts of the Bank of Ireland.

Chairman: Now, Deputy, if I can just one second there, bring you-----

Deputy John Paul Phelan: Yes, no, that's fair enough. Can I ask you then, in relation to your time on the board of the Central Bank and Financial Services Authority between 2003 and 2006, when property lending began to soar, did you at any opportunity during that juncture raise some of the concerns which your Department had, we'll say, with regard to increases in expenditure and maybe the cyclical nature of revenues? Did you use your position on the board to raise any of those concerns at the time?

Mr. Tom Considine: Well, I think the advice was coming the other way, if you like, that the board of the Central Bank was trying to get the Minister to, you know, to do whatever could be done on the fiscal side as they saw it and my natural instinct in that situation would be not to stick in my oar, so to speak.

Deputy John Paul Phelan: Do you regret ... or do you think you should have, in hindsight?

Mr. Tom Considine: No, I don't think so because I had direct access to the Minister and I could advise him on whatever I felt was appropriate.

Deputy John Paul Phelan: Okay. Can I ask you, did the interaction between the Department's economic analysis function with the economic research section of the Central Bank change as a result of the 2003 restructuring of the Central Bank and Financial Regulator?

Mr. Tom Considine: Not that I'm aware of, no. I don't think so.

Deputy John Paul Phelan: Okay. I have a final question. No, actually that is my final question. Thank you.

Chairman: Thank you very much and if I can just wrap up one item that you were dealing with Deputy McGrath there a few moments ago, Mr. Considine. You said earlier that the Department did a lot of work on the problem of unsustainability of property-related taxes. Maybe you could give us some further information as to what concrete plans were developed by the Department of Finance to replace the revenues from these sources and have these been considered by or discussed with the Minister at the time?

Mr. Tom Considine: I ... it wasn't so much revenue, what we did the work on really was abolishing incentives to ... to support the property market. That's what the work was. And, essentially, what it should end up doing in the end is saving the taxpayer money.

Chairman: Was there any worst-case scenarios modelled or examined or looked at?

Mr. Tom Considine: Well the whole ... every scheme was looked at. There were two sets of accountants ... of consultants, Indecon and Goodbodys. If I'm not mistaken, it's all in the public record.

Chairman: Okay, but I'm asking you was there any worst-case scenarios or contingency plans developed?

Mr. Tom Considine: I ... I ... you know, each scheme - I don't know that any one was worse, you know, as such. I mean, in the case of some of them ... I can't recall offhand but in the case of some of them they would have said "Look, they're not contributing anything to economic growth" and that would-----

Chairman: I'm not discussing evaluations, now, of a tax measure, Mr. Considine, or I'm not saying that this, kind of, tax measure needs to be filtered in or filtered out or developed or lessened, I'm asking you, in regard to the way that the Department is actually looking at the unsustainability of property-related taxes - and given that 24% of the Irish economy was in the construction sector, given that a lot of consumption taxes were being derived from that, stamp duty, VAT, retail, because white goods would be following and builders providers and all the rest of it - was there any worst-case scenarios or contingency plans developed that ... given the level of exposure that was actually there and identified?

Mr. Tom Considine: Yes, there was a paper submitted to the Minster. One of the issues would be - and, you know, it was modelled by the ESRI, I think, in 2004 as well - if the output of housing, for example, fell from, you know, whatever it was, 80,000, 90,000 maybe to 40,000, what would be the impact and what could the Government do to replace that in the economy? And there is a paper - I think it's in the core documents somewhere - that was done in relation to that. In relation to the taxation which you're asking, I mean, the work that I was talking about there was more or less the ... when the tax take fell sharply in 2001 and 2002, the work was concerned about understanding why that happened, could we improve the forecasting methods and that kind of stuff, rather than replacing the taxes.

Chairman: One question just before I bring in Senator D'Arcy. When the bailout programme was entered and taking the banking collapse out of that period, there was a structural deficit of approximately €30 billion regardless of bank debt - approximately €30 billion. When were the seeds of that deficit sown?

Mr. Tom Considine: Well, I mean, one of the things that you can look at in relation to that is that paper I submitted, again, and it's at pages 3 to 6 of ... of Vol. 1, TCO. And, essentially, at the outset of that, it says that Government spending was falling up to:

> General Government expenditure as a percentage of GNP in Ireland was on a downward trend from 1997 to 2000 ... The total fall in the period was 5 percentage points. There was a 4 percentage points increase over the two years 2001 and 2002.

Now, that was in the context of the dotcom bubble and there was a lot of controversy about it but that ... the response to that, if you like, was a major step change from the direction it was going.

Chairman: Okay, so you would say that the seeds of that structural deficit was sown during that period, yes?

Mr. Tom Considine: It ... it was a change from a downward path to an increase back again. There were obviously lots of other things ... you can't, you know ... because you're talking about ... you're talking about ... from 2002 to 2008 is six years, there was ... there'd be six budgets in between.

Chairman: And with other testimony ... and I'll bring Deputy D'Arcy ... or Senator D'Arcy in a moment. The ... a continuous theme coming up in some of the testimony today is that the crisis isn't happening when the crisis ... when the house is on fire, the crisis is happening when there is something else happening earlier in the timeline. And you're indicating that the timeline in and around 2003 onwards was where the seeds - and I need you to clarify this - is where the seeds for the ultimate structural deficit of €30 billion in the Irish economy, separate from the banking debt that actually was there at the time as well and which ultimately led Ireland going into a bailout programme ... are you saying that that ... that the structural aspect of Ireland's requirement to go into a bailout programme, that the seeds were set during that period?

Mr. Tom Considine: Well, I'd say that up to 2000 the Irish economy was very competitive. From 2000 onwards, it wasn't and we started depending more on domestic spending like-----

Chairman: Houses-----

Mr. Tom Considine: Well housing, you know it was all feeding back in.

Chairman: But the consumption taxes.

Mr. Tom Considine: Yes. But it can all be anchored in competitiveness rather than ... than anything else and the ... you know, I mean, if you look at, going back to that chart, I mean, you can argue that if the advice that was given by the Minister for Finance in the middle of the year had been followed religiously for the ten years, you would obviously have created a greater buffer than what we had. And that's what it's all about at the end of the day.

Chairman: Senator D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Considine, you're welcome. I want to start with the Wright report, Mr. Considine, please, on page 22, section 3.2.5, there's a diagram, you've probably seen it, I'm sure you've seen it.

Mr. Tom Considine: Yes.

Senator Michael D'Arcy: Effectively, it's the starting position with the Department in relation to the budgetary expenditure and then the final position. When Mr. Wright was before us, we discussed this. Can I ask your view about that particular diagram in that era?

Mr. Tom Considine: Well, I mean if you take ... I mean the diagram speaks for itself. I mean ... but, in reading it, you have to take into account both the domestic and international background. So, I'll say, if you look at 2001 and, in particular there ... I mean, that was, you know, associated with a big downturn in the international economy and, you know, so, it doesn't happen in isolation. If you then take the years 2003-2004, as a consequence of, you know, what had happened previously, there was a greater buy-in to trying to, you know, get things back on track. And you can see there that the advice given by the Minister for Finance, in the middle of the year, stuck to a much greater extent than it virtually did any other time, except with the exception of 2008 there, I'd say. So ... and I have explained, I think, already that in the case of 2005, the pressures were building up in the system, a bit like a pressure cooker. And the ability of the political system to hold the line when the economy is seen to be improving ... see, the ... the argument for ... for holding back was a weaker economy in 2003 and 2004, but that was gone by ... by-----

Senator Michael D'Arcy: The report ... the report says, "We examined why relatively prudent fiscal advice in June was systematically ignored in the Budget process." Now, you've mentioned the politicians on a number of occasions. Were you, as an individual, as perhaps the leading civil servant in the State, as a Secretary General, Department of Finance, were you strong enough with your Minister?

Mr. Tom Considine: Well, first of all-----

Senator Michael D'Arcy: I'm asking ... for your years.

Mr. Tom Considine: It's ... yes, it's quite clear from the draft, they weren't systematically ignored, you know, over the whole period. That's the first thing. The second-----

Senator Michael D'Arcy: Sorry, the Wright report says it was.

Mr. Tom Considine: I know, but sure you can read the graph the same as I can. Yes, so-----

Senator Michael D'Arcy: Yes ... systematically.

Mr. Tom Considine: Anyway-----

Senator Michael D'Arcy: Were you strong enough?

Mr. Tom Considine: In the sense ... if you advise somebody to do something and they don't do it, then I don't think it's up to me to say whether I was strong enough or not. Quite clearly, the advice that was given wasn't taken in some of the years. It was taken in other years.

Senator Michael D'Arcy: Did you ... did you see the section when Mr. Wright was before us? Did you see his presentation?

Mr. Tom Considine: I saw some of it.

Senator Michael D'Arcy: Yes. One of the lines that he did use was, he would have pressed the red button.

Mr. Tom Considine: I saw that bit.

Senator Michael D'Arcy: Yes. Would ... would you ... why did you not press the red button?

Mr. Tom Considine: Well, first of all, I don't have a red button. It's very colourful, but I don't ... I didn't have a red button. But I think the bottom line is, partly as a result of that, I went to a lot of trouble to show how we went about providing the advice in ... for the 2006 budget. And, you know, that was ... that's how it was. It's there in black and white. I don't know whether Mr. Wright saw that or not, I don't know. But, anyway, that's it.

Senator Michael D'Arcy: Okay. I'll move on, Chairman. You were a member of the CBFSAI board?

Mr. Tom Considine: Yes.

Senator Michael D'Arcy: Okay. Why did the board and the Department accept the soft landing scenario?

Mr. Tom Considine: Well, in ... you know, just to take ... I mean, some people say, in particular, that, you know, at the end of 2005, you know, it should have been clear that some kind of action should be taken. Now, the ... in the ... the middle two quarters of 2005, that's from April to September, say, there was a general view that the housing market was coming off the top. But, as ... and you can see that reflected in the actual stability report. But, once the fourth quarter began, doubts began to emerge about that. And I've seen that repeated in ... in different papers from different organisations. So, when it came to producing the 2005 stability report, the view was that the growth in population, the huge numbers additional at work, the rise in the prosperity of the country, and so on, explained an awful lot of the increase in property prices. That is, you know, that is, I think, the reason why, you know, there was an acceptance that a soft landing. Now, if you go to the OECD report which went into this in great depth, it was done in March 2006, and they are one of the few people actually who defined what a soft landing is and they say quite clearly that the most likely thing to happen is that prices will stabilise and stay that ... and stagnate for a number of years.

Senator Michael D’Arcy: Mr. Considine, in the Honohan report, on page 84, under section 6.17, he points out that the FSR cites no quantitative analytical evidence for the conclusion of a soft landing. You say there is from other sectors?

Mr. Tom Considine: No, I didn’t ... I didn’t say that. I’m just outlining what the thinking was. Now, the ... in relation to ... there’s so many of these reports. The IMF did an assessment of Irish banks in 2006, it published it in August 2006. And it did a stress test, it got a stress test done, and the actual outcome was published by the IMF as Annex II to its report. And it makes clear that they were considering a 40% ... the impact of a 40% fall in house prices. Now, the fact of the matter is they still concluded that the banks would still be able to cope with that. Now, it’s quite clear that there was some problem with those stress tests, but that was the state of knowledge. Looking at them now it’s very easy to say they couldn’t have been right.

Senator Michael D’Arcy: We’ll move on then to the FSR reports and during your period there was an ... Deputy Higgins discussed the growth of the balance sheets. But the growth in personal indebtedness went from 71% in 1995 to ... of GDP to 248% projected in the final 2007 FSR report. The vast majority of that happened on your watch, from ‘02 to ‘06, where they passed the European average and then went from the European average to the most indebted citizens in Europe. Can I ask your explanation how that was allowed go unchecked, with you, as the most senior, or certainly one of the most senior, civil servants in the State, in the crucial Department in question?

Mr. Tom Considine: Well, as I ... as I said to you, we had established a structure, a model, for dealing with regulation, and that-----

Senator Michael D’Arcy: Personal indebtedness specifically, Mr. Considine, please.

Mr. Tom Considine: Yes, well that’s part of regulation, yes, very much so. And, the fact of the matter is that, I mean, it’s not that there wasn’t an awareness of these risks. There was clear ... clearly ... clear awareness of those risks.

Senator Michael D’Arcy: But the action or inaction?

Mr. Tom Considine: The ... to the extent that action was required, it had to be taken by the regulator.

Senator Michael D’Arcy: What action would-----

Chairman: -----the time there again.

Senator Michael D’Arcy: Yes.

Chairman: Does an indebtedness level at some stage move beyond a regulatory problem and become a matter of stability, and therefore not become an issue, for your role in the Central Bank, and your role in the Department of Finance? Back to yourself, Senator, but if you can answer that first.

Mr. Tom Considine: Yes, it would and, you know, it would be based on the analysis. The situation in relation to that tie-up, if you like ... both the Central Bank and the regulator inputted into assessments of the stability of the system. Now, if those had pointed out that some action needed to be taken then obviously that would have been discussed, but that just didn’t happen. Now, you can say, with the benefit of hindsight, I mean, something more should have happened.

Chairman: I'll bring you back in there.

Senator Michael D'Arcy: Yes, Chairman. Mr. Considine, I'm not saying with the benefit of hindsight. FSR report after FSR report clearly itemised the level of personal indebtedness for the citizens was increasing. Start from the low level, move up to European average, surpass the European average, and then the people of this country became the most indebted in Europe. Not with the benefit of hindsight, why was there not actions taken to deal with the level of indebtedness of which you are a member of the board? The Chairman has touched upon that. That's certain - I won't use surely - that could have been a stability concern for the board of the Central Bank of which we've discussed previously there were powers available to do something about it but those powers were unused.

Chairman: The question is made. Mr. Considine.

Mr. Tom Considine: The analysis that we did and the discussions that we had didn't lead us to the conclusion that it threatened the banking system.

Senator Michael D'Arcy: The highest level of indebtedness in Europe.

Mr. Tom Considine: That's the conclusion that's there in the public domain.

Senator Michael D'Arcy: And now, with hindsight?

Chairman: Final question, Senator.

Mr. Tom Considine: Obviously, the stress tests and so on that were done weren't sufficiently either technically correct or robust to give the answer that eventually ... you know-----

Senator Michael D'Arcy: And, finally, what was going to be the outcome when there was a downturn, when the citizens were now hugely indebted and there was a downturn when the banks were going to be coming looking for the money?

Mr. Tom Considine: Well, I suppose, Deputy, or Senator, the ... you know, we're looking at this with the benefit of hindsight.

Senator Michael D'Arcy: I am not talking about hindsight. The growth started and continued unchecked.

Mr. Tom Considine: I think the consequences ... the number of people who are impacted in the event of a downturn depends on the severity of the downturn. The greatest driver for bad debts is unemployment. So it does depend on the extent of the downturn and we did not see at the time an event of the type that happened.

Chairman: I might return to this in the wrap-up and give you some time to think about it. The Keane report and all the other reports actually showed that the critical matter of dealing with debt is affordability; it is not necessarily unemployment. If a household income is reduced, not even made unemployed, there are affordability difficulties that arise and I may touch on that point again with you in the wrap-up. Senator D'Arcy, or excuse me, Senator Marc MacSharry.

Senator Marc MacSharry: Mr. Considine, thanks very much for coming in. I'm going to start with this question. You may have covered aspects of it already. Can you remember if, and at what time during your tenure, the Central Bank identified excessive property-related lending and the heavy interbank borrowing of Irish banks as a substantial threat to their financial stability?

Mr. Tom Considine: Well, I suppose the whole time that was there, once credit was increasing rapidly, which it was, this concern was there. I mean, it is not about not recognising it; it's about whether you ... what you consider to be the threat that it poses and the analysis that was available suggested that the banks could deal with any likely shock to the system. And that's where the flaw, you now, was. It wasn't that ... I mean, it would have been clear that credit was increasing; it was clear that house prices were increasing.

Senator Marc MacSharry: Yes, so you felt that everything is okay, it is increasing year on year to a huge amount. People have mentioned percentages earlier on. But it was felt, according to yourself, that this was sustainable, this was a storm that could be weathered if it turned into a storm.

Mr. Tom Considine: I think that last bit is more accurate. That, you know ... that describes it better.

Senator Marc MacSharry: Okay. Against the backdrop of a small open economy like Ireland, export-led in many terms in the context of its past in the 1980s and so on. As a percentage, exports have been falling from the late 90s. Is that the case?

Mr. Tom Considine: Yes, I think from ... yes, certainly around 2000 anyway we weren't as competitive as we had been.

Senator Marc MacSharry: And did that ring any bells?

Mr. Tom Considine: It did and, as I said, an awful lot of our advice was formulated against that background of trying to restore competitiveness. And I mean, it is ... once you lose competitiveness, it is extremely difficult to get it back, because it's the totality of your costs and nobody wants ... people don't want to have their pay cut, they don't want to have, you know, a loss of income or whatever so it is not easy to reverse that.

Senator Marc MacSharry: So what tangible measures did you, as Secretary General, recommend specifically to counteract the loss of competitiveness in the early 2000s particularly?

Mr. Tom Considine: Well, as I said, in 2003 which was, you know ... the 2003 budget was my first budget and it was an extremely tight budget. I am not claiming that, you know ... it was as much to do with the fact that we were coming out of a downturn, which ... and that there was an expenditure momentum in the system which it was necessary to counteract. And that required some pretty harsh expenditure cuts, and, indeed, the whole budget was pretty tough so ... and 2004 is much the same except on the graph it does not look as bad but it probably was even worse.

Senator Marc MacSharry: But exports kept falling, so it was not enough. Would that be fair to say, or not?

Mr. Tom Considine: Well, I mean, when you are in a ... I don't think you can cure the ... you know, a loss of competitiveness by budgetary policy alone. It requires sensible incomes policy as well and that's a much bigger issue which involves private sector as well as the public sector.

Senator Marc MacSharry: In terms of taxation, is that what you mean?

Mr. Tom Considine: No, in terms of pay levels themselves, pay levels.

Senator Marc MacSharry: Could you expand on that? Do you mean that the private sector needed to keep pay low or-----

Mr. Tom Considine: Yes. If you're uncompetitive, there's a whole range of costs. How much is your government costing you? How much are your inputs costing you? So in other words, are your pay levels in line with those of your competitors?

Senator Marc MacSharry: Was it the Department policy at the time, or view, that the private sector was irresponsible because it was paying too high wages?

Mr. Tom Considine: No, it wasn't. It was .... in the period up to 2001, the economy was very strong and the pressures and that, you know, coming from that, I think, drove up wages. I mean, there's a kind of a belief that, say, for example, if you want to build roads and you have the money to build them, that that's your problem solved. Well, it isn't, because you need engineers and you need planners and you need ... and sometimes, I ... that paper that I submitted, again going back to it, mentions that, that in the early years, the skills weren't in the system and you ended up pushing up wages and costs. So it's not that anybody is acting irresponsibly; it's ... we were coming from a situation where-----

Senator Marc MacSharry: Okay, so. My time is limited. So am I right in saying what you're saying is that, you know, circumstantially we were losing competitiveness despite our best efforts, or despite any efforts that could be made. Is that what you mean?

Mr. Tom Considine: Well, in a sense, because when an economy is successful, one of the ways that slows it down is prices are bid up and it's almost unavoidable.

Senator Marc MacSharry: Okay. Earlier on, Deputy Higgins brought you to the core documents and we saw the submission from the IAVI, which was one and you said there were many, and horse-trading goes on and people make representations on behalf of their sector, and they are either taken into account or not, or in part or whatever, in your deliberations. Is that what happens?

Mr. Tom Considine: No, you are mixing ... I didn't say horse-trading goes on in relation to the taxation-----.

Senator Marc MacSharry: Okay, well, I withdraw than then but the submissions come in and you consider their contents. Is that what happens?

Mr. Tom Considine: Yes, that's it. There's a whole industry around it, 350 or ... depending on how you count them.

Senator Marc MacSharry: So lobbying, I suppose, we might call that.

Mr. Tom Considine: I suppose so.

Senator Marc MacSharry: Okay. So a lot would come in would they, from all sorts of individuals and organisations?

Mr. Tom Considine: Yes, I tried to get a handle on it there yesterday and the way they are accounted now from FOI is each one is counted. I think there was 1,200 of them last year. So ... but they are fed into the system and, you know, the big organisations, like, with staff and so on, they submit well-developed-----

Senator Marc MacSharry: I understand.

Mr. Tom Considine: Yes.

Senator Marc MacSharry: So is it fair to say, or not, or is it the case that certain organisations have a higher weighting in terms of the attention that might be given, or the consideration that might be given by the Department and the Government?

Mr. Tom Considine: Well, I suppose, you know, if you represent-----

Senator Marc MacSharry: For example, IBEC, the unions?

Mr. Tom Considine: If you represent a lot of people, you know, inevitably-----

Senator Marc MacSharry: Okay. So it would be based-----

Mr. Tom Considine: -----you're more likely to be-----

Senator Marc MacSharry: It would be based predominantly on the size of the representative organisation?

Mr. Tom Considine: Generally I'd say that's right.

Senator Marc MacSharry: Okay. Just ... and, again, my time is short, so quick answers if we can. Would you say that any one sector had an unbalanced impact on budgeting policy at that time, based on what was 1,200 last year in the numbers, in terms of lobbying that went on for that budget?

Mr. Tom Considine: It'd be very hard to make that judgment. I mean, you know-----

Senator Marc MacSharry: But if you had to call it, would you say education had more of an input than property, or-----

Mr. Tom Considine: No, it varies from time-----

Senator Marc MacSharry: -----the arts industry had more of an input than technology? I mean-----

Mr. Tom Considine: No, it varies from time to time and-----

Senator Marc MacSharry: Okay, so at that time specifically?

Mr. Tom Considine: Yes. I'd say, in my time, health probably got more resources than-----

Senator Marc MacSharry: Health got more resources?

Mr. Tom Considine: -----virtually anywhere.

Senator Marc MacSharry: Can I also ask, as these submissions that would come in in advance of a budget, would they come from political parties, from politicians?

Mr. Tom Considine: I think a lot of them came from somebody like you have here approaches their local TD. You might approach three or four of them, in which case you get three or four-----

Senator Marc MacSharry: Yes. Well, would parties make submissions, pre-budget submissions?

Mr. Tom Considine: I don't think so. I stand to be corrected on that now, but I don't think so.

Senator Marc MacSharry: Okay. But often TDs and-----

Mr. Tom Considine: Ah yes, individual TDs, they'd be approached-----

Senator Marc MacSharry: Individual TDs.

Mr. Tom Considine: -----and they'd write to the Minister.

Senator Marc MacSharry: Party leaders?

Mr. Tom Considine: I ... you know, I-----

Senator Marc MacSharry: Finance spokespeople?

Mr. Tom Considine: Can I tell you, I hardly ever saw these.

Senator Marc MacSharry: Okay.

Mr. Tom Considine: They're dealt with down at the section level.

Senator Marc MacSharry: So, you didn't read any submissions?

Mr. Tom Considine: Excuse me now, you're putting words in my mouth.

Senator Marc MacSharry: No, no, no, I'm only asking.

Mr. Tom Considine: I didn't read-----

Senator Marc MacSharry: I'm only asking.

Mr. Tom Considine: I didn't read these particular ones because they're coming in to, sort of, feed in to the production of the finance Bill and so on like that.

Senator Marc MacSharry: Did you read any?

Mr. Tom Considine: What I did was when every ... what happened in the end then, just to follow it through a small bit, this led to the production of a note, or a paper from the Minister, to decide if it was an issue that was going to be changed and they were submitted and I remember we spent maybe two days down with the Minister and we'd go over all of them and that's just one input, you know. At the back of it, the tax strategy group would be meeting at the same time and the analysis would come up, so inevitably if somebody came in with something that we hadn't know already, that'd be taken on board.

Senator Marc MacSharry: Okay, last question, and thank you, Mr. Considine. Can you tell me, from the best of your recollection, and bearing in mind that you didn't read all the submissions that came in, but obviously you liaised with your staff who did, could you put a very rough estimate, to the nearest hundred even, of the number of submissions that would have come in from any organisation, TD or political party that sought less expenditure and more taxation in that period?

Mr. Tom Considine: I ... since I didn't read them all and I ... I don't think I can answer that question. I don't know what the answer to it is.

Senator Marc MacSharry: No, well I'm asking you to-----

Mr. Tom Considine: Well, I don't know-----

Senator Marc MacSharry: I'm asking you, in your experience, to answer the question.

Mr. Tom Considine: Yes, but I don't-----

Senator Marc MacSharry: And that's what we're here to do.

Chairman: Okay.

Mr. Tom Considine: I don't know of any-----

Senator Marc MacSharry: Would you say there were any?

Mr. Tom Considine: Probably not.

Senator Marc MacSharry: Okay.

Chairman: All right, thank you.

Senator Marc MacSharry: Thank you.

Chairman: Thank you very much. Okay, Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and welcome, Mr. Considine. In your opinion, did you feel that, during the course of your tenure in the Department of Finance, that the Department of Finance was well informed by the Central Bank and the Financial Regulator as to matters concerning financial stability?

Mr. Tom Considine: Yes, in so far as the advice was published, the analysis was published each year and the Governor personally briefed the Minister.

Senator Sean D. Barrett: If I bring you to page 73 of your own Vol. 1 in the core document, the briefing of the new Minister for Finance in 2004, and Nyberg notes, "However, the brief was silent in relation to credit growth." So that rather contradicts what you've just said to us, that the Minister wasn't briefed in relation to credit growth according to Nyberg in that section on page 73.

Mr. Tom Considine: Page 2 of that submission to the Minister made it clear that he would be briefed separately by the Governor and by the chairman and chief executive of the Financial Regulator.

Senator Sean D. Barrett: But you didn't do it on that occasion when you were meeting the new Minister. Could I bring you to page 119 of the same document, the briefing of the Minister in the same year, which says that, "[T]he Bank expresses concern about the high rate of credit growth [...] which has been increasing by around 25 per cent." And the advice to the Minister is to say that the Central Bank and the Financial Regulator, on the next page, should "remain vigilant". Was 25% growth of credit per annum not a matter of some concern in the Department?

Mr. Tom Considine: It was and, you know, it was ... as I say, it was discussed and, you know, evaluated in the context of the stability ... the financial stability report that was published each year and the conclusions arrived at in ... as a result of those evaluations were published and reported to the Minister.

Senator Sean D. Barrett: On page 75, Nyberg says:

> There is no evidence that the DoF [Department of Finance] was particularly concerned with prudential matters or in assessing any possible financial stability concerns relating to either individual institutions or the financial system collectively. The annual Financial Stability Reports [to which we've referred] ... did not contain any critical analysis.

Mr. Tom Considine: I think, you know, as I said, the model of regulation that was there assigned very clear roles to the regulator and the Central Bank and also where they had to input in relation to the stability of the system. So I ... you know, I don't know what, you know, what that is based on. And the annual financial stability reports, you know, to the best of my recollection, did contain analysis and they were certainly based on analysis by the relevant sections.

Senator Sean D. Barrett: On page 73:

> In particular, substantive discussions do not appear to have taken place directly between the DoF [Department of Finance] and the CB [Central Bank] on the content of the various Financial Stability Reports, either before or after their publication ... no officials were present and there appear to be no records of the discussion in either departmental [the Department] or CB [Central Bank] files.

Mr. Tom Considine: Well, the reason for that, I imagine, is that ... well, first of all, I was on the board of the Central Bank and therefore I was present when the discussion took place in relation to each stability report and I agreed with the conclusions that were published in them. That's the first thing. The second thing is that the Governor then came in ... these of course were published. But the Governor then came in to see the Minister and brief him on what was in it so that was the model that we used.

Senator Sean D. Barrett: I read at page 75:

> The Spring 2007 QEC [quarterly economic commentary] also noted that if the astonishing growth in net foreign borrowing by Irish credit institutions since 2003 had been used to fund the ongoing boom in the housing market, the situation was not sustainable. This particular point does not appear to have been followed up the DoF [Department of Finance] or brought to the attention of the Minister.

Mr. Tom Considine: Yes. Sorry, Senator, but I wasn't in the Department at that time.

Senator Sean D. Barrett: When you were on the board ... or the council of the ESRI and the board of the Central Bank and the Secretary General, did it come to your attention, because it's been in evidence here, that a man who's code named "Nervous Nelly" in the Department of Finance rang up Professor John FitzGerald to complain about the content of a report? And there was also ... Mr. O'Connell said that he rang the ESRI to complain about a reference to the property market by Professor Alan Barrett. Did you know that on the three boards who were on, that one of them ... that pressures were being exerted by people from the other two organisations which were associated?

Mr. Tom Considine: I didn't, no. I think ... well, first of all, I think, in fairness, there should be, you know ... I was on the council of the ESRI and we didn't interfere with any of their academic work. It was purely just managing the organisation and that's a fact. The second thing about it is that as part of its ongoing day-to-day work, and I think John FitzGerald said this, there would have been contact between the relevant section and the Department of Finance and the ESRI and that was mainly technical. Now, every now and again, inevitably, there would be maybe difference of opinion which would be more than technical. Now, I inquired ... I got on to the Department of Finance and I was told anyway that ... that one of the issues anyway definitely didn't concern me, it happened after I had left. I don't know anything about it. I couldn't get to the bottom of the nervous Nellies either, so I'm afraid I can't help you with that.

Senator Sean D. Barrett: And thank you for that. Because I would have some concern that the apparent consensus that's been referred to was, in fact, manufactured because of the way the contrarians may have been silenced in one way or another and I thank you for your clarification because I would not like if such had occurred. The IMF concerns about house prices in Ireland ... you know, double digit growth rates in 2006. The concerns of the IMF in 2003 ... and a five-line note from the Minister saying, you know, "Dismiss the IMF on house prices". Didn't we pay a price for that afterwards?

Mr. Tom Considine: Yes, we did and, I mean, I think this - you know, I think I touched on this before - I mean, this was based on a belief of a few things. One is that supply and demand would help to solve the problem. The second thing is that there had been a large increase in the population of Ireland and, in particular, the number of people at work. And that the ... that the prosperity and wage levels in the country had increased. And the belief was that this accounted for a lot of the increase in property prices. Now, you know, with the benefit of hindsight, you know, you'd have to question that.

Senator Sean D. Barrett: Did the Department monitor commercial property prices at all?

Mr. Tom Considine: No. I mean, basically as ... as ... except in so far as ... I think the analysis that we did ... I haven't gone into all the reports now that were done by Indecon and Goodbody and I imagine, having looked at 13 different property incentives, that they looked at, certainly, those sectors.

Senator Sean D. Barrett: And a last one, if I may, thank you, Mr. Considine. That ... while there are rumours, I suppose, that the Department of Finance was against directors' compliance statements ... that Nyberg says he could find no evidence that the Department of Finance gave explicit instructions to the Financial Regulator not to proceed with the implementation of that provision. Have you ... like to cast on that? Is Nyberg right or did the Department in fact try to postpone directors' compliance statements in banks?

Mr. Tom Considine: Well, I think ... I inquired about this and I'm told that the ... whatever decision was made on it, wasn't made during my time. But, I think, though, that I did see somewhere that ... that ... it was pointed out as well, that the Department said that the bank could impose these requirements selectively, you know ... that they had the power to do that.

Senator Sean D. Barrett: Thank you. Thank you, Chairman.

Chairman: Okay, thank you very much. Deputy Pearse Doherty. Deputy, ten minutes.

Deputy Pearse Doherty: Go raibh math agat a Chathaoirligh agus fáilte roimh an tUasal Considine. Can I start by maybe just asking you - in relation the interaction that took place ... regular interaction that took place between the Department of Finance, the Central Bank and the

ESRI on matters regarding macroeconomic forecasting - in your recollection, Mr. Considine, were there ever any major difference in outlooks between the different parties and if there were, how were those differences dealt with?

Mr. Tom Considine: I'd say, you know, Dublin is obviously a small place and I'd say that the forecasters are fairly regularly in contact with each other. So it would be a bit naive to claim that, you know ... you'd be unlikely to produce a forecast if you were in the Department of Finance without knowing what, you know, the ERSI and the Central Bank and various other people ... indeed, not alone that, but we published it in the budget statement every year, I think, while ... certainly in a number of years ... and we said "Here's what our forecast is, here's what the other ones are". And in one year we actually compared how the forecasts worked out over time. So, you know, there would've been-----

Deputy Pearse Doherty: Was there any ... was there major differences-----

Mr. Tom Considine: I-----

Deputy Pearse Doherty: -----between the three and if there were major differences, how were they worked out?

Mr. Tom Considine: I wouldn't necessarily know because this would be, you know, very much at technical level.

Deputy Pearse Doherty: Okay.

Mr. Tom Considine: Yes.

Deputy Pearse Doherty: In relation to the financial stability report which you signed off on as a board member of the Central Bank, did you agree with - you say you agreed with the report ... was it your view or not that the warnings or the risks that were in ... outlined in the financial stability report were toned down? Was there more information at board level in relation to ... board level in relation to the risks than actually went into the financial stability report?

Mr. Tom Considine: No, I don't think so. I've seen this ... and including the proposition that somehow we should have been saying something in private and saying something different in public, wouldn't like to be here trying to explain that. I mean, as far as I'm concerned, this is pretty straight down the middle. The analysis came to the board, the discussion took place between the two boards, they signed off, there were no dissensions. Now, you know as well as I do if you're on a board, you dissent if you're strong and your dissent ... you should have it recorded.

Deputy Pearse Doherty: But, in your view ... and that's fair enough ... but in your view there was no stronger feelings in ... there's been evidence given, for example, that if you said there was such a risk to financial stability it would be self-fulfilling, it would bring on the thing you wanted to avoid. In your view, were there any kind of discussions of that nature at board level in relation to the financial stability report?

Mr. Tom Considine: No. Well, I need to be careful. I saw that evidence you're talking about. It didn't apply during the time I was there and, to be clear, that's the ... 1 November 2005 was the last stability report that I was involved with.

Deputy Pearse Doherty: Okay. You mentioned earlier to one of our Deputies, your pension was in the region of €118,000, I think. That's the current, probably, salary, is it? I think it was higher than that at one stage.

Mr. Tom Considine: Not much.

Deputy Pearse Doherty: Not much. I think it was €125,000-----

Mr. Tom Considine: Twenty three.

Deputy Pearse Doherty: -----that's been put on the Dail record. Can I ask you, in relation to your appointment as a public interest director, did you receive the €97,000 - as a public interest director - in 2012 on top of the pension or was that subsumed into the pension?

Mr. Tom Considine: No, that was on top of it.

Deputy Pearse Doherty: On top of the pension. And when did you step down as a public interest director?

Mr. Tom Considine: I didn't.

Deputy Pearse Doherty: You didn't? You're still a public interest director?

Mr. Tom Considine: Yes, I am.

Deputy Pearse Doherty: And what is the level of fees for a public interest director on the board of Bank of Ireland today?

Mr. Tom Considine: All directors have the same fees.

Deputy Pearse Doherty: Yes.

Mr. Tom Considine: €63,000 for being a director and, with additional allowances for chairmanship of committees ... and committees so ... that's it in a nutshell.

Deputy Pearse Doherty: So, what is the total just for the last published year that you have?

Mr. Tom Considine: €98,000.

Deputy Pearse Doherty: €98,000. So that was to ... for 2014, is that correct?

Mr. Tom Considine: That's it.

Deputy Pearse Doherty: So it began at €79,000 in 2009, went up to €90,000 in '10-----

Chairman: Just, now, with the timeframe now, Deputy.

Deputy Pearse Doherty: ---in '11 up to €90,000, '12 it went up €97,650 and then two more years it went up marginally.

Mr. Tom Considine: All those figures are published in the annual reports of the Central ... of the Bank of Ireland.

Deputy Pearse Doherty: Okay. Can I ask you the question, in terms of the term "public interest director" - you've been paid over half a million euro, in excess of half a million euro, for your role as public interest director - is there a difference between a public interest director and a director of Bank of Ireland?

Mr. Tom Considine: I might've answered that question the last time I was before your committee but, this time ... there's only one director of a company. You know, all directors have the same responsibilities. The difference is that the Minister decided to appoint people with a public sector background in the belief that that would influence the way they looked at things. It's as simple as that. But in the 2006 ... 2010, I think, Central Bank Act, all the directors of what they call the covered banks, banks that were ... they all have a public interest obligation.

Deputy Pearse Doherty: Okay. Can I ask you, just, when was the first time that you became aware that the bank that you were a director of was providing bonuses to its customers to the tune of €66 million and was subsequently fined by the State?

Mr. Tom Considine: To the staff. Bonuses to staff.

Deputy Pearse Doherty: Bonuses to staff.

Mr. Tom Considine: I don't ... I don't know about ... I was, I was directed to come here to address something else. I'm not ... I don't even understand that question.

Deputy Pearse Doherty: Well, the question is, Bank of Ireland was, was paying out-----

Chairman: Okay. Now, when was this this, Deputy?

Deputy Pearse Doherty: It was ... this was during the terms of reference of the banking inquiry. They were providing bonuses after the guarantee, which was prohibited under the terms of the guarantee, to its staff - there was a special report done by the Department of Finance that was commissioned by the Department of Finance - which totalled €66 million. They showed that bonuses were being paid out or to be paid out and Bank of Ireland was fined €2 million as a result of this in terms of, I believe, misleading information to the Department of Finance. The Dáil record had to be ... had to be corrected because misleading information was given to the Minister of Finance at a prior occasion. As a director of that bank, were you ... as a public interest director of the bank, when did you become aware of such an event that were in breach of the guarantee?

Mr. Tom Considine: To be honest, Deputy, I haven't reviewed those papers, you know, for ... for a long time now, so ... if you want me to come back and give you the details of that, I'll be happy to do it.

Deputy Pearse Doherty: Were you aware before the Minister was made aware?

Mr. Tom Considine: I don't know the answer to that.

Deputy Pearse Doherty: Okay. Can I ask you in relation to the property tax reliefs ... and you talk ... you talked at length in relation to the fact that you phased them out in 2006 in the Finance Acts 2006, but is it not the case, Mr. Considine, that these property tax reliefs were going to expire in 2006 anyway? Can I put it to you that the urban renewal scheme was actually going to expire in 2002 and extended to 2004 and then extended to 2006 and then extended to 2008? Can I put it to you that the living-over-the-shop scheme was extended twice during the period of the scheme? The rural renewal scheme was extended twice up to 2006. There was the park and ride scheme, the town renewal scheme, the student accommodation scheme. The multi-storey car park scheme was extended twice over the period of that scheme. And these were all supposed to conclude either in 2002 and 2004 and were extended to 2006 and 2008. Wasn't it not the case, if the Department took a position of no policy change, that these would have just ... there was an exit clause or a conclusion date on them that you decided in your review to extend up until 2008?

Mr. Tom Considine: Yes. Well, I think I said that, you know, ideally these should have been ended a lot earlier, you know, than they were, but the reason for it was there was a nervousness about the whole property and housing ... particularly housing and I, I think the reason why there was such a thorough exercise conducted in 2005 was to make sure that we didn't do any great damage by ending them. They could have ended. They could have ended-----

Deputy Pearse Doherty: But they were due to end is the point I'm making.

Mr. Tom Considine: Yes, yes.

Deputy Pearse Doherty: The evidence that's been provided is-----

Mr. Tom Considine: Yes.

Deputy Pearse Doherty: -----that you began to phase them out, but is that not just changing the language? They were going to expire but the Department intervened or the Minister intervened to extend them on a number of occasions, including in 2006. And can I ask you this point here: is ... when you mention that ... your concerns in relation to the property sector and you mention the implementation of the Bacon report, and correct me if I'm wrong, that you suggested that there was a dip in property prices as a result of it, can I-----

Mr. Tom Considine: I'm not sure it was a result of the Bacon report. What happened was, as a ... what was seen to have happened as a result of the Bacon report was that the effect of it was to reduce the amount of people coming into the buy-to-let sector and it drove up property prices or, it drove up rents. I think the fall off in house prices, it's probably as much to do with the downturn in the economy.

Deputy Pearse Doherty: Which fall off, sorry?

Mr. Tom Considine: This was in ... I think it was 2001.

Deputy Pearse Doherty: Can I put it to you that-----

Mr. Tom Considine: Yes.

Deputy Pearse Doherty: -----there was no fallout ... fall off in property prices and the Department of Environment statistics, which are published on their website, will actually show that there was an increase in house prices right throughout that period, including in 2000, 2001-2012?

Mr. Tom Considine: If you take individual years, yes, but I'm saying there was a period of three or four months where house prices fell.

Chairman: Could you not leave it sure to ... to go the way you did? Could you not have waited longer?

Mr. Tom Considine: At that time, I wasn't dealing with this particular situation.

Chairman: Would you consider it premature on reflection now?

Mr. Tom Considine: I, I don't think so because I, I think that there wasn't a proper appreciation of what the impact would be of the decisions when they were made.

Chairman: But given that you would be looking at budgets on an annualised basis, you'd be operating data off an annualised basis, that two or three months of data to then engage in such a significant decision with just three months' data, would that not ... would that be common practice that a decision of that scale would be made on very limited data confined to two or three months? I mean, we know the house prices cycles operate in different times of the year. People don't buy a house in December if they can avoid it. They'll most likely buy it in the summer when the days are longer.

Mr. Tom Considine: Yes. I, I think there was a feeling at the time that, you know, you couldn't, you know, if, if this got momentum, you know, that you mightn't be able to stop it. So that's the ... you know, that's essentially, I think-----

Deputy Pearse Doherty: Can I put it to you-----

Chairman: Now, can you wrap up.

Deputy Pearse Doherty: -----just, finally, to wrap up here. Mr. Considine, you're talking about, you know, we've put on the record that these ... these were extended on a number of occasions-----

Mr. Tom Considine: Yes.

Deputy Pearse Doherty: -----right up until 2008. And you're saying because of the three-month blip in house prices in 2001, that that was a concern. Now, given the fact that second-hand houses in Dublin rose by €30,000 between 2001 and 2002 ... but can I put it to you, in 2006 a second-hand house average price was €512,000, compared to in 2001, when this blip happened, of €267,000. How could a three-month blip, where the overall year showed an increase in house prices of quite a substantial amount, be of a major concern when people like the ESRI and others are saying that there is an overheating in the economy and we need to start to not just phase out the property tax reliefs but "Do not extend them", which is what calls were being made at that time from external agencies? And what was your advice? Were you of the view, in 2002, 2004, 2006, that each of these property tax incentives should have been not extended at that point in time?

Mr. Tom Considine: I don't recall exactly, you know, on each individual ones but I did review the files in relation to it and it's just a fact people were nervous about intervening in the property market. That's a fact. And, you know, you can-----

Deputy Pearse Doherty: Your view ... sorry, your view.

Mr. Tom Considine: No, it's-----

Deputy Pearse Doherty: Were you nervous?

Mr. Tom Considine: No, it's ... at that time, 2001 and 2002, I wasn't really dealing with this, but this continued on down. There was a whole structure around looking at the taxation of property and so on, the tax strategy groups and so on. And what I'm saying to you about ... what I'm picking out of the analysis that I've done is that there was this concern not to upset the property market.

Chairman: Thank you very much, Deputy. I'm going to move towards a wrap-up. I'll just deal with a couple of questions and then I'm going to conclude with the two lead questioners. I just want to revisit one question that was ... I think Deputy O'Donnell engaged with you this morning ... I just need a bit of clarity on it ... it's during your tenure as Secretary General as to what was the role of the Department of Finance in overseeing the Financial Regulator. If you could explain to us, Mr. Considine, was this role restricted to legislative issues related to the implementation of the new regulatory system or did it expand beyond that?

Mr. Tom Considine: No, the legislation that established the regulator set out in some detail what the regulator was required to do. For example, section 33P required the regulator to draw up a strategy statement. And that legislation was more specific. It also specified what was to be in it. So the function of the Department was to review the strategy statement to see did it actually comply with the Act, did it have in it what it was supposed to have. Then that was submitted to the Minister and then the Minister laid it before both Houses of the Oireachtas.

Chairman: Was the term "soft landing" forged during your tenure?

Mr. Tom Considine: Yes, it was kind of ... I don't know whether it was forged during my tenure, but, it ... it was there anyway because the ... the ... I mean, the OECD report of March 2006 is one of the few places where it's defined. It could mean many different things but they define it.

Chairman: And the other reports, they were, kind of, maybe using similar language but not maybe the exact ... exact terminology. So, if I could ask you in that regard, Mr. Considine, what attempts were being made to qualify ... quantify the effects of a soft landing and what impact this would have on Government finances - for example, in terms of loss of revenue and increased expenditure - what advice was given to Government in this regard?

Mr. Tom Considine: Well, as ... as I said to you ... one of the exercises that was done on this by the ESRI, and published in December 2005-----

Chairman: Was that on the Department of Finance's behalf or was that something that the ESRI took on board to do themselves?

Mr. Tom Considine: No, it was something the ESRI did themselves.

Chairman: It wasn't something that you commissioned or asked them to do, no?

Mr. Tom Considine: No, but ... I mean, we would have been aware of, you know, all ... all this stuff that was in the in ... in the public domain. I mean, it was published ... this was ... this was published data. So, you know, that's-----

Chairman: But the Department of Finance, did it carry out any modelling itself on the soft landing?

Mr. Tom Considine: We ... I think it's in one of these core documents here that we did actually look at what the consequences of a fall in the output of the housing market would be from, whatever it was €80,000, €90,000 to 40-----

Chairman: And what was the concrete evidence or the pinning, the conclusions that you were drawing there?

Mr. Tom Considine: Well I ... I suppose the ...the ... expertise that was in the system in relation to public expenditure and taxation. So, I mean, one of the things the Department did on a regular basis was forecast tax revenue ... in ... in consultation with the Revenue Commissioners and also it did analysis of public expenditure and the cost of funding ... or the cost of spending over a period.

Chairman: Okay, but that's ... if I could maybe say ... use the statement, all things being equal ... but the Irish economy had very particular difficulties with it at the time. As has been stated earlier, 24% of the economy tied up in construction ... as members have identified a whole series of issues this morning - highest debt, indebtedness in Europe, most ... evidence, I think, I presented myself to yourself this morning, the house ... the highest property values in western Europe, most expensive houses, Dublin more expensive than cities like New York and Hong Kong - just for residential property not even commercial stuff - consumption taxes now becoming the balance of income more so than the structural tax. And ... so where's the evidence to say that as soon as this ... there would be a slow down in construction, there would obviously be a knock-on effect upon employment, this would have a knock-on effect upon consumption taxes, peoples indebtedness levels ... it's not even a case ... like, we know from the finance committee that you've been in before and from the Keane report, that for a lot of people who ran into difficulty, it wasn't that they actually lost their job, what they actually lost was their affordability to actually pay back their debt? Was there any evidence that any of these things was going to happen?

Mr. Tom Considine: I ... I think the work ... the work that was done on ... on these I have outlined already, which was done in the context of the, you know, the ... the ... financial stability reports and the ESRI material. I mean, and our own Department looking at what would be the consequences, you know ... or how could ... how could we support the economy if there was a downturn in the property market.

Chairman: But .. okay, sorry, go on conclude now.

Mr. Tom Considine: Yeah, but, and I suppose in relation to the experience in 2001 and 2002, when tax revenue fell off, it was apparent - and it was frequently referred to - that this would ... this would be a consequence. And it depended on, you know, how much of a fall ... but there was nobody predicting the kind of economic shock that actually transpired.

Chairman: And this brings me to my final question, Mr. Considine. The ... what ... what we do know is that there were a lot of external reports by the IMF, the OECD and all the rest. These are all reports about you, about us. These are external reports talking about the state of our house. You're using the language and the vocabulary of a sort landing ... a soft landing and you're referencing the content of their reports with our external analysis of us. Did you carry out any analysis in the Department of Finance with regard to modelling, examining, stress testing and actualising the reality that there would be a soft landing when there was the inevitable downturn that was being projected or identified in the financial stability reports and all the rest?

Mr. Tom Considine: Nothing other than what was in the financial stability reports.

Chairman: Yes, but I don't want to get into the situation now that we have the IMF report, the OECD report, the others. Did the Department of Finance, under your watch, carry out any examination in preparation to get a concrete evidential book of material to say this is the evidence we're going to base our soft landing on. This is our information, it's not external examinations by the OECD, the IMF or anybody else.

Mr. Tom Considine: No, not to my knowledge, no.

Chairman: Okay, thank you. Deputy Higgins.

Deputy Joe Higgins: Mr. Considine, just briefly, following on the questions in relation to house prices that Deputy Doherty was on, did you ever discuss with any of the Ministers for Finance the massive increase in house prices that was happening between 1996 and 2006?

Mr. Tom Considine: Yes, obviously we did, yes, because repeated reports came out drawing attention to it, yes.

Deputy Joe Higgins: Well, the fact that the price of a home for an ordinary working person was going up with the equivalent of the average industrial wage each year for ten years, was that not a cause of a massive discussion with the Minister?

Mr. Tom Considine: Not alone ... it caused massive discussion everywhere but, unfortunately, the conclusions that were arrived at ... were that this was justified to a great extent by reference to what was happening in the wider economy, namely, the big increase in population, the large increase of the number of people at work, something like 600-----

Deputy Joe Higgins: Okay, but, Mr. Considine, how does that justify ripping off young people and extending their mortgages to 35 and 40 years? I mean, the industry ripping them off in terms of ... of the equivalent of the average industrial wage each year-----

Chairman: We're coming up to lunch, Deputy, and I don't want to be getting indigestion so don't be too prejudgmental but ask the question please.

Deputy Joe Higgins: It started at three minutes rather than five-----

Chairman: Yes, I ... I'll give you a bit of extra time if you don't give me indigestion.

Deputy Joe Higgins: Sorry, Mr. Considine.

Mr. Tom Considine: Well ... I ... I'm not sure what the, you know ... I mean, I'm not trying to justify the fact that house prices went up.

Deputy Joe Higgins: I know, but why was it not the cause of a massive debate inside in the Department with the Minister and action taken to stop it?

Mr. Tom Considine: Well, I think the number of levers that were available to ... to stop or to, if you like, reduce price increases in the property sector are limited.

Deputy Joe Higgins: Was it perhaps a reality, or not, Mr. Considine, that the interests of big property developers and big builders took precedence with the political leadership of the country over the interest of home buyers?

Mr. Tom Considine: I ... I ... I didn't ever see that. I think the concerns that the Government Ministers that I saw was about employment and, generally, economic development. I mean, I ... those terms that you describe, they don't, they don't ring a bell with me anyway.

Deputy Joe Higgins: But that was the reality, that massive profits were made on the backs of young people buying a home. Is that not the case, or is it?

Mr. Tom Considine: Well, in the end ... in the end the property market crashed and I don't know who ... you know, not too many people came out well out of it.

Deputy Joe Higgins: Okay. Mr. Considine, in March 2006 the Revenue Commissioners wanted to impose stamp duty on contracts for difference and there was strong lobbying by stockbrokers and interested parties against that. In a book, *The Fitzpatrick Tapes,* by Tom Lyons and Brian Carey, it was said that on 22 March you were emailed by Davy Stockbrokers significant ... heavily lobbying against this, that PricewaterhouseCoopers also lobbied and that by 30 March, under the Minister, Mr. Cowen, this proposal was dropped. Do you remember this?

Mr. Tom Considine: I do, yes. Actually, what happened was that Revenue was going to issue an opinion that stocks purchased for ... to support sales of contracts for difference will be subject to stamp duty. Now, the understanding I have is that when that piece of legislation was introduced, these didn't exist. So, what we got was representations from the Irish Stock Exchange, the London Investing Banking Association, J&E Davy and PricewaterhouseCoopers. And the essence of it was that if we went ahead and did this, that the stock market would be hit fairly hard in terms of ... in terms of its business and so this was ... it was decided to review it and this was eventually dealt with in the Finance Bill of 2007 with the introduction of intermediary relief and it was fully debated in the Oireachtas and the Taoiseach, Brian Cowen, made a statement on that in Wednesday, 18 February 2009.

Deputy Joe Higgins: So was it the case that powerful interest, stockbrokers-----

Chairman: Last question now, Deputy, and don't be leading, just ask the question.

Deputy Joe Higgins: -----stockbrokers, developers seemed to win out over the interest of the small people, let's put it like that? And then finally, since I have to conclude, Mr. Considine-----

Chairman: Okay, Deputy Higgins, I'll have to ask you to put the question, not to present evidence. So if you can maybe put a proposition-----

Deputy Joe Higgins: Yes, I know. I'm putting my last question and the last one was a question as well. But, Mr. Considine, after this very heavy lobbying by Davy Stockbrokers and others, you resigned a few months later and then, within six months, you were employed by Davy Stockbrokers. Would you not see a problem of ... with that?

Mr. Tom Considine: Well, first of all, there was no connection between the two things, I can assure you. What happened in the case of Davy Stockbrokers was that they repurchased some of the equity in the firm in the middle of 2006 and they wanted some independent people on their board and that was ... and I had all appropriate approvals for what I did. There was an actual structure in the Civil Service at the time called the outside appointments board and at the ... I submitted to them the proposal to join Davy's board for their direction and that's what happened. In relation to the functions of the Minister and the Department of Finance, one of them is clearly to make sure that we don't do anything which will undermine a sector of the economy. Now, if we have reason to believe that there was something proposed which could cause a significant loss of business to companies operating in Ireland, of course we have a duty to respond to that and look into it and examine it and see, is it wise? If it were considered to be the right thing to do, we would've gone ahead with it.

Chairman: Thank you. Senator O'Keeffe?

Senator Susan O'Keeffe: Thanks, Chair. When Minister Lenihan asked you to be a public interest director for Bank of Ireland, did he ask you to waive the fee?

Mr. Tom Considine: No.

Senator Susan O'Keeffe: Did you consider waiving it given that you would ... only got the job because you'd been ... you had the lifelong career that you'd had and that you were already receiving a pension?

Mr. Tom Considine: No.

Senator Susan O'Keeffe: No. Did you ever yourself have any informal meetings with representatives of banks or building societies or property developers in your role as Secretary General? Would you have ever met them for a cup of tea or a chat or a briefing?

Mr. Tom Considine: Well, as Secretary General, lots of people call in to see you and most of them are courtesy calls but if what you're asking me is did I go to various functions and things like that other than accompanying the Minister, I don't think so.

Senator Susan O'Keeffe: Did you meet with any other former secretary generals or other members of the Department ... former members or members of the Department of Finance for any briefing prior to this hearing?

Mr. Tom Considine: I got assistance from the Department, yes, they have a section set up to help with ...

Senator Susan O'Keeffe: But did you meet any other former secretary generals?

Mr. Tom Considine: No.

Senator Susan O'Keeffe: You didn't. In relation to the tax breaks-----

Mr. Tom Considine: Sorry Deputy, I suppose ... when you say meet, I should be clear about this. I mean obviously some of these are friends of mine. I would have met them in, you know, social settings and so on like that, but if you're saying, did I discuss, you know, what evidence I was going to give, or anything like that, no.

Senator Susan O'Keeffe: No, you didn't discuss evidence-----

Mr. Tom Considine: No, no.

Senator Susan O'Keeffe: -----but you would've met them socially?

Mr. Tom Considine: Yes.

Senator Susan O'Keeffe: Okay. In relation to the cost of the tax breaks we discussed earlier that Indecon produced, did you have any idea in your own head that the final cost to the Exchequer of those tax breaks would be as high as it was or did you have any idea at all?

Mr. Tom Considine: We did, sure we knew what they were, you know, we had various tables showing what they were, yes.

Senator Susan O'Keeffe: So why did you require Indecon to give you a figure and given that you then knew them and they were so high, why did you allow them to go ahead if you knew the costs to the Exchequer would be as high as it was?

Mr. Tom Considine: I think we're ... the taxes that Indecon looked at were specifically tax breaks to support the building industry. And what they were doing, was not so much looking at the cost of them, but looking at the effectiveness of them and what they were contributing to the economy and whether there was a case for continuing them in that regard.

Senator Susan O'Keeffe: So what was your view when it was revealed by Goodbody that it was a small group of high net worth individuals that had in fact benefited from those tax breaks rather than a broad-based benefit? What was your view, was that something you'd expected or did you know or were you concerned?

Mr. Tom Considine: I would've expected that, yes. Because, I mean, you need large income to benefit from-----

Senator Susan O'Keeffe: Had you advised the Minister that in fact this would not have a broad-based benefit but that it would be individual high net worth people that would benefit from such tax breaks?

Mr. Tom Considine: Well, I think if ... just to speak about 2006 budget, I mean, the Minister took action in the 2006 budget.

Senator Susan O'Keeffe: No, I'm talking about past ... I'm talking about before that.

Mr. Tom Considine: Before that.

Senator Susan O'Keeffe: Yes, sorry.

Mr. Tom Considine: I don't recall. But to be honest, I don't think anybody who would be familiar with the tax system would have had any doubts that it would be people with high income who would benefit most from these.

Senator Susan O'Keeffe: I have one last question, Chair, and that is, you referred several times, Mr. Considine, to the expression "People were nervous." Who were those people and what do you mean by nervous? Because you said several times also that, you know, you, as a Secretary General, and your team could only advise and in the end the politicians decided. So I'm not clear - were those people auctioneers, property developers, bankers, civil servants, politicians, Ministers, the Taoiseach? I'm not clear.

Mr. Tom Considine: I'd say the Civil Service advisers and the Minister, I'd say were both ... maybe I shouldn't have used the word "nervous", but they were concerned that you needed to be extremely careful in interfering with the property market in case you would cause a severe downturn. I think that was ... that's the-----

Senator Susan O'Keeffe: So that if anything was ... I just ... let me ... I'm sorry, Chair, I just need to be clear. So that if any changes were to be effected, that there was concern that those changes might make the property market go down, is that right?

Mr. Tom Considine: Yes, I think it's not so much if changes were made, but that they needed to handled carefully and consequently. If you look at the Indecon and Goodbody reports, you will see that they both recommended phasing out of these rather than just an abrupt end to them. And that's the-----

Senator Susan O'Keeffe: Sure, but you knew, because you've just told us, you knew that there were high net worth individuals that were effectively benefiting from all of this. So were there not flags being raised in your advice that if high net worth individuals were benefiting from this, that perhaps this advice needed to be rescinded?

Mr. Tom Considine: But I'm not sure I see the connection between the two things. I mean, the reason for the property tax incentives was not driven by a desire to reduce the tax paid by individuals. It was designed to-----

Senator Susan O'Keeffe: Well, it did.

Mr. Tom Considine: Well, it's an inevitable consequence. Any tax ... any tax break is going to benefit somebody, otherwise it won't work.

Senator Susan O'Keeffe: Right, and so are there figures-----

Chairman: Right, but last question now, Senator, I'm wrapping up.

Senator Susan O'Keeffe: Yes, in fairness, you've said that you can't remember whether you gave that specific advice as to the benefits that people would get ... whether you gave that advice to the Minister?

Mr. Tom Considine: Well, I ... to be honest, I think it would have been so self-evident, I don't see how you could have tax incentives that wouldn't benefit high net worth individuals.

Chairman: Thank you. Okay, with that said, I'm going to bring matters to a conclusion, we're going to break for lunch. In doing so, I'll just wish to wrap up with yourself, Mr. Considine, and in doing so to invite you, if you want, to make any final comments by means of closure, or by means of clarification to anything else you've said.

Mr. Tom Considine: No, thank you, Chairman. Thank you for your courtesy. Thank you.

Deputy Pearse Doherty: Could I just ask, just on that point, the information that he said ... you said you would look for in terms of the bonuses, if that could be furnished?

Chairman: Yes.

Mr. Tom Considine: Yes.

Chairman: And Mr. Considine has agreed to do that.

Mr. Tom Considine: I'll send it in to the committee.

Chairman: Okay, with that said, I'd like to thank Mr. Considine for his participation here today and for his policy of engagement with the inquiry. The witness is now excused. The witness is suspended until ... or the meeting is suspended until 2.30 p.m. when we will hear from the further witnesses from the Department of Finance. So, with that said, thank you again, Mr. Considine, for your engagement with the inquiry this morning. I propose that we suspend until 2.40 p.m., but I would suggest just for members we just need a quick, short two-minute private meeting to deal with some issuing of a notification that we just need to be in session for to make happen. So, with that said, just a brief suspension and to resume in two minutes for a two-minute meeting. Is that agreed? Agreed.

The joint committee went into private session at 1.34 p.m., suspended at 1.36 p.m. and resumed in public session at 2.40 p.m.

Department of Finance - Mr. David Doyle