

# HOUSES OF THE OIREACHTAS

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Afternoon

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## AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Dé Céadaoin, 1 Iúil 2015*

*Wednesday, 1 July 2015*

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The Committee met at 9.30 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.

**Mr. Donal McNally:** Thank you, Mr. Chairman, and thank you, committee members. I'm conscious that I may not have been as helpful as I set out to be because some of the issues were not directly my concern but I do hope that some lessons can be learned for the future, that some device is found whereby the natural inclination to spend the money when you have it, can be replaced by a more prudent and far-seeing course and I wish you well in that regard.

**Chairman:** Are you familiar with the term "euphoric recall", Mr. McNally, are you? The term "euphoric recall". It's used in terms of recovery, particularly with addiction studies and stuff like this, and by means of a time to find a relapse. They also ... they note with addicts that they start recalling the past in a different type of light to the type of damaging way it was. Would you ... considering that you are maybe now retired but you're observing things as we move into the future, do you see any sort of dangers like this? That we look back to the past? Things like the SSIA scheme that we were discussing earlier and we might reshape them in our heads that might create difficulties for us going into the future.

**Mr. Donal McNally:** Well, there's always that ... there's always that danger but hopefully the work and recommendations of the committee might be able to dispel that particular phenomenon. I'm not familiar with addiction.

**Chairman:** Well put, that's a good point to close with, we'll keep you on. With that said, I would like to thank Mr. McNally for his participation today and for his engagement with the inquiry. The witness is now excused and I propose that we will break for one hour, resuming at 2.45 p.m. Is that agreed? At which time, we will hear from Mr. Charlie McCreevy, former Minister for Finance.

*Sitting suspended at 1.50 p.m. and resumed at 2.50 p.m.*

### **Department of Finance - Mr. Charlie McCreevy**

**Chairman:** So, will I call the meeting back into public session? Is that agreed? Okay. And we'll now commence with session 2 of today's public hearings with a discussion with Mr. Charlie McCreevy, former Minister for Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session. And can I ask members and those in public Gallery to ensure that their mobile devices are switched off? This afternoon we have the first of a number of hearings with senior members of Government who had key roles in the run-up to the crisis period. At this afternoon's session we will hear from Mr. Charlie McCreevy, former Minister for Finance. Charlie McCreevy was a member of the Dail for County Kildare from 1977 to 2004. He held several senior posts in Government and was Minister for Finance from 1997 to September 2004, after which he became EU Commissioner for Internal Market and Services from 2004 to 2010. Mr. McCreevy, you're very welcome before the committee this afternoon.

**Mr. Charlie McCreevy:** Thank you.

**Chairman:** Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If 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. And 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 will overlap with the subject matter of the inquiry. Therefore, the utmost caution should 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 the 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 ask the clerk to administer the oath to Mr. McCreevy, please.

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

Mr. Charlie McCreevy, former Minister for Finance.

**Chairman:** Once again, if I could thank Mr. McCreevy for being here this afternoon. And if I can invite you to make your opening remarks or statement to the committee please, Mr. McCreevy.

**Mr. Charlie McCreevy:** Thank you, Mr. Chairman. I was Minister for Finance from the 26 June 1997 to the 29 September 2004. As directed by the committee, I submitted a statement on specific lines of inquiry relating to my role as Minister for Finance. As my period as Minister for Finance ended in September 2004, some considerable time before the banking collapse, my statement deals only with those areas of interest of which I might have some direct knowledge or which would have arisen during my tenure as Minister. This opening statement refers briefly to areas of my written statement.

The new regulatory structure was set up during my time and culminated in two separate Bills in 2002 and 2003. In 1998 the Government agreed in principle to the setting up of a single regulatory authority for financial services. Interestingly, the idea of an SRA was first mooted in 1989 but it was decided not to go ahead with same at that time. We asked Michael McDowell to chair the implementation advisory group. It consisted of nine persons and produced two reports, a majority report and the minority alternative model. It took some time to reach political agreement as to the new structure, which eventually led to the two Bills as referred to above. There was considerable disagreement and not just between the politicians. If you read the commentary on stances of that time, there was not universal agreement as to how and where the new authority should be located. I've noted with a certain degree of irony that a number of the politicians and commentators who wished to keep the Central Bank out of the key role at that time were to the forefront in advocating the return of all powers to the Central Bank post the recent financial crisis, and that has now been done.

Practically all of the debate of those years centred on the consumer protection angle, and little on prudential supervision. I outlined in my statement the various reasons for such debate orientation. I further outlined in my statement that the rules for the capital requirements for banks were designed internationally following the Basel committee recommendations. There has been a recurring notion in much of the Irish media commentary of recent years that prin-

principle-based regulation, also referred to as light-touch regulation, was an Irish invention. In particular, some commentators have gone so far as to advise that light-touch regulation was even a Charlie McCreevy invention. Much as I might be flattered to think that I might own the copyright, it is not the case, and light-touch, principle-based regulation was a long time in vogue internationally, and years before I arrived as Minister for Finance. At least some of the earlier evidence to this committee has at least scotched that notion.

I have outlined in my statement as to how capital requirements for Irish banks were managed under the same formulae and policies which applied to all the other European banks. As the new structures were in the embryonic stage of development before I ceased as Minister in 2004, I can only comment in a cursory way on the co-operation and integration of the new bodies. However, during the setting up of IFSRA, I was strongly of the view that there was an excellent level of co-operation between the chair of IFSRA and the Governor of the Central Bank. The new structure allowed the Central Bank to concentrate on the macro level and to produce financial stability reports which contain guidance for the financial regulation to follow. IFSRA had responsibility for the individual institutions under their remit.

I now turn to direction from the committee on advice. Strictly, the reprimand from Brussels on our 2001 budget would fall under the heading of “advice”. The European Union was of the opinion that our budget and stability programme update were inconsistent with the broad economic policy guidelines and issued this reprimand early in 2001. However, in November 2001, the Council of Ministers lifted its earlier reprimand and stated, “Unexpected economic developments were such that the inconsistency underlying the recommendation has lost its force.” This says much about the whole art, if it is one, of economic forecasting. In fact, during the course of 2001, the international economic slowdown had gathered force arising from a number of factors, and economic activity in Ireland had declined sharply. In fact, the year-on-year increase in real GDP in Ireland decelerated from 13.1% to 0.1% in the last quarter, thus the 2001 Irish budget was then seen in a different light in Brussels. I shall also mention that, in 2001, there was much criticism of the EU reprimand, and not just from the Irish Government. Many commentators, nationally and internationally, were critical of the EU stance. As many referred to at the time, there appeared to be one set of rules for the larger countries, and a different book for the smaller member states.

On the issue of advice given to governments from many quarters, the Department of Finance, Central Bank, ESRI, OECD, European Union, IMF, and others, the line taken by all democratic governments is that it is just what it says on the tin, advice. Democratically elected governments must, at all times, with their freedom, do what they consider best, in the interests of their people. Yes, this means the ignoring of some advice and the taking of others. I note with some wry amusement that the current Government, as is their right, seems to be steadfastly ignoring advice from a plethora of sources. The Fiscal Advisory Council, established in law by the present Administration, are saying that the projections for growth, consumer spending and population are too optimistic. Also being sidelined are commentaries from the ESRI, the European Commission, and the IMF, not to mention some domestic economists and commentators.

My high regard for the Department of Finance and the staff is well known and has been documented many times previously. However, it is not a criticism when I note the very obvious. Very few worthwhile initiatives of different political Administrations would never have seen the light of day if advice from the Department of Finance had been followed. One of the most groundbreaking changes in Ireland was the introduction of free secondary education in the sixties by the late Donogh O’Malley. This was done without the approval of Finance, and

those of an historical bent know that the Department was so exercised, that it got its Minister, the late Jack Lynch, to formally complain to the Taoiseach. Finance were totally unaware of the proposal, and O'Malley was, indeed, in contravention of Cabinet rules for making such a major announcement without informing his other colleagues, and, in particular, the Minister for Finance. Wasn't it a good job for Ireland that Seán Lemass ignored the angst of the Department of Finance?

I look back on the advices from a number of the already mentioned sources. For example, in 2002 the main theme seemed to be the threat of inflation, and there was little talk of housing prices, or that general area, in any of the commentary. In fact, a leading economist was so concerned in 2002 on the slowdown, that he suggested the diverting of funds, of the annual contribution of the pension reserve fund, and putting that money into capital projects. Some commentary always referred to the fact that we had €1.5 million people between the age of 50 and 34, and that the demand for housing would continue to be very strong. To illustrate, again, the futility of forecasting, I would draw attention to the 2000 report from the long-term issues group of the Department of Finance. It predicted a total population of 4.1 million in 2056. It's about 4.6 million today. And that the Exchequer debt would be wiped out entirely by 2012. During my time as Minister for Finance, I was painted as a right wing ideologue, possessed of a Scrooge-like parsimony when it came to public spending. On the other hand, post the financial crisis, I've been turned into a kind of Santa Claus and the philosophy most often attributed to me by my detractors is supposedly encapsulated in the quote, "When you have it, you spend it". It is ironic that this comment was made on the publication, in November 2001, of the following year's departmental Estimates. The headline in the *Irish Independent* on the following day was entitled, "McCreevy takes the axe to public spending". The first line of that article reads, "Finance Minister Charlie McCreevy last night brought to a shuddering halt the big-spending era that went with the economic boom", end of the headline. Later on, in that article, it refers to me saying, "When you have it you spend it. The mistake is to try to spend it when you haven't got it". Now, however, I think it can be fairly said that the above actual comments of mine, when I was answering a question as to why I was reducing public spending, have been distorted and non-contextualised to an extraordinary degree. The comment at that time attracted little attention but seems to have got a special lease of life during the economic downturn. The reason for such misrepresentation ... well, to quote from another scribe, "It might just be an interesting example of the way popular quotes get distorted over time to better fit the public perception of the person who made them".

I vigorously disagree with the assertion that the Government, during my term as Minister for Finance, misspent the proceeds of the stellar economic growth of that period. We did increase spending in a large number of areas to make up for lost time, and for the under-provision of services in the previous decade and a half. As a percentage of GNP, in 1986, Government expenditures stood at 58%, and Government debt at 122%. At the end of 2003, the respective figures would have been 38% and 35%. In respect of spending during my time in office, I've set out, in tabular form, the percentages for total Government expenditure and gross current expenditure. These figures are taken from the public document Budget Statistics 2014, published by the Department of Finance. The figures I quote are in respect of GNP and, of course, the percentage figures in terms of GDP would be lower. In terms of GNP, gross Government ... gross current expenditure ... I'll leave ... the figures for Government expenditure are in a different column; I'll just refer to the gross current expenditure figures. As a percentage of GNP, in 1997 it was 35.2%, and that relates to a previous Government of Fine Gael and Labour. In 1998, for me, it was 31.7%; in 1999, it was 30.4%; in 2000, it was 28.1%; in 2001, it was 29.5%; in 2002, it was 30% even; in 2003, it was 29.8%; and in 2004, it was 29.8%. No matter how these figures are

interpreted, it is quite clear that there was no splurge over the period. This was a period of considerable economic success. The numbers for people at work increased massively; there was practical full employment; the scourge of forced emigration ceased after 150 years; we experienced the welcome new phenomenon of migration to Ireland; the population increased dramatically; we increased spending considerably in the areas of health, education and social welfare; the pension for the aged was increased to a proper level; child benefit more than doubled; and many other improvements in public services. And, during all of those years, we ran substantial Exchequer surpluses, except for a small minus in one year. This was achieved after paying for a massive public capital programme, the most visible example being the now excellent road network, and yet there was still a surplus. We also set up the National Pensions Reserve Fund, setting aside most of the proceeds from the Telecom privatisation, and setting aside 1% of GNP annually. This fund was intended not to be touched until after 2025, and was there to provide for future pension liabilities. Since the recent financial downturn, critics are suggesting that we should not have spent all of this money.

So if we had spent less, it would have meant larger budget surpluses and some have gone on to say we should have built up further rainy day funds, apart from the pension reserve. Now, are these people for real? In a political democracy, it is especially difficult to run any kind of a budget surplus and many were even against the idea of the pension reserve fund. It is difficult to run a surplus in a democracy. If there was one patient untreated by the health services, one family without a house, one special needs person without proper services, one pay demand unmet, what justification would any Government have had for increasing the reserve fund and initiating further buffers? Not alone would it be politically unacceptable but I suggest it would be morally wrong also.

The next theme of the committee refers to the property sector and, by implication, the question of tax incentives in that area. Activity in the construction sector has always been a key driver of economic activity. Despite the gains made in residential construction over the years, Ireland's housing stock is still below the EU average in units per 1,000 of population. This is particularly obvious in 2015, which results in rents climbing substantially. Furthermore, it has always been part of the Irish social culture for persons to actually own their own home. This led the Government to initiate various reports of the housing market, which resulted in some changes. Tax incentives for the property investment have been a feature of the Irish tax code for over 50 years. As far as I can research, there are incentives as far back as the 1959 Finance Act. Some have sought to give the impression that the property tax incentives only really started after the '97 Government came into office. However, if you look at the list of incentives by non-Fianna Fáil-led Governments, you will find many others, such as urban renewal, seaside resorts, designated islands and many more.

My attitude to property tax incentives is summed up in my budget speech on the 2003 budget, when I was going about ending the deadline for some of the schemes. I proposed ending many on 31 December 2004. As I said in that speech, "the existing demand for property investment and the desire to improve equity in the tax system, there is no justification for a continuation of these reliefs beyond 2004". Regarding the philosophy of property tax incentives, I stated, "I am a supporter of properly-focused, clearly defined, specific reliefs which can encourage the development of goods and services, including public services, which might otherwise not be provided, or where provided, are too little or too late." So to conclude, quite recently an Irish commentator wrote the following:

The reality is that economics is a social and not a physical science. Economic outcomes

are generally driven and shaped by human behaviour, and unfortunately human behaviour is rarely possible to predict with any degree of certainty.

During my time as a student in University College Dublin, what is now the department of economics was then known as the faculty of political economy. The longer I was in politics, the more I understood the accuracy of that old definition in UCD. Thank you very much.

**Chairman:** Thank you very much, Mr. McCreevy, for your opening statement and we'll get matters under way. I just want to deal with one item first with you if you don't mind and maybe that is just to ask your comments from contributors to the Wright report indicating that there was a lack of leadership and direction in the Department of Finance during the period of 2000 to 2010, and its effectiveness was limited. Would you agree with the comments made and what should have been done or is still to be done to improve the Department's role and effectiveness going forward?

**Mr. Charlie McCreevy:** On the basis that there is nothing being done today that couldn't be done better and I suppose there are things being done today in the Department of Finance which are being done better than they were during my time but ... so, I am sure the Department of Finance has taken on board some of the commentary in Wright and other inquiries that they made themselves and the ongoing work that they do to improve themselves. I can only speak for my time at the Department of Finance. I found the officials there very helpful, working extremely long hours, prepared to - at the drop of a pin - to go and do things which were way above and beyond the call of duty. I found them helpful in every respect. They argued their viewpoint very forcibly, they ... and then when, if you wanted to go in another direction, they went off and did what you told them to do. That's the job of what good public servants do and I can only say that I think they vigorously fought their corner. I found nothing during my time to say that there was anything but the highest level of intellectual capacity applied to all the problems and the best officials I think in the public service were there.

**Chairman:** One of the continuous themes running through the Wright report is the positioning of counter-cyclical policies that may have been advocated by the Department of Finance and issues relating to potential overheating in the economy. The question, as I put it to you, was that Mr. Wright makes a critique of leadership and direction in the Department during that period, in terms of trying to make those arguments and that it was very very limited. Would you agree with Mr. Wright's analysis or would you have a different opinion?

**Mr. Charlie McCreevy:** Well, I found the Department of Finance came along and put their views. But, like, unless we want to go to another kind of structure on ... whatever kind of democracy you want to call it, it's the Government of the day that makes the decisions and it's the Minister of the day that runs his Department. There is no ... in the words of a former Secretary General at Finance, still alive I know, there is no such thing as a departmental view of government. There are only Ministers' views. I am some time intrigued in recent times to read when politicians, and we all have done this, try to get out of trouble as to why something can't be done. They come along and say the Department of Finance won't let us. That's only a cop out. If you convince the Minister for Finance - that's the person to go to and he can overrule his officials if it's a good enough case. I am sure if you go back over my 27 years in the Dáil when I was a backbencher, I perhaps used that as well. I don't recall so doing but it's an absolute ... so if the Department of Finance come along, argues its case, it puts some of those things in writing and they fight their case. Then the Minister goes and makes the decision and the Government makes the decision based on what the Minister and the Government want to do. So, therefore, there is no difficulty, I found no difficulty with the Department of Finance giving their views.

I don't really understand what Mr. Wright wants the officials in the Department of Finance to do. Maybe to stand outside Merrion Street with a loud hailer or something like that. But you couldn't run any democracy on that basis. I am sure when Deputy Pearse Doherty becomes Minister for Finance and Deputy Joe Higgins is Minister for Public Expenditure, that they will get loads of advice from the Department of Finance and they'll blindly ignore it.

**Chairman:** Thank you very much, Mr. McCreevy, and you are correct in the points you are making there and I made it to Mr. Cardiff there last week when he was before us. Just to remind both witnesses and members of the committee that as we look at public servants and we look at politicians, while public servants may give advices and bring advices to Ministers of the day, the decision rests solely with the politician, not with the finance-----

**Mr. Charlie McCreevy:** Correct and that is the way it should be, and that is the way it is in every representative democracy.

**Chairman:** Okay thank you. Deputy Pearse Doherty.

**Deputy Pearse Doherty:** Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an tUasal McCreevy. Can I begin first of all by asking you through 1999 to 2003, the Governor and the Central Bank warned you of excessive growth in the credit markets, warned you about the housing markets, commercial property markets, overheating in the economy and, finally, the possibility of a hard landing and this could lead to unhappy economic and social consequences. So Mr. McCreevy, with hindsight, and given the advice you were receiving, should you have been more cautious in taxation and spending policies in your budgets?

**Mr. Charlie McCreevy:** Well, I have outlined in my opening statement as to what the success of that economic period gave us and what we spent the money on and at the same time, we see we ran budget surpluses. And during my ... there was, of course, an increase in house prices over that period but there has been an increase in house prices long before that period as well. In fact, I took a little liberty of going back and looking at Central Bank kind of commendations for the last 30 years or so and you'll nearly find the same thing in every report of a central bank in Ireland and elsewhere as well. Central bankers are by nature, and rightly so, obliged to worry about things like inflation. They'll always advise the Government to run surpluses if they can run surpluses and even when we had large indebtedness, they were saying back years ago "well you shouldn't give any tax concessions at all and you should more or less cut down the public services entirely." And Governments took some of that advice on board and trained their budgets, as I did in my time, in what I considered the best possible way and the proof of the pudding has been in the eating. We achieved economic growth of considerable measure. We did the things which I've outlined there earlier and no disaster came to pass. So I don't accept that, in my time as Minister for Finance, until 26 September 2004, that any of these disasters occurred as predicted by all these people. It just didn't happen.

**Deputy Pearse Doherty:** So, would that be a "No"?

**Mr. Charlie McCreevy:** A "No" to what?

**Deputy Pearse Doherty:** The question I asked you. The question was, in relation to the warnings that the Central Bank were issuing you in relation to your policies in terms of the credit market, the housing market, the commercial property, the fact that they were warning of the possibility of a hard landing which could lead to unhappy economic and social consequences, with hindsight, and given the advice you were receiving, should you have been more cautious



in taxation and spending policies in your budget?

**Mr. Charlie McCreevy:** No.

**Deputy Pearse Doherty:** Okay, I appreciate that. Do you accept at all that your policies had ... well, first of all, can I ask you do you believe that there was a property bubble?

**Mr. Charlie McCreevy:** Well, I think, at the end of 2003, I think an interesting few figures - and I'm sure the committee has got these from the Central Bank and from other organisations as well - I think if you look at the lending figures to ... in this whole area of residential development and commercial development, when you summate it from all the banks, you come at one ... there's a fairly ... it's a reasonable figure, but it's ... but, by the end ... over the next ... from 2003, say, to 2007, I think ... it went up by an extraordinary amount, the amount of moneys that banks were setting aside in this general area. I'm sure the committee has the figures-----

**Deputy Pearse Doherty:** Yes, we do.

**Mr. Charlie McCreevy:** -----from other sources. Like, it's a colossal change so I'd be pretty satisfied, at the end of 2003, and I was also responsible for the budget for 2004, I didn't see any of the dangers to which you are referring to, no.

**Deputy Pearse Doherty:** So ... but do you believe, do you acknowledge that there was a property bubble-----

**Mr. Charlie McCreevy:** Well-----

**Deputy Pearse Doherty:** -----at some stage?

**Mr. Charlie McCreevy:** Well from 1990 ... you must remember at different periods, different things happened. At the end of ... in early ... if you look at the figures, when we implemented some of the Bacon recommendations regarding interest and other ... the interest, deductability, etc., etc., whether it was as a result of that or other factors in the global economy or in the Irish economy, construction activity fell off markedly in that particular period and we were ... instead of employment going up in the area and prices going up, they started to come down. But we're also looking ... look, as I said in my earlier address, economic growth in that ... from the first quarter of 2001 to the last quarter went from 38% to 0.1% and so, therefore ... therefore, it wasn't a universal spike all the while where it's going upwards in terms of property prices either. There was that period as well. But you must remember, in Ireland, like, the population of Ireland increased dramatically. I was here in the Dáil since 1977 and-----

**Deputy Pearse Doherty:** Yes, I appreciate that, Mr. McCreevy.

**Mr. Charlie McCreevy:** -----the population went as low as 3.5 million and now ... it increased dramatically so there was a continuous demand for housing-----

**Deputy Pearse Doherty:** I know. I understand. I am not-----

**Mr. Charlie McCreevy:** -----and houses were in short supply.

**Deputy Pearse Doherty:** -----looking for an answer in terms of the demographics, I just wanted to know, as a former Minister for Finance, do you believe that in any time there was a property bubble in the last 15 years in Ireland? Just to find some basics as to what your thinking is.

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**Mr. Charlie McCreevy:** Well, I'm only ... I was only directed by the committee to refer to my role as Minister in my time as Minister for Finance and that ended in 2004 and I'm answering for my stewardship.

**Deputy Pearse Doherty:** And any other questions that the committee deem relevant and this is one of the questions to try and understand your thinking, whether you're a person who denies that there was a property bubble in the run-up to the crisis or whether you're a person who accepts there was a property bubble and then it will lead me on to looking at your policies and seeing did your policies have a role-----

**Mr. Charlie McCreevy:** Well-----

**Deputy Pearse Doherty:** -----on that either fictional property bubble or a property bubble that you acknowledge exists.

**Mr. Charlie McCreevy:** Well, I can only answer from my time as ... in the role as Minister for Finance and that's all I've been asked to do.

**Chairman:** Mr. McCreevy, there would be relevance and I would try to be consistent with all witnesses and I usually wrap up with asking witnesses if there's anything they could offer in terms of advice to this committee to the future - you might just stop the clock there for a moment - because one of the things I would hope that everybody would want to see at the final report when this committee has completed its work is to ensure that the type of trauma and difficulties that was put on the shoulders of ordinary people in this country do not have that revisited upon them again. So, what we ... so I would see a relevance to different decisions made at different times and the systemic consequences of them. That's not to say that you're to blame or to fault, but whether there is a relationship or not a relationship. So, in that regard, I would allow a freedom to be discussing things beyond 2004 that may be related to decisions ... or decisions that were or were not taken during the period leading up to 2004.

**Mr. Charlie McCreevy:** Well, can I just say, Chairman, the following. You can check the record to establish that this is correct or not. I ceased as Commissioner in February ... European Commissioner in February 2010. I have not made any comments on any aspect of Irish public policy since that time. In fact, during my time as Commissioner I was very reluctant to say any comments at all, but since that time, despite requests from all types of media, journalists of all descriptions, people that write books, etc., I ... and I've been very tempted on occasions to do, I have never, ever made a comment either to defend my own record-----

**Chairman:** Sure.

**Mr. Charlie McCreevy:** -----or anything else. I said that's what I was going to do when I finished public life and I've stuck by it, even though I've been sorely tempted-----

**Chairman:** Sure.

**Mr. Charlie McCreevy:** -----and I'm not going to break it today.

**Chairman:** Okay, but I would still ask you ... because you are under direction and you are under oath to ask questions that are put to you by members that are in order.

**Mr. Charlie McCreevy:** They can, of course.

**Chairman:** Okay, thank you. Deputy Doherty.

**Deputy Pearse Doherty:** So, will you answer the question?

**Mr. Charlie McCreevy:** Which question?

**Deputy Pearse Doherty:** The question again is do you ... are you somebody who acknowledges that a property bubble happened in this country in the lead-up to the crisis?

**Mr. Charlie McCreevy:** I have answered the question to the best of my ability ... is that, what I was ... what were the figures when I ... during my time as Minister for Finance, which ended in 2004, and I didn't think at that time that there was a property bubble.

**Deputy Pearse Doherty:** Do you acknowledge that a property bubble emerged after your time as Minister for Finance?

**Mr. Charlie McCreevy:** I'm sure that's what the committee is going to deliberate upon and come to a conclusion when it makes its report.

**Deputy Pearse Doherty:** I'm looking for your view.

**Mr. Charlie McCreevy:** I don't have one.

**Deputy Pearse Doherty:** You don't have a view?

**Mr. Charlie McCreevy:** Well, I don't have a view which ... I am not going to break the edict I put on myself, is that, in commenting on what happened after my time.

**Deputy Pearse Doherty:** See, can I ask the Chair ... just a minute. I want to ask the Minister for ... I want to ask the former Minister about property tax reliefs that you introduced and continued to extend and did they have an impact to fuel the property bubble. I need to determine here, at the committee, whether you believe there was a property bubble or not. I cannot ask the questions because you're avoiding answering a very simple question which I think is very relevant to this committee-----

**Mr. Charlie McCreevy:** Well I don't know-----

**Deputy Pearse Doherty:** -----and which has been ... you know, which has come from the Honohan report and other reports. Chairperson, I'm asking-----

**Mr. Charlie McCreevy:** You see, I don't believe-----

**Deputy Pearse Doherty:** -----for a direction here.

**Mr. Charlie McCreevy:** But, Deputy, I don't believe that there was a property bubble during my time.

**Chairman:** Okay. I ... Mr. McCreevy ... and if need be, we can kind of break into private session to discuss this and iron out the legalities of it, but I'd rather not do that. There is-----

**Mr. Charlie McCreevy:** I've no trouble answering a question about property tax incentives. That's not going to a problem at all.

**Chairman:** Okay. I think the question that ... that would be leading to is a systemic relationship between decisions - action, outcome and consequence and so on - and the issue here is policies taken at a particular time, did they have systemic consequences to lead to something else. And the question that Deputy Doherty is presenting is did these actions add to something

happening afterwards and, within the terms of reference, I would consider that to be a fair question. Deputy Doherty.

**Deputy Pearse Doherty:** Again, could you answer the question? Do you believe that there was ... a property bubble had emerged in this country before the crisis?

**Mr. Charlie McCreevy:** I ... when I left as Minister for Finance in September of 2004, I didn't think there was a property bubble.

**Deputy Pearse Doherty:** And, Chair, I'm going to ask for ... that we adjourn because this is just ... we need to deal with this, unfortunately, but I've asked the question now five times and I'm halfway through my time.

**Chairman:** Okay, we'll adjourn. I'd propose that we adjourn. In doing so that the ... and we're suspending ... sorry, suspending, not adjourned. And the witness is reminded once he begins giving evidence he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before the committee. With that in mind, I now suspend the meeting until I deem it time to resume again and I remind the witness that, while we are doing so, he is still under oath until we resume. So, I just need to go into private session for a moment, we'll get a legal position actually on this, and then we shall resume. So, if I can clear the public Gallery, please, and the ushers will indicate when we're back in public session.

*Sitting suspended at 3.29 p.m. The joint committee resumed in private session at 3.42 p.m. and went into public session at 3.48 p.m.*

**Chairman:** Mr. McCreevy, thank you for coming back into the committee room and I just want to deal with some matters formally. And I would like to remind the witness that if you refuse to answer a question which falls within your direction, you may be subject to criminal sanctions under section 75 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2009. Further, if you refuse to answer any question without being entitled in law to so refuse, the committee may make a finding of you that you failed to comply or fully cooperate with the inquiry in its final report under section 14 of the Act. Also, in your direction to come before the committee here today, you were also put on notice that the committee may make a recall of you on Wednesday or Thursday of next week, at which time we can amend the directions to actually broaden out the line of questioning, if we so desire, once it falls within the terms of reference of the broader inquiry. So, with that said, if we can now actually proceed with our line of questioning and if I can start ... restart the clock and ask Deputy Doherty to ask his question again, please.

**Deputy Pearse Doherty:** Thank you, Chair. Mr. McCreevy, at any time in the decade preceding the crisis, do you believe that there was a property bubble in this country?

**Mr. Charlie McCreevy:** Well, as I said before we were interrupted, certainly after ... from 2003 to 2007, all the figures would seem to indicate that the price ... house price escalation was of an extraordinary degree. So in that particular context you could call it, I suppose, a bubble.

**Deputy Pearse Doherty:** Okay. And in relation ... do you believe that your policies impacted on that bubble or helped to create that bubble or to sustain that bubble?

**Mr. Charlie McCreevy:** I don't believe that the policies I pursued helped to create that bubble.

**Deputy Pearse Doherty:** Okay. Okay.

**Mr. Charlie McCreevy:** It's for others ... others can have a different opinion about this-----

**Deputy Pearse Doherty:** No, that's ... yes.

**Mr. Charlie McCreevy:** -----but I don't.

**Deputy Pearse Doherty:** That's fine. The Bacon report proposed a series of measures to curb price increases, including a 9% stamp duty rate for investors, a 2% anti-speculation property tax - measures that you initially supported, Mr. McCreevy, but then rejected. Why did you change your mind?

**Mr. Charlie McCreevy:** Well, let's go back a little bit. There were three separate Bacon reports. They were commissioned by the Minister for housing. The first one was requested in November '97, and reported in April '98. The evidence in all of that time was on the first-time buyer. If you read the commentary in the newspapers and the Dáil debates, everybody was concerned that the first-time buyer was being forced out of the market, and he or she couldn't get their foot on the first rung of a ladder, so the Minister for housing requested the Bacon report. The Bacon report made, kind of, certain recommendations and that resulted in the Finance (No. 2) Bill of 1998. The main reasons for ... there were a lot of other things in the Bacon report related to housing supply, etc.-----

**Deputy Pearse Doherty:** We're ... we're aware, we've had Mr. Bacon before the committee and he gave us a good chronology of the report.

**Chairman:** Allow Mr. McCreevy a bit of time to answer now as well, Deputy.

**Mr. Charlie McCreevy:** But the Finance (No. 2) Bill 1998, the main things it did was it disallowed the interest on persons purchasing second homes; it changed the stamp duty regime substantially; we had a reduction of CGT and development of land from 40% to 20%, if it was to be developed within five years, and the penalty was to increase CGT to 60% if hoarded. There was an interesting, very interesting Dáil debates at the time. The two main Opposition parties opposed it. One of the Opposition parties was considerably against the interest ... the disallowance of interest deductibility. And I remember him saying, and you can check the Dáil debates, that all this would have unintended consequences. So that was the effect of the first Bacon report.

Then we have the second Bacon report, and when the second Bacon report came out, prices had slowed down since 1998, but rents ... prices had gone down on houses, but rents had gone up 24% in Dublin and 17% in the rest of the country. Apartment prices had gone up 24% and there were about 42,000 units completed that year. Now, actually that report of second Bacon 2 praised the new student accommodation tax relief that I had in budget 1999. And it also praised the new urban tax scheme for 43 towns cities that was in that time as well. And then we had the Bacon No. 3 report that reported in June 2000. And that report concluded firmly that rates of increase in prices on new and existing homes in Dublin were down sharply since 1998, and that's what the report said. It also said that immigration of 200,000 to the country was expected over the next seven years, and this led to the Finance (No. 2) Bill of 2000, and that third Bacon report and the subsequent Finance (No. 2) Bill 2000, led to the introduction of the 2% anti-speculative tax, and tax of 2% of non-principal private residences. Now, the interest deductibility and other changes were made subsequently, as Deputy Doherty has pointed out, and the reason for so doing was that we got a fair shock as to what was happening in the economy in 2001 into 2002.

As I referred to early in my address, growth had fallen off considerably. There ... if you read the figures from the CIF and from the housing bodies, there was considerably less economic activity in the housing sector, or in the construction sector generally, and unemployment in that area was starting to rise, and that's why we reversed our approach on deductibility and the 2% anti-speculative tax did not take place. It was really made redundant as well.

**Deputy Pearse Doherty:** And why did you scrap the ... the original question, why did you change your mind on the 2%?

**Mr. Charlie McCreedy:** Because I just said ... because we thought ... we believed at the time and the figures had borne it out, is that the effect of what we done in Bacon No. 1, in particular, was in danger of killing off the whole construction activity in the country and-----

**Deputy Pearse Doherty:** So, it was to boost the construction activity? Or to maintain it at least, is that the answer to the question?

**Mr. Charlie McCreedy:** Well, I think the second part of your question about ... to maintain it-----

**Deputy Pearse Doherty:** To maintain the construction industry. Okay, Professor John FitzGerald of the ESRI was very critical of the changes you made, the fact that the 60% capital gains tax on zoned land along with the changes you made to the Bacon proposals. He told the inquiry on the 11 February, and this is evidence that he's given, he said:

The fiscal policy was most unwise, and it fuelled the programme. If we had a sensible fiscal policy, we would not be where we are now.

Do you agree with him?

**Mr. Charlie McCreedy:** I do not agree. But then this wouldn't be the first time I disagreed with either FitzGerald junior, or late FitzGerald senior. I don't think I've ever found an occasion to agree with any of them ever. So, I certainly ... I read what he said and I didn't agree with it then, and I don't agree with it now.

**Deputy Pearse Doherty:** Okay ... like, is it just personal or is there anything of substance that you can give us-----

**Mr. Charlie McCreedy:** No, no, no ... it's not personal I don't know the gentleman at all but I do not agree what he said then and I looked at it, he said it again in the committee. In fact, I think he said to the committee that he took great pleasure in it ... in saying it was wrong-----

**Deputy Pearse Doherty:** In terms of the-----

**Mr. Charlie McCreedy:** -----or words to that effect.

**Deputy Pearse Doherty:** In terms of the property taxes, and you've mentioned a number of them there, urban renewal scheme, the rural renewal scheme. How many times did you extend those property taxes?

**Mr. Charlie McCreedy:** I haven't looked it up quite recently but they have been ... you must remember property tax incentives had been ... the deadline for completion had been extended by many Governments over a long period of years, and as has been outlined during early inquiries of the committee with other witnesses, there were often very good rules in that. Some

people start off a venture, there are a lot of hold ups, usually with planning permission, financing, etc., and we have to ... it comes to a stage when money ... a lot of money is being expended and you're going to call off that ... and most have been transitional arrangements which we have done and, on a few occasions-----

**Deputy Pearse Doherty:** Did you extend them in the Finance Bill 2004?

**Mr. Charlie McCreevy:** In the Finance Bill 2004 actually, I did the opposite. In Finance Bill 2004 ... was I ... bear with me and you could accuse me of a little bit of contradiction of what I had done in previous finance Bills. In Finance Bill 2004 I proposed the ending, and brought forward the dates to the end of 2004. That was the main change in Finance Bill 2004. If you look at what I said then I brought forward the closing dates to 31 December 2004, and that actually was against what ... would have been against the spirit and the commitment that people had entered into, because I think the dates originally were 31 December 2006, I think if not later, and I decided to cut off a number of reliefs. And as I said in my opening statement, I brought back the dates to 31 December 2004. So actually I did the opposite.

**Deputy Pearse Doherty:** And you didn't extend any at all in that finance Bill?

**Mr. Charlie McCreevy:** We did ... If you look, I-----

**Deputy Pearse Doherty:** Like many of these reliefs continued right up until 2008, Minister.

**Mr. Charlie McCreevy:** Yes, because the Government subsequently decided, and since I'm going now after my term in office - and we had a little bit of a disagreement about that earlier - the Government subsequently decided, as I understand looking at the Finance Bill, to extend the closing dates of some of those particular schemes, that I had in budget and Finance Bill 2004 ... ceased, extended the closing date. It wasn't me that did that. I'm sure the Government were convinced that they had a reason to do it.

**Deputy Pearse Doherty:** Did you extend the transitional arrangements in those measures?

**Mr. Charlie McCreevy:** I think we had ... I think there was ... I'd have to look up the ... I haven't had a chance nor would it be possible for me to so do ... of what all the details were, but, as far as I can recall, in 2004, what I did was that I brought forward the closing dates for a various schemes at the time. I mentioned in the speech what are the ones-----

**Deputy Pearse Doherty:** Okay. If you don't have them at the minute-----

**Mr. Charlie McCreevy:** If you look at the budget speech, you'll see it.

**Deputy Pearse Doherty:** Yes. For budget 2006, Indecon took on a review of property-based tax incentives and, on page 32 of the report, it said, "The options of financial institutions, auctioneers, and accountancy tax professionals regarding the effect of the property-based tax incentives as well as other analysis undertaken by Indecon suggest that, in addition to increasing investment and projects, the tax incentives had led to an increase in site prices, financial returns to promoters and property prices." Do you accept that outcome ... that finding of the Indecon report?

**Mr. Charlie McCreevy:** I certainly ... I was aware that the Government subsequently done a report that you're referring to there but I certainly had never read the report, so I'm not too sure as to what they said. But the Government and the Department of Finance would at all

times, even in my time, be assessing the validity of various schemes. So, I understand, in 2006, as you said, they got a big report done on all of those schemes. But it's hard to like ... since I haven't read the report, I can't comment on the specifics of it, but it's hard to make such a sweeping statement that all the property tax reliefs in all of that period contributed to house price inflation, in particular. Like, since the schemes to which I were responsible for introducing, were such like for nursing homes, rural renewal ... I certainly would ... I can argue the toss about rural renewal; it's a fairly ... But it's hard to think how the nursing homes relief escalated the property price of housing - child care facilities in the 1999 Finance Act, student accommodation I did in the '99 Act, park and ride, which, I think, there was a very little uptake on it. There wasn't ... as far as I know, in my time, from answering questions in the Dáil, I'm not too sure whether really did anybody take it up, up certainly to the end of 2002 in any event, maybe someone did. We brought in town renewal ... and actually town renewal ... the number of towns that took it up, were a lot less than we had envisaged at the outset ... there was a list of a couple of hundred. Private hospitals ... there was a relief brought in in 2000, sports reliefs in 2002-----

**Chairman:** Mr. McCreevy, I just have to interrupt you one second.

**Mr. Charlie McCreevy:** -----so it's hard to know how they would go to-----

**Chairman:** Sorry, Mr. McCreevy, I'll just interrupt you on that. I'm getting phone interference there, please, and I don't want to reading out a second legal warning this afternoon to somebody but will they turn off their phone please? Sorry, Mr. McCreevy.

**Mr. Charlie McCreevy:** So, I just ... I can see what the Deputy is getting at but it's hard to relate that to some of these reliefs there that I had brought in as my time as Minister. Now there were, you must remember ... prior to my time as Minister, you must remember there were urban renewal which is being ... which came in in ... urban renewal actually started in 1986 Finance Act-----

**Deputy Pearse Doherty:** Yes, we're aware of that-----

**Mr. Charlie McCreevy:** -----so, it is ... so but I'm saying that some of those reliefs there-----

**Deputy Pearse Doherty:** Yes, but you were Minister for seven years. You'd brought in seven Finance Bills during ... where those urban renewals continued through that period. I want to move on to another question.

**Mr. Charlie McCreevy:** I ... just a small correction, I brought in nine Finance Bills.

**Deputy Pearse Doherty:** Nine Finance Bills. Well, there you go. One of the statutory objectives of the Financial Regulator was the promotion of the financial services industry in Ireland. To what extent did Government encourage the Central Bank to pursue this role internationally? And in your view, did the ... this objective compromise the prudential role of the Financial Regulator?

**Mr. Charlie McCreevy:** I don't think ... I couldn't see for a moment how it would've compromised the role of the regulator in terms of the prudential supervision of Irish banks. And I'll tell you why I would believe that. There are many reasons why financial services have come to locate in Dublin or, now, in any part of the country. The main ... but the main reason for so doing, for the respectable funds, is to be ... is to be in an area, in a country, which they had ... is regarded as well regulated. That's what these firms and banks and institutions want to locate in Dublin for. You can make other cases about tax, etc., etc., but one of the primary reasons is to



be located and regulated from a jurisdiction that's recognised as having good prudential rules and regulations. So it would be a negative, in the medium to longer term, for the regulator to not go about doing his job in a sufficiently robust way because the ... it would then get out that Ireland was not the place of proper regulation and, therefore, we would lose our cachet in attracting firms there. So, I do not believe that was the case.

**Deputy Pearse Doherty:** Okay. In your view, were the regulatory institutions of the State focused on the non-labelling of the IFSC as an offshore haven, instead of ensuring that the domestic banks were regulated in a sufficient robust manner to mitigate against the financial stability risks arising from the domestic sector?

**Mr. Charlie McCreevy:** Well, during my time in Finance we were always grossly offended by anyone in the international press referring to us as a tax haven. In fact, we ... it was the one thing that concerned the Irish Government, the Department of Finance and the Department of the Taoiseach and they were exercised any time there was ever a hint in an article that Ireland was a tax haven. There were strict definitions of what a tax haven was by the OECD and others and we certainly were not then, or since, a tax haven. And so, therefore, we never ever ... Ireland would vigorously object in all of those years, including to the present day - I'm sure, the current Minister would say the very same - we do not regard ourselves as a tax haven. We have a low rate of corporation tax which-----

**Deputy Pearse Doherty:** No, sorry, I am aware of that. The question was-----

**Mr. Charlie McCreevy:** But not a tax haven.

**Deputy Pearse Doherty:** The question was, were the authorities overly concerned with making sure that the IFSC was not labelled as a tax haven to the detriment of prudential regulation? That was the question.

**Mr. Charlie McCreevy:** Well, I wouldn't know as to how they divided their resources in the regulatory office. I wouldn't be aware of that at all-----

**Deputy Pearse Doherty:** Okay.

**Mr. Charlie McCreevy:** -----but I would regard it as, if the ... it would be a very short-sighted policy if they so do. But I didn't have any evidence, in my time, that that was done.

**Deputy Pearse Doherty:** Okay. Can I ask you, you were responsible as Minister of Finance for appointing the majority of the board members to the central board and Financial Services Authority of Ireland board and the board of IFSRA. Can I ask you, how did you come about ... how did you decide on who to appoint to the board? And it seems, you know, your appointments to the board of the Financial Regulator included, besides others, a senior counsel, a former member of the Independent Radio and TV Commission, a journalist, a former CEO of the beef trading company and chairperson of the IDA - who was also former director general of the Irish Business Employers Confederation, IBEC, the former chairman of a large estate agency. And Brian Patterson, the former chairperson of the Financial Regulator, told this inquiry that he made you aware of his lack of experience in financial regulation at the time of his appointment. So, can I ask you, how did you come to deciding who to appoint and what were your reasons to appoint persons with very limited regulatory or banking experience to the board of the Financial Regulator?

**Mr. Charlie McCreevy:** Well, I did see in the reports of the committee where Mr. Patterson

had said ... referred to some discussion we'd had when he was appointed the chairperson of IFSRA. I don't recall the particular discussion but I know ... if Mr. Patterson said that, that's what he said. I take it that's what did occur. And, as I said in my opening statement and in my witness statement as well, all the ... in setting up the new structure, you can look at all of the Dáil debates and all of the Seanad debates and all of the commentary and you'll see all this concentration on consumer issues to the exclusion of nearly everything else. And bar myself and, once or twice the Front Bench spokesperson of Fine Gael, referring to the prudential area of things, that was about the only discussion you'll read at all about prudential in all of the debates on two Bills ... not alone the two Bills but all the four years that went by before we actually set up the bodies at all and all of the controversy there was about the difference between us and the Department of Enterprise, Trade and Employment, about where the location of new bodies should be.

When it came to the appointment, I actually ... I can't remember how Mr. Patterson came to be appointed. I certainly never knew him. I never knew him in any walk of life. So I assume he must've come up through a process that maybe the Department of Finance or the Department of Enterprise, Trade and Employment pursued at that time. We did try to ensure when we set up the body CBFSAI, the Central Bank of Ireland and Financial Services Regulatory Authority, we had them ... IFSRA here ... and we had the broader body then. We did have, I think, about six members of the IFSRA on all - including the chief executive chairman - on the board of the larger body as well. And that was done in order to accommodate and to meld the two organisations together because there'd be a lot of controversy about setting up this in the first place. But regarding the individual appointments, some of these people that ... if I can recall, were appointed to the board of the Central Bank by non-Fianna Fáil-led Governments. Exactly one person-----

**Deputy Pearse Doherty:** Yes, I'm asking about you-----

**Mr. Charlie McCreavy:** But I appointed those people ... most of those people that I appointed, we did it in a small process. We put forward a few names, we put a journalist on that ... a journalist and novelist, I'd call the person-----

**Deputy Pearse Doherty:** Yes.

**Mr. Charlie McCreavy:** -----for ... to really give an emphasis on, say, really talking about consumer, so that other people had been, in all walks of life, had different experiences. And when you're appointing a board, you appoint people to a board that you think bring different experiences to the area. We ... at that particular time ... Deputy Doherty mentions why not some people with regulatory experience? Well, I don't know what people were around ... looking for ... with regulatory experience that we would've picked from but, in any event ... the board of a central bank, you'll need a broad range of experiences-----

**Deputy Pearse Doherty:** Okay. Okay-----

**Mr. Charlie McCreavy:** -----so, I wouldn't make much of that.

**Deputy Pearse Doherty:** Can I ask you ... when I asked Kevin Cardiff, who was here, of who lobbied for the guarantee, your name popped up. He mentioned that at a meeting on 23 May, you suggested to him that a broad statement would be made. Can you enlighten the committee as to, first of all, your recollection of that conversation with Kevin Cardiff? What was your motivation for saying that to Kevin Cardiff? Had anybody spoken to you prior to that or

subsequent to that? And in your opening statement you talk about the engagement you had with senior bankers, which was more at an authority level, but can you also discuss some of the private engagements you had, particularly in August 2008, with the very senior bankers in Anglo Irish Bank?

**Mr. Charlie McCreevy:** Well none-----

**Deputy Pearse Doherty:** Was there any lobbying done-----

**Mr. Charlie McCreevy:** No-----

**Deputy Pearse Doherty:** -----in relation to any of this?

**Mr. Charlie McCreevy:** No, I read what Kevin said to the inquiry. I have no recollection of the meeting or the conversation. He said he attended an event at which I was presumably the guest speaker, I'm presuming it took place in Dublin. And I don't know whether ... after the event, whether sitting around and having a cup of tea, whether I asked him ... I told him or he asked me for an opinion. But, so I've no recollection of what I said then. But I would have a clear view as to what I would've been thinking around that particular time. I was in Brussels as EU Commissioner for Internal Market and Services and financial services had come to dominate the latter half of my term there as Commissioner and most of my cabinet would have been Irish members and we would have been reading the Irish newspapers, listening to Irish media outlets and all the debate was going on about Ireland and you certainly, we were very concerned just as Irish people, as to what was happening back home - as anyone would be - and it's probably, members of the committee know, your nationalistic fervour grows exponentially particularly when you're abroad in another country because you don't want other people saying bad things about your country. So there was all this emphasis on Ireland, so, as Kevin said at the .. the thing, and I'd say it's very accurate what he said, I said more or less to him "I think it's time", I probably said "Someone should make a broad statement about the situation." Now that is a long time, that was six months or so away before ever there was-----

**Deputy Pearse Doherty:** You think you said that because your statement-----

**Mr. Charlie McCreevy:** Well I don't know what I said, but Kevin said in his statement, this is what he said and Kevin said ... I think you were querying or someone was querying whether ... querying whether it was a, a legal guarantee or a political guarantee and so Kevin said, in my situation, he just said casually that-----

**Deputy Pearse Doherty:** So was that the sum total? The other part of the question was, was that the sum total of all your conversations-----

**Mr. Charlie McCreevy:** Yes.

**Deputy Pearse Doherty:** -----like, and I mentioned the meeting that you had with Seanie FitzPatrick in August 2008. Was there any lobbying done?

**Mr. Charlie McCreevy:** No, well, I don't ... where'd I meet Seanie FitzPatrick in 2008?

**Deputy Pearse Doherty:** Well, sorry, it's reported that you met with a senior banker in 2008, in August 2008. That right?

**Mr. Charlie McCreevy:** I don't ... I don't get ... I ... I have no recollection-----

**Deputy Pearse Doherty:** My apologies if that's incorrect.

**Mr. Charlie McCreevy:** I have no recollection of ever meeting ... in fact, I, I can speak of Seán FitzPatrick ... he-----

**Deputy Pearse Doherty:** My ... my apologies if that ... if that's incorrect.

**Chairman:** You are now going over matters that are taking place outside of this committee room Deputy.

**Deputy Pearse Doherty:** Yes, but the question is that you never discussed a guarantee with anybody else outside of Kevin Cardiff?

**Mr. Charlie McCreevy:** No, no, I ... can I just point out at that particular time ... I ... we would ... I would have thought that, and I'd say others thought as well, there was a lot of commentary, a lot of articles written with the Irish situation and many Irish people of all types of backgrounds were writing and sending in opinions to everybody as to what should be done. But can I just put it; at that particular time I don't think there was ... it was just talking about broad support of the banks and I think that they subsequently to the guarantee, this legal thing about what was guaranteed became an issue. But I'll nearly wager most people here that around that time, and that would be September, there was no much talk ... there was no ... when you're talking about supporting the Irish banks, it wasn't talked about ... these wonderful terms like subordinated bondholders etc. etc. I doubt that there was any much comment at all about that because most people, most people were warning something will have to be done. And my view, just as a concerned Irish citizen and someone who had been in the Department of Finance and would have known the pressure the guys in finance would have been over, and knowing Kevin Cardiff I'd probably just say-----

**Deputy Pearse Doherty:** You have my apologies to Mr. ... my apologies to Mr. ... my apologies to Mr. McCreevy by stating as a fact, which I didn't determine what it was - it arises out of the fact that there's a chapter in this book called *The FitzPatrick Tapes* called "Drinks with McCreevy [and] Dinner with Cowen" which gives, in great detail, a suggestion that there was a meeting between yourself and Seanie FitzPatrick in all this business-----

**Mr. Charlie McCreevy:** Well I can even ... you did say it was Seán FitzPatrick, we'd better clear this up for a start. I know Seán FitzPatrick since 1973. He's a bit older than me but we qualified at the same time. We worked in Craig Gardner accountants - now PricewaterhouseCoopers - we were there as seniors for a year and a half or so, together with the leader of the Labour Party, Joan Burton, who was a classmate of mine in UCD. So I know Seán FitzPatrick for that length of time but my only thing is with Seán FitzPatrick as a banker was that at one stage he was chairman, I think, of the Irish Bankers Federation and so I think they had a lunch or a meeting one time where they met us around the big table. This is back in my time in finance. I ran into him many ... a few times socially. I never played golf with him even though he's quite a ... he's a very good golfer, people might like to know that, but I actually never played with him, as far as I know. And I know him that length of time, but like I've no communication with Seán FitzPatrick. And by the way, for the record, I haven't drank for over 20 years.

**Chairman:** Thank you very much Mr. McCreevy. Deputy Eoghan Murphy. Deputy 25 minutes.

**Deputy Eoghan Murphy:** Thank you Chairman and thank you Mr. McCreevy, you are very welcome. I want to go right back if I may just prior to you becoming Minister for Finance.

In opposition you expressed a number of reservations about our entry into the euro and just two months before you were made Minister for Finance you said in an interview with Jane Suiter, “It will be interesting to see if you can have monetary union without an integrated process”. So upon your appointment as Minister what did you do to protect Ireland from our entry into the euro, in terms of the shortcomings that you had seen?

**Mr. Charlie McCreevy:** Well, one of the better committees that I was involved in in my political life, and that includes Ireland and Europe, there was a committee chaired by the late Jim Mitchell, set up in 1995 I would say, and I was spokesperson ... I was the finance spokesperson for Fianna Fáil to look at the whole area of our possible entry into the euro. And the late Deputy Mitchell brought all types of views before the committee; people who were very for joining it, people who were against. So we had a very robust discussion and no one ... we learnt a lot, all of us there, and it worked. We got very little headlines but actually it was very keen, so therefore all of the issues were thought about then. When I, as Deputy Murphy has alluded to, I would have had concerns about us joining the euro, as most ... as a lot of people did. Interesting enough, to show how ridiculous the economics profession is, our biggest, one of our biggest concerns at the time was that when we join the euro and our nearest neighbour wasn't joining. That was the big issue at the time, that we were going to join the euro and knowing that the United Kingdom wasn't going to join. Now it shows the development of the Irish economy since we joined the EU in 1973 that we were able to take that decision and consider it, knowing that our nearest neighbour, our biggest market, were not going to join. And one of the biggest issues that we had at the committee was the fear that we would join the euro, that the rate for the Irish ... the euro versus sterling would go totally in the wrong direction for us. And if you read some of the expert views we got done by many eminent economists who predicted that the Irish rate might go to €1.10 - €1.09, €1.10. Deputy Murphy will be aware that the total opposite occurred and we went in the other direction to as low as €0.66, €0.67. So it goes to show what all the experts ... but when we ... when we ... when I became Minister for Finance then in 1997, I actually was the Minister responsible then for making the formal decision and it took place ... or the euro notes and coins didn't start till '02 but we joined from 1999. And the major decision I had to make was at what rate we were going to join *vis-à-vis* the Deutsche mark and if I remember correctly, Ireland, when we devalued in '92, '93, we went to a rate, off the top of my head, the Deutsche mark from DM2.67 to DM2.41. It was then that the Irish pound kept appreciating against the Deutsche mark in '96, '97 and '98 up along, and the rate was when we were going to join and I said ... we kept our counsel very ... our cards very close to our chest and I finally made the call and we joined I think at the rate was DM2.48667. Why I can remember these figures I just don't know but I think they are fairly accurate.

**Deputy Eoghan Murphy:** Mr. McCreevy-----

**Mr. Charlie McCreevy:** So the answer was, we had taken in the period of time, we had decided that it was in the best interests of the Irish economy knowing that ... knowing the difficulties of the UK not joining. Plus the difficulties of that we were joining a currency union without ... without central budgetary and fiscal policy, because take the United States for example. Well if there was a big crisis in Minnesota, the Federal Government can make a decision to put resources in Minnesota. You don't have that with the euro, we don't have a central government to decide. So we knew all those downsides but we decided that it was in our best interests that we would join, knowing the downsides.

Now, one of the downsides was that we gave up control over our interest rate policies and that, that, if I was to make any ... if I was to ask one thing that the ... would have lessened the

economic impact of the housing crash that Deputy Doherty referred to I would say ... I would say the loss of interest rate control was the biggest, because without any shadow of a doubt if we'd been there, if we had our own interest rate setting policy outside of the euro we'd have had higher interest rates.

**Deputy Eoghan Murphy:** Yes, I want to ask you about this though because this was predicted in 1998 that once you fixed the exchange rate mechanism, that there would be a push for a fall in interest rates following which a wall of money would hit the Irish economy. So that was being written about in *The Irish Times* in 1998, on the Monday just after you fixed the exchange rate mechanism, so what did you do to prepare the economy for that?

**Mr. Charlie McCreevy:** Well, if you think you look back on the figures Deputy Murphy you'll find that the wall of money didn't hit the Irish economy immediately-----

**Deputy Eoghan Murphy:** But it was predicted.

**Mr. Charlie McCreevy:** No, but walls of money started hitting the Irish economy when the international banks and investors decided that you'd get a great return for investing in the paper that Irish banks were putting forward because Irish banks were making colossal profits etc. etc. and it was far better to do that. That's what happened subsequently. But in the immediate aftermath that didn't happen - I think the figures will justify that.

**Deputy Eoghan Murphy:** But did you foresee the problem coming?

**Mr. Charlie McCreevy:** Well, we, if you look at the committee of Deputy Mitchell, you ... I haven't looked at it for years ... God, that's 18, 19 years ago and I certainly, I wouldn't know where to find it, but I would be fairly, I think it would have been referred to, that particular report. But you must remember, we all decided, I mean all the political parties, Fianna Fáil, Fine Gael, Labour, I'm not too sure about any smaller, were there any other smaller parties then, we all decided it was in the best interests of our country to join. And by the way, I was often criticised when my nomination was put to go to Europe as Commissioner, I didn't always sing from the same hymn sheet as everybody about the greatness of having the euro project. I always knew that there were downsides to it. I would have signalled it as well, but it was in the, our overall best interests. We all thought we'd join the euro, and I still believe that to this day.

**Deputy Eoghan Murphy:** Okay, just coming back to this idea of preparing for consequences of that decision, and the reduction in interest rates, and what that would mean for the Irish economy, and your time as Minister, not going back to the committee before you were Minister, what were you and your officials doing to prepare the economy for this new money coming in?

**Mr. Charlie McCreevy:** Well, what we did was to, I think, I would have maintained anyway, Deputy Doherty might disagree, a pretty successful economic and budgetary policy for our period in office. You must remember, it was ... I know, I've said about high interest rates could have lessened the impact of the subsequent property crash but remember also that high, that low interest rates gave an opportunity for Irish businesses in the non-construction sector to actually try to make a bob, because we had been paying for years colossal interest rates and it was hard. How some businesses survived over the previous 40, 50 years is a great tribute to them, so there were benefits to having the low interest rates and the Irish economy had become very, very, very competitive over a period of time. And another thing may I say, if you look back at commentators when I was in government as Minister for Tourism and Trade when

we had to devalue the Irish currency, we were forced to devalue the Irish currency, it wasn't working, and 19 out of 20 economists predicted that it would be a disaster and it would lead to rampant inflation. In fact, it was the makings of the economy-----

**Deputy Eoghan Murphy:** Mr. McCreevy, could you just stick to the questions that I am asking, please? I mean, I appreciate that you have, you know, a right to answer the questions but I'm trying to pursue a particular line of evidence. Now you mention in your reply there about the success of your budgetary policy as part of you preparing for the dangers of, the risks associated with euro entry. But, in 2001, at the beginning of 2001, we see the censure from the Commission, and it states:

Given that the monetary policy is now set for the Euro area as a whole and no longer available as an instrument at national level, other policies, including budgetary policies, must be used more actively. ... The Council recalls that it has repeatedly urged the Irish authorities, most recently in its 2000 broad guidelines of the economic policies, to ensure economic stability by means of fiscal policy. The Council regrets that this advice was not reflected in the budget for 2001-----

**Chairman:** Can you cite the document Deputy please, in fairness?

**Deputy Eoghan Murphy:** Thank you, Chair, it's Vol. 1, page 13, "The Council regrets that this advice was not reflected in the budget for 2001, despite developments in the course of 2000 indicating an increasing extent of overheating." That's a censure that came from the Commission in 2001, which you have alluded to in your opening statement. So that's what the Commission is saying about Irish budgetary policy and fiscal policy, in 2001.

**Mr. Charlie McCreevy:** Yes, and I've said earlier in my statement, and other times as well, we disagreed entirely with the Commission's assessment at that time and less than one year later, the Commission lifted the reprimand because it turned out the Irish ... it turned out that actually, the stimulus that they were complaining about being given in my budget of 2001 was actually what was, could be deemed to be, anti-cyclical by the end of 2001 so they lifted the reprimand.

**Deputy Eoghan Murphy:** Exactly. By the end of 2001; but this is the beginning of 2001. So, it was an accident.

**Mr. Charlie McCreevy:** Hold on, Deputy, but as I said in other parts of my statement, nearly all, it looks like to me, at the end of my statement, like predicting things with certitude in terms of economics is a very futile exercise. It usually doesn't turn out that way and I've given many, many examples, and there are many other examples as well.

**Deputy Eoghan Murphy:** This wasn't a prediction, this was looking back, at previous budgets. I'm not talking about their recommendations for the coming budget, that they would make recommendations together with the opinion, I'm talking about them regretting that the advice was not reflected in the budget for 2001, "despite developments in the course of 2000 indicating an increasing extent of overheating". They're looking back, in that judgment.

**Mr. Charlie McCreevy:** No, they gave the reprimand in February, March 2001, the budget was in the previous December right? That was when the budget ... the budget was the previous December 2000, they gave a reprimand about the 2001 budget in February-----

**Deputy Eoghan Murphy:** Based on overheating in 2000.

**Mr. Charlie McCreevy:** Yes, but they had been, they were proved to be wrong.

**Deputy Eoghan Murphy:** In relation to the recommendation for the future, because of what happened subsequently in the course of 2001.

**Mr. Charlie McCreevy:** But, Deputy, we would have believed, and most other outside commentators would also believe, that the Irish economic situation, which was generating large budgetary surpluses, which was enabling us to reduce the national debt from the figure that it used to be, that all this was in the best interests of the long-term sustainability of the Irish economy.

**Deputy Eoghan Murphy:** Okay, let us accept that on the Commission side. The Central Bank pre-budget letters, the pre-budget letter in 2000 - this is coming in at the end of 2000 for 2001 - talks about commercial property prices as a source of concern, this is page 83 in Vol. 2, it warns about competitiveness in the economy and the heightened “risk of a hard landing for the economy”, because of decisions taken. So you’re getting this from the Central Bank as well.

**Mr. Charlie McCreevy:** But Deputy, like-----

**Deputy Eoghan Murphy:** Are they both wrong?

**Mr. Charlie McCreevy:** But you see, Deputy, in 2001, if you refer to when a hard landing occurring, okay, we’ll say a hard landing occurred in 2008, 2009. This is maybe a decade before the hard landing took place and I noted that in subsequent Central Bank reports and in subsequent ESRI reports, as late as 2006 and 2007 and 2008, they were predicting a hard landing was not going to occur at all. So they were considerably wrong, in 2001 and 2002, because a hard landing certainly didn’t occur in my time in office; in fact they changed their minds later in the decade and then it turned out there was a hard landing.

**Deputy Eoghan Murphy:** So the Central Bank and the Commission were wrong?

**Mr. Charlie McCreevy:** Yes, they were, yes, and I think the proof of the pudding is in the eating. They were.

**Deputy Eoghan Murphy:** And did you pay any attention to the pre-budget letters that came from the Central Bank, in your time as Minister?

**Mr. Charlie McCreevy:** I think I would have read the ... most commentary that was about the Irish economy during my time in Finance or someone having read it for me and they gave me a summary of it. I spent an awful number of hours per day in the Department of Finance and that’s what I did a lot of the time, so therefore I certainly did take account and read what these commentators had to say. But as I said, in my opening Budget Statement, I then, we then decided and I recommended to the Government we do certain things, sometimes we did something that they were in agreement with, sometimes we didn’t, but that’s, as I said, what we do always with advice.

**Deputy Eoghan Murphy:** Okay, I want to move on to the McDowell report concerning regulation of the banking sector and the financial sector. We know that the report argued for a different model, excuse me, of a fully independent and autonomous financial regulator but the Central Bank and the Department of Finance were both against that recommendation. So what were your views on the model that was eventually agreed? Was it your model?

**Mr. Charlie McCreevy:** No, it was a compromise that we came up with in the end, which



more or less could be termed “the McCarthy compromise”. That’s named after the Secretary General of the Department of the Taoiseach, Dermot McCarthy. Can I just go back a little bit about this? We decided in 1998 that we should have a single regulatory authority. We set up the McDowell report to decide how this would be implemented. Why did we want a single regulatory authority? Well, I think if you read the early chapters of the McDowell report, it summarises very well the reasons for having a single regulatory authority, having it all in the one place, bringing all the supervision from different quarters. Up until that, you had the Central Bank involved, the Department of Enterprise, Trade and Employment, you had the Department of Environment ... Local Government, now the Department of the Environment, you had different regulations to do with credit unions, you had all this all over the place. So we thought the single regulatory authority was a good idea. Mr. McDowell was asked to chair an implementation group that had nine people on it, from the Department of Finance, the Central Bank, the Department of the Taoiseach and others as well. They came up with two reports, or two and a half reports; the majority came up with the single regulatory authority outside as an autonomous unit, outside of the Central Bank. The minority alternative model, supported by the Finance person - Tom Considine I think it was at the time - and the representative of the Central Bank, I think it was Mr. Barron, came up with the alternative model to keep it located within the Central Bank. And Dermot McCarthy, then subsequently had a slightly ... a variation of all that. There were differences of opinion as to its location, there was not a difference of opinion about having a single regulatory authority. The differences of opinion regarded where it should be located and constituted and that’s what caused all the difficulty between us all. And the Dáil debates are very, very interesting. Not alone was there a difference between the Department of Enterprise, Trade and Employment, namely, the Tánaiste, Mary Harney, and myself, but there was also a difference between the political parties. Deputy Derek McDowell, who represented the Labour Party, was for the independent model advocated by McDowell. Michael Noonan, who was then the spokesperson for Fine Gael, was for the model that we were for in Finance, keep it within the Central Bank. In fact, if you look at one of the Dáil parliamentary question debates, you see where Michael Noonan has a funny aside with Derek McDowell and he says, “So, you’re a PD at heart”, or something like that. You can look up the Dáil debate to see that.

So therefore, it wasn’t anybody was coming at this from *mala fides* but there was a difference of opinion and as I said in my witness statement, over Europe and further afield, there was not a universal way of doing this. Other countries had different ways of doing this. So finally, we came around and we came up with this compromise solution which I would term more “the Dermot McCarthy kind of solution” which had this overarching body, the Central Bank of Ireland self-regulatory authority and within that, we had the regulatory authority known as IFSRA, and we combined the two bodies together.

Now, subsequent to the economic collapse, as I said also in my opening statement, people have gone back to having it all within the Central Bank. And by the way, the United Kingdom, in 1997, were also in the process of diversifying out as well and reverting and they also have gone back, more or less, to a single model as well. So, it’s not that anybody came this from *mala fides* including the politicians, it’s just that there was an agreement on all this and how to reach it. So, that’s how we came about it.

**Deputy Eoghan Murphy:** Thank you for that. I want to move on now to the budgetary process when you were Minister and just again in that interview that I quoted from Jane Suiter, two months before you were made Minister you said, “No matter what the Minister says at the Cabinet table, they [and you are inferring the Cabinet] will not listen in the year of an election.” Now, in Vol. 1, page 33, we have an excerpt from the Wright report and what it shows

is a table displaying the June fiscal framework proposal each year and the income and social welfare package adopted on budget day of the same year. I'm not sure if you are familiar with that table, it's-----

**Mr. Charlie McCreevy:** I'm sure I've seen it in documentation sent to me. I can't-----

**Deputy Eoghan Murphy:** It's on page 32, I think, 22, sorry, of Vol. 1.

**Mr. Charlie McCreevy:** I'm sorry ... I can't ... I have it somewhere.

**Chairman:** It's on the screen Mr. McCreevy, anyway, it will save you a few issues.

**Mr. Charlie McCreevy:** I know. Yes and I'll tell you something very interesting.

**Deputy Eoghan Murphy:** Well, before ... if I could just ask the question.

**Mr. Charlie McCreevy:** By the way, the colours are not coming up too good here, Mr. Chairman, but however.

**Deputy Eoghan Murphy:** Okay. Well, the table on the left is the June fiscal framework.

**Mr. Charlie McCreevy:** Yes, I know what you mean.

**Chairman:** Is the budget packages spreadsheet showing there, Deputy?

**Deputy Eoghan Murphy:** Yes. Can you describe if and in what way the election in 2002 impacted on budget decisions in December 2000 and December 2001?

**Mr. Charlie McCreevy:** Well, as has been explained to the committee previously, in the middle of year, in June every year, a memorandum would be agreed with the Government and that would assess the starting of the budgetary process. It really started in the Estimates campaign and then over the course of the summer and into September-October, you would have bilateral meetings with ... officials would have bilateral meetings and then finally, you would have bilateral meetings with individual Ministers about outstanding issues. That's the process that went through. In all of those years that you show there, you'll see that the memorandum in June was ... and compared that with the tax and welfare package in the budget, that the memorandum in June is a higher figure except one year and that was the budget for 2003.

**Deputy Eoghan Murphy:** I asked about 2000 and 2001.

**Mr. Charlie McCreevy:** No, no, hold on, we ... but we want to have an overview of all this. It's a whole chart you've given me, Deputy Murphy, so-----

**Deputy Eoghan Murphy:** Oh, no, I see but-----

**Mr. Charlie McCreevy:** -----and I'm entitled to look at it.

**Deputy Eoghan Murphy:** Yes.

**Mr. Charlie McCreevy:** So, and 2003 is the first ... and I understand it might be in the history of the State that the budgetary package, as agreed ... as done by the budget, is less than what the memorandum is in June. It has never happened before. What happens in those particular stages, is that negotiations take place-----

**Deputy Eoghan Murphy:** We know the process, Mr. McCreevy, it has been explained.

**Mr. Charlie McCreevy:** -----then the Government comes and arrives at the decision and we produce the budget and that what's happened in all of these years.

**Deputy Eoghan Murphy:** Can you describe if, and in what way the election in 2002 impacted on the budget decisions of December 2000 and December 2001?

**Mr. Charlie McCreevy:** Well, Deputy, I'm sure I wish you well in the next election but I'm sure if that when you make to Government, I'm sure that when an election is coming up, that you will be very, very conscious in the previous year to 18 months, as the same as this Government is very, very conscious, of not trying to do something which is going to antagonise the electorate. And certainly all Governments of which I have been a member and all Governments when I wasn't a member, have always borne that very much in mind. So the answer to your question is, yes, of course, the upcoming election has always influenced measures which the Government do at election time. We are politicians, don't forget, and we actually like to be re-elected.

**Deputy Eoghan Murphy:** Sorry, but is that a responsible way to run the national finances?

**Mr. Charlie McCreevy:** But that is ... like when we ... in all my time there, in all those years, Deputy, we were the most ... I have given the figures for our spending as a percentage of GNP in my address earlier to the committee. And you can see even in terms of gross current spending, which is the most legitimate one to look at, that the percentage is in or around 30%. We did all of that, reduced the national debt and still had budget surpluses. So, I would contend - you could have a different opinion - I would contend that we were most responsible than any other Government in the history of the State. No other Government in the history of the State ever had budgetary surpluses and we had budgetary surpluses after large increases in spending, after large capital expenditure and that was the success of our economic policy. So, therefore, I think there was ... we .... the things that we did in terms of expenditure were all justifiable. I'm not saying that every euro or pound that was spent in every corner of the country was maxed to the maximum effect. But, in general, what we did, I believe, was correct.

**Deputy Eoghan Murphy:** Evidence has been put to us that pro-cyclical taxation from 2000 to 2006 rose from 12% to 30%. So were those revenues sustainable?

**Mr. Charlie McCreevy:** Well, I have seen ... there's a chart somewhere else about pro-cyclical taxes which came to me some day before the committee. Like, I would ... some what are regarded as pro-cyclical taxes, I'm not too sure they are pro-cyclical taxes. For example, capital acquisitions tax, I'm not too sure whether you call that pro-cyclical tax. I don't know whether you should call corporation tax as a pro-cyclical tax.

**Deputy Eoghan Murphy:** Well, was the tax revenue taxation model sustainable that you built up? And you used that money to spend then prior to elections. Was it sustainable?

**Mr. Charlie McCreevy:** Well, can I just ... hold on. Just for the ... what we did ... the Government of which I was the member, did all this tax cutting in the first three budgets, as we had promised in our election manifesto and our programme for Government in 1997. And in the last two budgets where I was responsible, the ... in the 2003 budget, the tax package ... as it may interest you, the tax and PRSI changes cost €95 million and we had a social welfare package of €530 million. And, in 2004, our tax package cost €296 million and our social welfare package was €630 million. And, interestingly, if you want to know, for the budgets where I was responsible from '97 to 2004, our income tax and PRSI package total came to €5,607 million. And our

social welfare package at that period came to €4,507 million, meaning a ratio of about 1.25:1. Funnily enough, for the three budgets previous to my term, '95, '96 and '97, led by the previous Government, the income tax package and social welfare came to €1,171 million as against a social welfare package of only €750 million. So I would certainly say, given that the surpluses that we were generating, and also put the money aside to the ... and the pension reserve fund that our overall taxation and welfare packages and spending packages during my seven years were totally justifiable and I have no hesitation in defending it.

**Deputy Eoghan Murphy:** In the 2002 election campaign, you stated that, “No cutbacks whatsoever had been planned, secretly or otherwise”, and in 2003, spending was halved.

**Mr. Charlie McCreevy:** You see-----

**Deputy Eoghan Murphy:** So did you get the 2002 budget wrong?

**Mr. Charlie McCreevy:** I don't believe we got the 2002 budget wrong, but I'm saying that it means it was fairly obvious later in the year of 2003 that we had to cut our cloth according to our then new measure. The barrier the whole time that I used, for what it's worth, was the total trying to balance the budget - that we wouldn't run a deficit. That was the barrier. It's very hard to do anything else and that was a fair barrier to try and keep up the whole time. So, therefore, it was obvious that from 2003 that there ... the tax that we were expecting to ... we were judging to come in, wasn't going to be anything like the previous years.

**Deputy Eoghan Murphy:** The taxes for 2003?

**Mr. Charlie McCreevy:** So ... for 2003. So, therefore, we made ... I made decisions at that time that, even though I produced a memorandum in June to say X level of the spending, when I got around to doing the budget, I forced on Departments a lower level of spending, much, of course, to annoyance of my Cabinet colleagues, much also to ... even in the Department of Finance didn't believe it could be done and we did it. And we did ... we, then in ... for the 2004 budget we kept spending to a relatively low level again and did a very small, as I told you, very small tax package in both of those particular budgets so, therefore, we got ... what I would term ... we had got over the difficulties and we had still a balanced budget. And that was the intention.

**Deputy Eoghan Murphy:** At what point in 2002 did you foresee this crisis in revenues coming in 2003?

**Chairman:** Last question now, Deputy, I'll be bringing you in again.

**Deputy Eoghan Murphy:** Because in the first half of 2002, spending was 22% up on the previous year but by the end of the year it was only 14% up, so-----

**Mr. Charlie McCreevy:** Well, there was ... well, sorry for going on a bit but there was ... there was a big ... there was a level of controversy later in that year as a result of documents that came to be inadvertently given out under a freedom of information request from another Department, which seemed to indicate that for 2002 we're having these big cutbacks as well. Can I just explain? And there was ... this, actually, was never corrected, despite various efforts by me at the time to try and get the right impression ... the actual facts. At the start of every year we had the budgetary process ... we used to have the spending Estimates process. About three weeks before the budget, I'd announce the spending for each Department. Then in about February of every year we produced what's called the REV, the Revised Estimates Volume, which

was the final figures for the Department. During the course of any year ... and it happened in '97, in '98 and '99, during the course of any year, around June, you find that different Departments are overrunning their budgetary allocation. And up until '99 we used to have a mid-term ... a mid-term adjustment and we used to make an announcement about it and it used to cause some difficulties, and ... because in order to make sure that for the end of year that the budgetary spend would come in at a figure that was given in the REV, Revised Estimate Volume. We didn't do it in 2000 and 2001 because no one was noticing what we did. We did it internally each of the times with different Departments. In 2002, after the election, it was obvious that we were going to have to take measures to make sure that the part ... that the overall REV, the overall spend I announced in February, that it was going to come in on budget, and what we did immediately after was make pretty severe adjustments to some of the spends to ensure that we'll come in at the Revised Estimate Volume figure. And that was stage 1 of the budgetary process. And then stage 2 then, were the Estimates for 2003 that we started the process for-----

**Deputy Eoghan Murphy:** Did-----

**Chairman:** Okay, final question, Deputy, and then I'll come back to you later.

**Deputy Eoghan Murphy:** Did the REV in 2002-----

**Mr. Charlie McCreevy:** Pardon?

**Deputy Eoghan Murphy:** Did the REV in 2002, did that happen in February or after the election?

**Mr. Charlie McCreevy:** Always, always in February. It's a ... just to go through the process again-----

**Deputy Eoghan Murphy:** Yes. You don't need to go over it again, I just wanted to clarify that.

**Mr. Charlie McCreevy:** Always in February, and I think it's still done in February. Anyway, it's the Revised Estimates Volume is the book. The abridged ... in my time we called the ... we used to announce the Estimates in November, three weeks before the budget, and that was called the Abridged Estimates Volume. Then when we got all the figures by the end of the year, and the outturn for the year - the previous year - if you look then we published the Revised Estimates Volume, which shows the outturn for each ... departmental levels of spending for the previous year, and beside that you have then the Estimates Volume for the following year. Sometimes there would be small adjustments from the Abridged Estimates Volume to the Revised Estimates Volume, mostly relating to changes that the Minister might have announced in the budget in terms of spending, that would be that figure. And then we would produce a Revised Estimates Volume. And that was the process.

**Deputy Eoghan Murphy:** Okay. Thank you.

**Mr. Charlie McCreevy:** I'm sure that still is the process.

**Chairman:** Thank you, Deputy, I'll come back to you in the wrap-up. Mr. McCreevy, I just want to deal with one or two matters before I bring in the next questioner, who is Deputy O'Donnell, and then we'll break for a coffee break at that stage. If I can maybe just return to the Bacon report, which was discussed earlier.

**Mr. Charlie McCreevy:** Yes.

**Chairman:** And Mr. Bacon wrote three reports for the Government on the housing market. His measures ... and we have engaged with Mr. Bacon in the earlier part of this inquiry, his measures resulted in the pace ... in the pace of price growth halving from the first quarter of 1998 to the same period of 2000. This was largely undone in 2001 when the measure to exclude interest deductibility was reversed. In your view, can you explain the rationale behind the decision, and were there any influencers, lobbyists, or anybody else behind that decision?

**Mr. Charlie McCreevy:** Well, there were. If you look at the lobbying document ... annual document from the Construction Industry Federation, the Irish House Builders Association, various chambers of commerce, Dublin Chamber of Commerce, you will see in those particular documents that there was lobbying from them about the interest issue in particular. That's ... you can go back and get those documents out, I'm sure they're all here in the committee somewhere. So there was considerable lobbying from the CIF and other bodies as well.

**Chairman:** Yes.

**Mr. Charlie McCreevy:** On the ... for the reasons they have along there, is that housing output and construction output had dropped back dramatically in the end of 2001. So, yes, there was lobbying to have that changed. Now, there's lobbying all the time, and before the budget, you have hundreds of lobbying going on and we had a process in my time, and pre my time, of how we met all those particular groups. We didn't meet the same groups every year, we met the people in large groups, for about two weeks, for about ... every hour, from 9 in the morning 'til 9 and 10 at night and, some of them used to come before a committee as well, in the House. I remember that also. So, we would have had all of that. But like, as I've said previously, whether there was lobbying or not, the Government would have taken the decision ... would have taken into account the ... well, we would have deemed, anyway, that the massive fallback that we'd had in construction activity, which, more or less, proved Michael Noonan's point about unintended consequences. And I ... I think that the Dáil record will show, during the debate of Finance ... the first Bacon report on Finance (No. 2) Bill 1998, that I also said, there, or in another Dáil debate, that one never knows when one is interfering in the market, particularly to do with housing or property, as you might have-----

**Chairman:** Okay. Just to summarise the response you gave to me, Mr. McCreevy, yes, there was lobbying going on at the time, and, as you said in your earlier questioning, that the Minister, the politician is independent of officials, they stand over decision, and, of course, they're independent, the lobbyists. So, can you explain to us the reason why you took the decision?

**Mr. Charlie McCreevy:** Because, as I said earlier, in the witness statement as well, the construction activity had fallen off dramatically.

**Chairman:** Okay.

**Mr. Charlie McCreevy:** And, I know Peter Bacon said in his evidence before this committee, when he was asked the question whether we moved too quickly to restore activity. I don't know whether Mr. Bacon said that he ... he did or he didn't, but ... whether was a good idea or not, but I can definitely recall the reasoning for the Government so doing. And I certainly don't ... it wasn't for a moment as a result of any particular lobbying from any particular quarter, it was what ... we had seen the figures and we didn't like what we were looking at.

**Chairman:** Okay, Mr. McCreevy, I need to come back in again. So, during 2001 there was

also a measure in place which recommended in the third Bacon report, to limit mortgage relief for investment properties. In the 2001 budget, you withdrew these measures in order to encourage what would seem to be more rental properties. Can you explain why you done that?

**Mr. Charlie McCreevy:** Well, as I said, I ... it was the Finance (No. 2) Bill of 1998, that the ... we had done that particular non-deductibility of interest for residential property, and then we restored it, because we felt, as I said, in my earlier reply to this in my debate with Deputy Doherty, lots of things happened, including rents going upwards. We had rents ... I gave figures there of rents going up by 25% in that particular period there. So, we felt at the time, for better or worse, that the thing to do was to allow the investor more or less back into the market. It should not also be forgotten that we made considerable changes to the stamp duty regime in all of those years, and I started off with quite a simple stamp duty regime and ended up ... with a desperately complicated one.

**Chairman:** Okay. And, I'll afford you plenty of time at the end of today's hearing, Mr. McCreevy, for anything you want to add, but I want to particularly come back to the graph that's in front of you, and it's the lower graph, and it's "Residential House Prices Quarterly". And, if you can look at the portion of the graph that is between 2001, quarter 1, and 2002, quarter 1. Well, this would-----

**Mr. Charlie McCreevy:** Will the machine operate by itself or are there-----

**Chairman:** It should ... no, no, it should be up in front of you there at the moment. If the graph is not, there I can get you a copy down there but it should be up in front of you at the moment.

**Mr. Charlie McCreevy:** Go ahead, sorry, Chairman.

**Chairman:** Yes, okay. And, if you look-----

**Mr. Charlie McCreevy:** Is this figure 32?

**Chairman:** This is ... it's "Residential House Prices Quarterly". It's the lower graph ... yes, figure 32, my apologies.

**Mr. Charlie McCreevy:** Yes.

**Chairman:** Right. And, if you look there at quarter 1, 2001, and quarter 1, 2002, this is the period I'm talking about. And, what we see in the graph there is that residential new house prices and second-hand house prices are kind of flat-lined going back to '92, then they're rising, then the impact of the Bacon report is beginning to kick in, and we see a modest reduction in house prices, and then we see the removal of ... just, on the same timeline, we see the removal of the Bacon holding measures, if they were described as that, and a significant increase, right up until 2007 or so, in house price property values. In hindsight, were the decisions that you made ... did they prevent or create the soft or hard landing that was going to come in the property market? In hindsight the decisions that you made, did they create or prevent the soft or hard landing that was going to come in the property market?

**Mr. Charlie McCreevy:** I don't think so, Chairman. Because I think we what did on foot of the first Bacon report was, it stopped the upward slant of prices. We then as I gave reasons as to why we reversed that some years later, and I think if you look from 2002 right on to 2007 or 2008 or whatever it says here ... I think it was up to 2007 when the peak occurred, I think there

were other factors at play regarding the house price spiral at that time.

**Chairman:** Can I talk about one of the other factors that's at play actually during that time and I bring up the next graph? This is the ratio of average new house price to average industrial wage. If you look at both graphs one is new house price and the other is average second hand house price. What we see here is that the ratio is in and around '96 or '97, is about four times the income of a household in terms of wages in both the new house and the second house market, and in the period I am talking about again, we see that becoming stabilised. If somebody was trying to buy a home for themselves between 2000 and 2002 - in and around that period - there is a stabilisation in the market. Following the removal of those Bacon measures, we then see the graph going up quite significantly, up to 12 times or ten times, respectively, of a person's capacity to earn. Have you any view on that?

**Mr. Charlie McCreedy:** I do not think you can relate the change of the very steep rise in this graph of 2003 to 2007 say, related solely to anything to do with Bacon. I would not agree with that.

**Chairman:** That would be your view?

**Mr. Charlie McCreedy:** That would be my view. By the way I will just say this graph figure 36 relates to average industrial wage. Maybe you have another graph to show what was the net take-home pay levels in those particular years as well. Because a lot of the reason that people were able to buy houses and buy other houses relates to the affordability relating to their take-home salary rather than actually their gross industrial or gross any other wage, as you well know yourself from paying your own bills every month.

**Chairman:** Indeed. Just to get that on the record Mr. McCreedy, the graphs I have shown you this afternoon, the relationship with the cost of trying to buy a home after 2002, and the relationship of that the cost of buying a home was actually having on a person's earning capacity, you don't see any relationship of the pullback on the measures by Bacon to those two outcomes?

**Mr. Charlie McCreedy:** I don't. For me it is too big a step to say that the change of Bacon was resulting in the upward spiral of that particular graph. I am sure that you may have-----

**Chairman:** Would you recognise that the Bacon measures are reflected or not reflected in the graphs?

**Mr. Charlie McCreedy:** Well it looks like the Bacon ... Sorry I said in my earlier evidence that the effect of the Finance Act 1998 that did the non-deductibility and other changes, that certainly had an effect but it also had an effect in kind of shooting down the level of constructive activity, the level of employment in the construction area and that's why we changed it. Yes it certainly did, you could make that correlation.

**Chairman:** Thank you. Deputy Kieran O'Donnell.

**Deputy Kieran O'Donnell:** Thank you. Welcome Mr. McCreedy. Just to clarify one point on the single regulatory authority, did you personally support what was actually eventually set up?

**Mr. Charlie McCreedy:** Yes because that was the compromise we arrived at. That compromise was acceptable to all sides so as you know in politics or in any negotiation, we all had



to make concessions about it so it was acceptable to me. You must remember there was a ... After the particular compromise let's call it, some of the commentary and some of the asides in the Dáil were that the Department of Finance had got its way and that the Minister of Finance had got its way.

**Deputy Kieran O'Donnell:** Did you get your way?

**Mr. Charlie McCreevy:** Look it located within the Central Bank, as a constituent part of the Central Bank which was I think was a very important thing for us.

**Deputy Kieran O'Donnell:** In hindsight, did it give rise to a situation where confusion rose between the Central Bank and Financial Regulator?

**Mr. Charlie McCreevy:** I don't think so, Deputy O'Donnell. I've read some interesting commentary on this in the past while this committee sat. I am not for one moment saying that it was a very elegant structure that we came up with, I wouldn't say that for one moment, but I have to say that I don't think it contributed to the financial collapse. And now since I am post my 2004 period, I can ... I say ... I think, I ... you must remember the Financial Regulator in Ireland was to regulate banks to the same capital requirements directive that applied in all other European countries-----

**Deputy Kieran O'Donnell:** Can I-----

**Mr. Charlie McCreevy:** -----and so therefore ... and as a result of the Basel recommendations that begat the capital requirements directive, so therefore the Central Bank of Ireland, the regulator was to do that.

**Deputy Kieran O'Donnell:** That's fine. Can I ... the last budget you brought in was the 2004 budget; am I correct on that?

**Mr. Charlie McCreevy:** Yes.

**Deputy Kieran O'Donnell:** December.

**Mr. Charlie McCreevy:** December 2003.

**Deputy Kieran O'Donnell:** Okay. Your announcement of decentralisation, do you now believe it was a failure?

**Mr. Charlie McCreevy:** No, I don't.

**Deputy Kieran O'Donnell:** Why not?

**Mr. Charlie McCreevy:** I see many great offices all over the country with decentralised civil servants from Dublin there and they're doing very well and people ... it's rejuvenated some areas, people are very happy. I think the ... the system and efficiency hasn't deteriorated at all. I'm very ... I'd be very sad that the total decentralisation wasn't completed as we, as we had envisaged.

**Deputy Kieran O'Donnell:** And how did you ... how did it come about? Because it doesn't appear to have been discussed any time before the budget or in terms of-----

**Mr. Charlie McCreevy:** Oh, well, Deputy ... Deputy, you're very much wrong about that.

**Deputy Kieran O'Donnell:** Well, enlighten us, Mr. McCreevy.

**Mr. Charlie McCreevy:** I might as well, I might as well take the opportunity of doing it now, since ... of correcting the record, both then and now, because I'm gone and this is not breaking any Cabinet secrets, may I say.

**Deputy Kieran O'Donnell:** When did you first bring it up with Cabinet?

**Mr. Charlie McCreevy:** Sorry, we announced in 1999, decentralisation, that we were going to have ... decentralise a whole plethora of offices, full Departments etc. etc. And I didn't do it 'til December 2003.

**Deputy Kieran O'Donnell:** Why not?

**Mr. Charlie McCreevy:** Because of the time I announced it, every week and every day of every week, we had representations, parliamentary questions, Order of Business debates. Every local authority in the country, every chamber of commerce, every TD of all parties meeting there ... meeting me in the Department of Finance in corridors asking "When were you going to do decentralisation?"

**Deputy Kieran O'Donnell:** Well, let's-----

**Mr. Charlie McCreevy:** So-----

**Deputy Kieran O'Donnell:** Let's bring you up to 2003-----

**Mr. Charlie McCreevy:** Hold on.

**Deputy Kieran O'Donnell:** -----because I'm running out of time here.

**Mr. Charlie McCreevy:** And then we asked, then we asked ... early on, I asked the Department of Finance, I said we wanted to decentralise 5,000 civil servants.

**Deputy Kieran O'Donnell:** When was this?

**Mr. Charlie McCreevy:** Some time ... must be after '99, maybe early 2000. And, lo and behold, and I was most surprised - I wasn't surprised - they came up with a number of 300. So, I knew from early then, is that it was no hope in the wide, earthly world of any of the civil servants agreeing to anything like the numbers we were talking about and we were talking about 10,000 people. So therefore-----

**Deputy Kieran O'Donnell:** But in the ... all I really want to know really is the decision-making process.

**Mr. Charlie McCreevy:** Yes.

**Deputy Kieran O'Donnell:** When you come forward to 2003, what due diligence was done in terms of the announcement? When did you first bring it to Cabinet-----

**Mr. Charlie McCreevy:** Oh yes.

**Deputy Kieran O'Donnell:** -----because you announce it on budget day, so enlighten us as to when you first brought it to Cabinet with due ... and what due diligence was done prior to the announcement?

**Mr. Charlie McCreevy:** Well, we had ... there was ... if you look back, there was a group set up in the Department of Finance which reported, about maybe 2000, 2001, about decentralisation and about these numbers and had been forgotten about. And we were ... every time I was thinking of doing something about it, about doing the project-----

**Deputy Kieran O'Donnell:** When did you first bring it to Cabinet?

**Mr. Charlie McCreevy:** Well, we discussed it in Cabinet. I'll tell you-----

**Deputy Kieran O'Donnell:** When?

**Mr. Charlie McCreevy:** In about September 2003 and we discussed it either towards the end of a Cabinet meeting and it kind of was asked when was I ever going to do this and I had decided myself that I was going to do it when everyone believed I wasn't going to do anything and after four years, it was nearly time to do something. So, we made an agreement between myself and the other members of the Government, right, at that time that I would do it in the following budget on one condition and one condition only: that if there was a hint of a leak from that to budget day about this being done, I wouldn't do it. And that we would negotiate individually with the Minister, on a one-to-one basis and Ministers were not to go back and tell their great advisers or press people or anyone else what we were going to do and if there was one hint we were going to do it ... because at this stage everyone thought we're never going to do it anyway. And what we did was, I did-----

**Deputy Kieran O'Donnell:** So, you had the approval of Cabinet-----

**Mr. Charlie McCreevy:** Yes.

**Deputy Kieran O'Donnell:** -----when you announced it?

**Mr. Charlie McCreevy:** Yes, I want to clear ... be clear about this anyway, and whether we did at the end of the Cabinet meeting or what, but this is how we did it. So, therefore, I'm not breaking the Cabinet confidentiality about this, and that's what we did. And two officials of my Department of Finance individually went over that two-month period and got all the lists of one thing and another, kept it totally within themselves and the Department of Finance, went straight to Department ... no Department knew we were talking to anybody else and this is how it was done. And then, the night before, the secretary started ringing other Secretaries General and assistant secretaries ... I'm not saying some Ministers-----

**Deputy Kieran O'Donnell:** Well-----

**Mr. Charlie McCreevy:** -----I think, probably did say it to their Secretary General, but it hadn't leaked out, and ... otherwise, and I assure you, Deputy O'Donnell, I never would have been able to do it unless I did it like that.

**Deputy Kieran O'Donnell:** Can I move onto in your last budget, in 2004? In your 2003 budget, you said about the tax allowances and all the various reliefs, "All of these schemes, without exception, are to end on the 31 December 2004". You said there was no justification. You came along then to your 2004 budget and you said:

Last year I announced the termination of a series of major tax reliefs from the end of 2004. Since then I have been bombarded by demands to revisit that policy, especially in the case of one particular relief.

So what I want to know is-----

**Mr. Charlie McCreedy:** What budget is that, Deputy?

**Deputy Kieran O'Donnell:** That's the 2004 budget.

**Mr. Charlie McCreedy:** But you said it was ... 2004 budget-----

**Deputy Kieran O'Donnell:** No, that you ... that you announced in December 2003.

**Chairman:** 2003, Deputy-----

**Deputy Kieran O'Donnell:** No, 2004 budget announced in December 2003.

**Mr. Charlie McCreedy:** But I didn't do the budget in December 2004.

**Deputy Kieran O'Donnell:** No, 2003.

**Chairman:** It's the preparation for 2004

**Deputy Kieran O'Donnell:** No, it's called the budget. It's for the year 2004, which was announced in December 2003.

**Mr. Charlie McCreedy:** Yes, but I said earlier what I said there, yes.

**Deputy Kieran O'Donnell:** No, no, it's you ... you announced in your budget in December 2002 that there would be no exceptions for reliefs on capital allowances for all these various schemes beyond December 2004. You then came along in your budget, two thousand and ... December 2003, which is for the following year, you said that "I have been bombarded by demands...". And, within that budget, you extended all the schemes to 31 December 2006. Why was that?

**Mr. Charlie McCreedy:** No, Deputy, I think you have wrong dates there, for somewhat ... I couldn't do ... I think the dates are wrong. In the December 2003 budget, I said what I said about the thing and I've read that earlier to the committee. You seem to be reading from a ... maybe it's a Budget Statement of another year, but it's not the same budget anyway.

**Deputy Kieran O'Donnell:** No, no, no, the December ... the budget that you announced in December 2002, which was for the '03 year, you stated categorically that you were not going to extend the reliefs beyond the termination date that was coming up, which was the end of 2004-----

**Mr. Charlie McCreedy:** And that's-----

**Deputy Kieran O'Donnell:** -----and then came along the following year and you stated:

Last year I announced the termination of a series of major tax reliefs from the end of 2004. Since then I have been bombarded by demands to revisit that policy, especially in the case of one particular relief.

Now I looked back on the committees, the meetings you had with various groups - and, Chairman, if I could refer you to Vol. 1 - it's basically dealing with ... it's page 170, and for the month of ... from 1 October 2003 to 3 November 2003, you met with various interest bodies: Construction Industry Federation, the Irish Builders Association, Irish Property Association. You had ... and then you had the Irish Auctioneers and Valuers. So the question I'm asking is,

Mr. McCreevy, what changed in that year where you extended the tax reliefs for a further two years?

**Mr. Charlie McCreevy:** But, Deputy, in my Budget Statement in 2003, which is for the 2004 budget, I read into the record already today, where-----

**Deputy Kieran O'Donnell:** That's the previous budget, Mr. McCreevy.

**Mr. Charlie McCreevy:** No, it's not.

**Deputy Kieran O'Donnell:** It is.

**Mr. Charlie McCreevy:** But sure ... the last budget I did was December 2003.

**Deputy Kieran O'Donnell:** Which was the 2004 budget-----

**Mr. Charlie McCreevy:** Yes, and I-----

**Deputy Kieran O'Donnell:** -----which is the one I'm reading from.

**Mr. Charlie McCreevy:** Yes, and I announced the termination on that date.

**Deputy Kieran O'Donnell:** No. You announced the termination of budget '03.

**Mr. Charlie McCreevy:** No. I announced the termination of these particular reliefs in the December 2003, which were to come in the 2004 budget. I think your colleague has told you something there. I think you're talking about an earlier budget.

**Deputy Kieran O'Donnell:** No, no, I'm not. No, no, I'm ... I'm categorical on this, Mr. McCreevy.

**Mr. Charlie McCreevy:** But which budget is it?

**Deputy Kieran O'Donnell:** The budget that you ... I can refer you to ... The budget was, your budget that you announced in December 2002 would be known as the budget for 2003, and you were a seasoned Minister for Finance. And in that budget 2003, you stated that-----

**Chairman:** Deputy, to assist you here - I'll give you a bit of time on this. If there's an ambiguity, kind of with the datelines and everything else, we can deal with this over the coffee break, and maybe just come back to it at that moment. So if you could maybe make the question and you'll have a couple of minutes when people are having their coffee break.

**Deputy Kieran O'Donnell:** The question is ... I suppose, in the time break, Mr. McCreevy, you might just check the-----

**Mr. Charlie McCreevy:** I'll do it now.

**Deputy Kieran O'Donnell:** -----the last two budgets you brought in. One ... the first ... the second last budget, you announced in December 2002, which was for the 2003 year, which you stated that you would be terminating all the reliefs at the end of December 2004, which was the signal date. And then in your final budget, which was December 2003, which was for 2004, you stated that your intention was to terminate the series of major tax reliefs but, "Since then I have been bombarded by demands." Now, within that budget you extended the reliefs for a further two years and, I suppose, I'm asking why and who were you bombarded by?

NEXUS PHASE

**Mr. Charlie McCreevy:** Well, I ... in my last budget, I actually brought forward those particular dates to an earlier end date, making it 31 December 2004, for one year.

**Deputy Kieran O'Donnell:** That was in your second last budget, for one or ... for one or two of the schemes you brought them forward.

**Mr. Charlie McCreevy:** That was my last budget, Deputy.

**Deputy Kieran O'Donnell:** Yes. I'll leave it with you for the break, Mr. McCreevy.

**Mr. Charlie McCreevy:** No, that was my last budget, Deputy.

**Chairman:** All right, we can sort out the dates and maybe if Deputy-----

**Mr. Charlie McCreevy:** What was causing the confusion, and I'm not surprised in any way, even for myself, the budget that we brought ... pre my time as Minister for Finance, the budget was always done in the year for which it related to, so the 1995 budget was done in 1995-----

**Chairman:** Yes.

**Mr. Charlie McCreevy:** '96 was ... I brought back to the budget, which has been continued since, to the year ... to the calendar months preceding 1 January and it was the first time in the history of the State it was done and it has been continued. So, therefore, the State ... and this is causing some of the confusion.

**Chairman:** Okay. It's in that regard now, Mr. McCreevy, I'd like to give you a document as well during the break. It's a document from your own Department. I think it's come out in July there under a freedom of information request and I just want to deal with that after the break, but it comes from your own Department and it's from the Office of the Minister for Finance and it relates to the pre-budget Estimates in and around the same period. The document's dated 19 June 2003 and it relates about going into 2004. So I'll just ask legal to give you a copy of that before we go for a break and I'd also ask just to get a clarification on the chronological kind of dates that Deputy O'Donnell is referring to.

So, with that said, I now propose that we take a break. The witness is reminded that once he begins giving evidence, he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before the committee. With that in mind, I now suspend the meeting until ... if I can say 17.25, if that's agreeable, and remind the witness that he's still under oath until we resume. Is that agreed? Agreed.

*Sitting suspended at 5.07 p.m. and resumed at 5.29 p.m.*

**Chairman:** We are back into public session. So there's just a bit of chronology and date-lines with regard to a question there, that I would ask both Deputy O'Donnell and Mr. McCreevy to deal with and then I'll move on to Senator D'Arcy.

**Deputy Kieran O'Donnell:** Thanks, Chairman.

**Mr. Charlie McCreevy:** I can't actually find where, if I said what you said, I take it that I said it but I actually can't find it in the notes of the budget that I said in December 2003. I did make ... sorry, in case there's any confusion, I'm getting a bit mixed up myself between these particular years also. Well, it was in December 2002 that I made the announcement that the deadlines between these and 31 December 2000. Well that's correct. I can't find the other one

but-----

**Deputy Kieran O'Donnell:** I'll hand it to you here that you can read it and I'll read from the Dáil record as well for you.

**Mr. Charlie McCreevy:** I just can't locate it.

**Deputy Kieran O'Donnell:** Is the thing highlighted in yellow?

**Mr. Charlie McCreevy:** Yes.

**Deputy Kieran O'Donnell:** So, from the Dáil record on 3 December which is the date you delivered the budget. You say:

On tax reliefs, last year I announced the termination of a series of major tax reliefs from the end of 2004. Since then, I have been bombarded by demands to revisit that policy, especially in the case of one particular relief.

And that's what is there. So the question I'm asking, you extended every relief that was to be concluded by 31 December '04 by a further two years to 31 December 2006. And the question I'm asking you is why did you do that? Certainly, from the Dáil ... from the records we have when I made reference to it earlier, over a month between 1 October 2003 and 3 November 2003, you met once with the Construction Industry Federation, you met twice with the Irish Home Builders Association, you met twice with Irish Auctioneers and Valuers Institute and you met once with the Irish Property Owners Association. So, you might just elaborate.

**Mr. Charlie McCreevy:** Well, I'm sure that I met with them and they were all making representations about different things. What they were making representations about at this particular stage, I can't remember. I actually ... I tried to look at this in your document ... I wasn't ... I just couldn't find it in my own budget documentation there.

**Deputy Kieran O'Donnell:** Do you accept ... do you now accept that in your last budget in December 2003, you extended the period for tax relief schemes by a further two years to the end of December 2006?

**Mr. Charlie McCreevy:** Well, I assume I did it in the Finance Bill which came up subsequently in 2004.

**Deputy Kieran O'Donnell:** But you announced it in the budget.

**Mr. Charlie McCreevy:** Yes, well it looks like that I did.

**Deputy Kieran O'Donnell:** So why did you do that against a backdrop of that?

**Mr. Charlie McCreevy:** Well, as I said earlier, Deputy O'Donnell, regarding all these reliefs and successive Governments of different persuasions have always extended the deadlines to make ... because of the ... make reasonable transitional arrangements.

**Deputy Kieran O'Donnell:** But you were categorical in your-----

**Mr. Charlie McCreevy:** Yes, because-----

**Deputy Kieran O'Donnell:** -----December 2002 budget that all schemes were being concluded and there was no justification. You had property prices rising at a rapid rate. Professor

Honohan has been in here and has gone on record as saying that '05 was where the major peaks arose. So the question I'm asking is who were you bombarded by?

**Mr. Charlie McCreevy:** Well, these ... these ... I'm sure I was bombarded by everybody including Deputies probably from your own party but at the time, anyway, I was always very conscious of the fact that people who had committed themselves to various schemes or whatever and the deadlines were coming up, is that we had to have reasonable transitional arrangements. Furthermore, I would always ... I would take the view that if you don't make strong announcements as we're going to close these down sometime, then you keep extending and extending-----

**Deputy Kieran O'Donnell:** But you made that announcement in the previous budget, Mr. McCreevy, so why-----

**Chairman:** You can wrap up now shortly, Deputy.

**Deputy Kieran O'Donnell:** So finally, why did you extend it and, in hindsight, should you have extended it by a further two years?

**Mr. Charlie McCreevy:** I changed my mind.

**Deputy Kieran O'Donnell:** What do you mean, you changed my mind?

**Mr. Charlie McCreevy:** I changed my mind.

**Deputy Kieran O'Donnell:** But sure why did ... we're ... people are entitled to know why you changed your mind?

**Mr. Charlie McCreevy:** Well, I can't remember at this stage, the strength of the representations from the various bodies or whatever but I obviously must have been convinced that there was a further period of time necessary to allow these to stay.

**Deputy Kieran O'Donnell:** And finally, do you believe that extending that by a further two years fuelled ... continued to fuel the property bubble?

**Mr. Charlie McCreevy:** I don't think that it did because I think some of the schemes which were announced there, had very little to do with house property.

**Deputy Kieran O'Donnell:** Thank you.

**Chairman:** I gave you a document there before the break Mr. McCreevy.

**Mr. Charlie McCreevy:** Your good clerk gave me it.

**Chairman:** I'll put it on the screen in front of you there, if you don't mind, okay, and we may need to come back to it again as we kind of wrap up but to just kind of familiarise yourself again with it once more. This is of 19 June 2013 and it's the Office of the Minister for Finance and I'll just be asking the investigation team to be putting this in as an evidence document for further hearings coming down the tracks as well. It's 2003, sorry, my apologies. Yes, 2003. And if you just look at the first two Roman numerals on page 1, it references a general Government deficit and then on II it says, "Ministers should prepare their pre-Budget Estimates proposals for 20[1]4, 2005 and 2006 on the basis of an overall reduction of [a half a million euros] in the costs of the Existing Level of Current Supply Services."



Now, this was in and around the time of the decentralisation and forth ... so forth. I just want to move on to one, two, three, four pages later. It's to the item, Background to Budget 2004.8. It's at the very end of the page, yes, it's actually circled there. All right. And there it says:

The 2004 budget will be prepared against a continuation of [a] more difficult international and domestic economic climate which has been present since the second half of 2001. The period of exceptional economic growth enjoyed by Ireland is over.

Do you recall that sentence because when I read that it actually, kind of, came off the page quite loudly to me? Do you recall this document?

**Mr. Charlie McCreevy:** Well, it's the ... what I will ... that's the budget ... that document in June 2003 is the normal starting of the Estimates campaign. It's the memorandum for Government that we produce every year in and around that time which starts the budgetary process. So, I actually can't ... I've just been shown the document now but if you show me the other documents over the years I wouldn't remember them either-----

**Chairman:** And I-----

**Mr. Charlie McCreevy:** -----but I know the generality-----

**Chairman:** -----and I am aware of that, like, and that's why I am not ... but, first of all, just are you familiar with it or, more importantly, I suppose, was there a belief by yourself and your senior officials that, "The period of exceptional economic growth enjoyed by Ireland is over", and was that the belief present in your Department by the middle of June 2003?

**Mr. Charlie McCreevy:** Well, the facts speak for themselves. Like, if one ... I haven't got them here but I'm sure if one looks at the percentage growth figures for GNP, GDP, for all the years since 2001, I'm sure that statement there as well that the exceptional economic growth that we had prior to that had lessened off. But that was always going to be the situation. There was no surprise about that.

**Chairman:** Okay, coming back to the earlier question I had to you this ... with regard to Mr. Wright's report, where he talks about the cyclical nature of the budgets and that the surpluses were very much based on cyclical expenditure. Was this the culmination of that budget strategy, that from 2004 onwards, the surpluses were going to be based upon extraordinary cyclical measures, particularly those related with the property market, and that what is called 'the real economy' was no longer going to be able to sustain the expenditure that the Department of Finance would require?

**Mr. Charlie McCreevy:** Well, we, at all times in the Department of Finance, would have been saying, is that, we had ... have had a great period of economic growth resulting in budget surpluses, etc., etc., etc. But that was never going to continue at that pace for ever and everybody recognised that, including myself and other members of the Government. So what we were trying to do in 2004 was to ... in that ... for June 2003, setting out the parameters for the next three budgets, to say, "Look, this is the background to the upcoming budget. Growth has slowed down, we're not going to have these exceptional revenues that we had in the past, so we have to cut our expenditure cloth to meet these new circumstances." That would have been the overall ... in fact there ... now in the Department of Finance and everybody else, we wouldn't ... we didn't have a big crystal ball and, like, so we could say what was going to happen in 2006. And, by the way, everybody was understating the amount of housing that was being constructed. Every time we were told from '98 onwards that we'll meet the housing target if we build,

say, 25,000 houses a year and then 32,000, the figures kept exceeding that. So, therefore, we were at all times saying, “Yes, anyway, well, the exceptional economic growth that’s in a whole variety of areas - not just in construction - is going to slow down somewhat”, and then we had the general economic background and a slowdown in the world economy in 2001 relating to the dotcom bubble collapse etc. etc. etc.

**Chairman:** But the ... I’ll just repeat the question again just to focus it for you, Mr. McCreavy. Is the surpluses were based upon cyclical measures that-----

**Mr. Charlie McCreavy:** No-----

**Chairman:** -----I will let you come back in. That ... by 2004 - and you’re dead right - there was ... production in property and property investment continued and home ownership and all the rest continued afterwards. But Mr. Wright, in his report, is very critical of there being no counter-cyclical measures as far back as 2000 and 2001 and in his physical presence and ... when he gave his testimony before this inquiry when the analogy of the red button being pressed, he said the red button should have been pressed at 2004 because the crisis was now commencing. It wasn’t the night of the guarantee was the crisis, it was the measures that came afterwards. So given this information that you had to hand at that time, do you believe that anything extraordinary was required, or was it that there should just be a modest adjustment going into next year of €500 million?

**Mr. Charlie McCreavy:** I would have thought only a ... that that particular modest adjustment would be worthwhile. But actually the outturn, which I wasn’t there for, the outturn of the budgetary surplus was very large in that particular year, 2004, and bigger, I think, again, in 2005 and 2006.

**Chairman:** From cyclical taxes?

**Mr. Charlie McCreavy:** Well, from all taxes, including the ones that you designate as cyclical taxes, which resulted in large budget surpluses. What Mr. Wright and maybe other commentators seem to be suggesting, that in those years a big economic, big budgetary surpluses, that the Government should have been saying to the people, “Oh no, instead of giving you rises in social welfare, child benefit, tax reductions, etc., etc., we want to be cutting back on you.” And as I said in my opening statement, does anyone think that that would be possible? Or does anyone think it would be desirable either? Either it would be certainly unacceptable politically, but I suggest it was unacceptably morally as well. We have to ... imagine me standing up in the middle of Dáil Éireann on budget night and saying, “We’re going to have an enormous surplus this year, and a bigger one next year, and I’m going to cut back social welfare and I’m going to cut back tax reliefs, etc., etc., and I’m going to impose a whole lot of stringency measures.” And then some Opposition person would rightly say, “But you’re putting aside an enormous amount of money to the pension reserve fund and you intend on putting forward more and reduce the debt even further.” Like, that type of reality is, like ... and if Mr. Wright or anybody else is suggesting that that is in the realms of political reality, he’s wrong.

**Chairman:** Well, I’ll try and explain to people, because it’s a big learning curve for us all, and certainly for myself, what cyclical taxes actually mean. Cyclical taxes are in, kind of, lay-person’s term, a bit like overtime. This is extra money you’re earning, but you don’t plan your household budget on overtime. You might go out and buy a refrigerator, buy a Chinese on a Saturday night, or take a holiday on it, but you don’t plan your week to week current expenditure upon overtime. This is the difficulty with cyclical taxes. So do you actually go in and say,

“I’ve a load of overtime,” to take your, kind of comparison, there, and say, “Well, I’m going to have this overtime forever”?”

**Mr. Charlie McCreevy:** But, Chairman, I recognise where you’re coming from, and I understand your bona fides in this particular regard, and I don’t malign them at all. But I have outlined to you is that we were having considerable economic success, which gave us the resources to do certain things, which we could only dream about in previous decades. I think the ... Professor Wright, or anybody else, who’s ... when he’s talking about counter-cyclical measures, what is he actually talking about? What did he or other people want you to do? Well, the only other thing that I can suggest to you is that you impose more taxation, lessen the amount you’re spending on public services, withdraw thousands of people from the public service, and, like, what would that do? And, by the way, other studies have been done which say if you were to have counter-cyclical measures that would maybe have an effect of maybe of a quarter of a percent on the harmonised inflationary index, you’d have to take about the best order of €5 billion out of the economy. That’s not realistic in those years. What we did in my last two budgets, I lessened considerably, as I gave my figures earlier, to the amount of tax change ... the tax package. The social welfare package continued fairly good, but the tax package was very, very small. And I think that was the reasonable, the politically correct thing to do, and the morally correct thing to do.

**Chairman:** Thank you very much. Senator D’Arcy.

**Senator Michael D’Arcy:** Thank you, Chairman. Mr. McCreevy, you were, I suppose, you were talking realities. Is it acceptable that a Government attempts to buy an election?

**Chairman:** Be careful of value judgments now, Deputy.

**Senator Michael D’Arcy:** It’s a question I’m asking-----

**Chairman:** I’d ask a question rather than something that’s conclusionary, okay?

**Senator Michael D’Arcy:** Well, I’ve asked the question.

**Mr. Charlie McCreevy:** Which budget are you talking about?

**Senator Michael D’Arcy:** Well, if I could put it to you that the SSIA’s were an attempt, potentially, some might say, to buy two elections?

**Mr. Charlie McCreevy:** Well, they definitely ... can I just say I’m very pleased that you brought up about the SSIA’s. Like---

**Senator Michael D’Arcy:** No, I’ve asked ... I asked a question-----

**Mr. Charlie McCreevy:** Yes, I ... about ... and the question about the SSIA’s. Well, now, let’s look at it like this now, about buying an election with that. I announced that for 2001. And people could sign up from I think 1 May 2001 to 30 April 2002. Now, I like credit as much as the next man, and to be given great credit for winning elections, I wouldn’t be adverse to great commentary about this. But, since 1969, the same Government had not been re-elected on any occasion. So, this brilliance of mine, of the SSIA ... I was going to be able to ... even though I was taking the money out of people’s pockets for putting aside, it was going to win the 2002 election for us, which ... and bring back the same Administration, which hadn’t been done for the previous 30 odd years, and I was going to be able to look forward into my crystal ball to see we’ll win the following election as well, because the following election people will be getting

this particular money in their back pocket. Now, much and all ... and, great and all, as I am, Deputy, and the great sage which I know I am, and which I ... well, I'm sure you'll give testament to yourself, I didn't plan it like that. It just wasn't like that. And any sane, sensible person that looks forward and says, we'll bring it in a budget, asking for the savings, before an election, which was going to come up anyway, he was going to win that election ... he was sure he was going to win that one, but not alone was he going to win that one after 33 years for the first time, he was going to win in five years' time as well. I'm not that much of a genius.

**Senator Michael D'Arcy:** Okay, thank you. Are you aware how much the SSIA, the 25% from the State, cost?

**Mr. Charlie McCreevy:** I think it would have cost ... I think ... I'm just ... I went ... I'm gone since '04, but I was costing an average ... I think I was dealing around €500 million a year. So, it was over five years, so, that's €2.5 billion, €3 billion less ... there would have been ... there was an ... I constructed the scheme in such a way that there was an exit tax ... so less the exit tax, which I presume came to €500 million or €600 million. I don't know what it was.

**Senator Michael D'Arcy:** So the maximum amount potential liability for the State was €2.5 billion.

**Mr. Charlie McCreevy:** Yes. And, is that the net figure after the exit tax?

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

**Chairman:** That was actually just €2.47 billion, I think, just under-----

**Senator Michael D'Arcy:** Okay. Can I ask ... did you hear Mr. Donal McNally's evidence this morning?

**Mr. Charlie McCreevy:** No.

**Senator Michael D'Arcy:** No, okay. Well, he said there was no analysis done on the benefit of the SSIA's, and I'm asking you, as a former Minister for Finance, how you would make the State available for a liability, with no analysis, for an amount of €2.5 billion?

**Mr. Charlie McCreevy:** Well, we didn't actually know at the time whether it would be half a billion, a billion, €2.5 billion or €3.5 billion; it depended on the uptake. That was the ... at the time. And we ... I answered repeated questions in the Dáil and said is that ... I didn't know what the uptake was going to be, but I hoped it was going to be the maximum amount possible. In the end of the day, the first few months with ... many people didn't apply. And, as usual, in Ireland, other places probably as well, everybody registered in the last two months or so. If I remember correctly, there was about 1.17 million people originally signed up for it. And, I think over the period of the five years, maybe 70,000 dropped off, or thereabouts. I ... the scheme was ... it was an incentive scheme to get people to come back and save in very, very good times, the same as the State had been saving in the good times. I'd been reducing the budget ... the overall national debt to a figure in the 30s, I set up the pension reserve fund, and ... so we were saving on behalf of the State, so, therefore, I think it was important ... people were getting used to all this money in their pockets and I decided that we'd have an incentive scheme to encourage people to save. By the way, if you want to talk about counter-cyclical policies, Chairman, actually, that was a counter-cyclical policy because it took the order ... it must have taken in the order, over the five years ... if it cost €2.5 billion, it must have taken in the order of €10 or €11 billion out of the economy over the five years. So, therefore, I rest my case. By the way-----

**Senator Michael D’Arcy:** Mr. McCreevy, have you ... I’ve only got a couple of minutes. You’re talking for ages.

**Chairman:** Sorry, Deputy, you have to allow fair time.

**Senator Michael D’Arcy:** Yes, I do, but I mean, I think there has to be some-----

**Chairman:** There is, and I’m monitoring it.

**Senator Michael D’Arcy:** Good, good. Did you monitor the FSR reports, the financial stability reports, Mr. McCreevy?

**Mr. Charlie McCreevy:** Well, I ... the financial stability reports are the ones that came from the Central Bank.

**Senator Michael D’Arcy:** Yes.

**Mr. Charlie McCreevy:** Yes, I think before we set up the-----

**Senator Michael D’Arcy:** I just ... I-----

**Mr. Charlie McCreevy:** Before we set up IFSRA, I think the Governor used to send a statement and, after that, they became formal stability reports.

**Senator Michael D’Arcy:** You did, good. One of the issues that came very clearly from the FSR reports was the household indebtedness. From 1995, 71% of GDP, to ‘07 - you had left at that stage - to 248% of GDP ... of GNP. During your period, there was enormous growth of household indebtedness, primarily from mortgage lending. Were you aware of that? Were you aware of the massive increase of the mortgage loan book by the Irish banks?

**Mr. Charlie McCreevy:** Well, as I said in an earlier reply ... I think Deputy Doherty was asking these questions ... is that, up until the end of 2003, I think you’d have the figures to show what the total amount of lending by the Irish institutions were, to the housing sector, and on residential mortgages. The big explosion took place between 2003 and 2007, 2008.

**Senator Michael D’Arcy:** Were you aware?

**Mr. Charlie McCreevy:** Well, in 2003 ... in ... I can’t remember if we got ... aware of what the figures were in 2003. But what I was aware of that in our period of office, the affordability of people to meet mortgages, together with low interest rates, which lessened than the amount of repayments per month, increased.

**Senator Michael D’Arcy:** Were you aware in your discussions with Governor Hurley or anybody within the Central Bank or IFSRA in relation to the commercial real estate sector’s level of indebtedness?

**Mr. Charlie McCreevy:** No, I was not.

**Senator Michael D’Arcy:** Were you aware about the Anglo Irish Bank loan book? Did anybody make you aware of the extent of it?

**Mr. Charlie McCreevy:** Just let’s be clear about this, Deputy, in all of my time there - and I’m sure I speak for previous Ministers for Finance as well - the Minister for Finance is never involved of the situation relating to any difficulties or whatever that relate to an individual insti-

tution. That's a matter for previously the Central Bank, then the Financial Regulator and that's the way it always has been.

**Senator Michael D'Arcy:** I'm talking about financial stability for the sector.

**Mr. Charlie McCreevy:** There was no mention at any time that there was any danger to financial stability in my time.

**Senator Michael D'Arcy:** You said earlier about Dr. Garrett FitzGerald, that you didn't believe ... didn't agree with anything he said or his son.

**Mr. Charlie McCreevy:** Or very little.

**Senator Michael D'Arcy:** Very little, okay.

**Mr. Charlie McCreevy:** I'm sure he didn't agree with much of what I said either.

**Senator Michael D'Arcy:** You've no idea, Mr. McCreevy. He was, for a long time, in his articles in *The Irish Times* writing about the narrowing of the tax base, most of which happened upon your period in Finance.

**Mr. Charlie McCreevy:** What specifically way did I narrow it?

**Senator Michael D'Arcy:** The narrowing of the tax base. The Chairman spoke about the cyclical taxes. Now you can count whichever taxes you wish to be cyclical or counter-cyclical. The narrowing of the tax base, the reduction in the wealth taxes, the capital gains taxes, the transaction taxes and then the decreasing of the income tax. Was he correct then and were you wrong?

**Mr. Charlie McCreevy:** Well, let's just deal with it one by one: the transaction taxes. The biggest transaction tax was stamp duty. There was 0% stamp duty for first-time buyers of new houses, zero. Regarding capital gains tax, I certainly reduced the rate of capital gains tax from 40% and we quintupled the amount of revenue coming in to the State. The same happened to do with capital acquisitions tax as well. And narrowing of the tax base, I didn't. What I did was that I reduced an unfair burden at both rates of tax. When I became Minister for Finance, the rates of tax were 26% and 48% and various other levies in between. Well, anyway, I reduced it, as we said in our election programme from 26% to 20% and from 48% to 40% over my time as Minister of Finance. I did most of that in the first three years. I ... and from then on, in the last two budgets, all I did was increase the exemption limit to take the people on the minimum wage out of the tax net. And if you look at the 2002 agreed programme for Government, you will notice that our programme for the next five years didn't specifically mention any more change in rates of taxation but said our goal was to have 80% of all taxpayers paying on the standard rate. So we certainly reduced the rates of taxation, we widened the bands, we brought in the revolutionary concept of tax credits, which allowed a lot of different things to be done in the meantime, which hadn't been done previously and we made these particular ... So I don't for a moment accept that we narrowed the tax base. And some of those transaction taxes, the biggest one being stamp duty, we had a 0% stamp duty on new house purchases for first-time people.

**Senator Michael D'Arcy:** Can I ask you in relation to your period in Finance about expenditure. In 1997, the expenditure, total capital and current, was €18.8 billion. Seven years later, it was almost €41 billion. Again the Chairman touched upon it but I'm touching upon it now. A lot of it was based upon taxes that were going to come from the property sector, so long as the

property sector kept going. Deputy O'Donnell touched upon your change of mind in relation to the property-based taxes. Had you any knowledge that when the property sector slowed down that there could only be a collapse in terms of because we had... the money had been given out on an annualised basis and had you any knowledge how difficult it is to reduce these numbers when the money is not available?

**Chairman:** One supplementary, then Mr. McCreevy and then back to Senator and then moving on. Mr. McCreevy.

**Mr. Charlie McCreevy:** We did in the 2003 budget, as has been ... and I've given evidence on and, as per the chart given earlier ... put up there, actually the amount of money in Government current spending that we had for 2003 was less than actually had been recommended by the Department in June of the previous year. And yet ... and you said ... when the property sector ... no one anticipating the property sector collapsing. What I was taught the whole time, for years, that there was going to be, what became the famous phrase, "a soft landing", so there was no one in the Department of Finance, the Central Bank, or anywhere else, saying, "There's going to be a total collapse in the property sector." Not just housing, but in all other sectors as well. Nobody came along with that ... look, even the ESRI weren't predicting that as late as 2007, I think, never mind predicting it in 2003, 2004.

**Deputy Kieran O'Donnell:** Mr. McCreevy, at the ECOFIN meetings, which you attended monthly, and your semi-annual meetings with the Governor, can you recall if you were ever challenged on the economy or the possibility of the property market overheating?

**Mr. Charlie McCreevy:** No, the only time we ever had any big discussion with the Irish economy in Brussels was, as I spoke about earlier, was on the 2001 reprimand from the EU Commission ... or from the Council, sorry, to be quite correct, on the recommendation of the EU Commission, as enforced by the Council of Ministers. That was the only time that I can remember that ever there was any great, detailed discussion. In fact, I remember, in all other years, that the stability update of the Commission and their comments, if you look, was very complimentary on Ireland *vis-à-vis* what they said about other countries so the answer to that question is "No".

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

**Senator Sean D. Barrett:** Thank you, Chairman, and welcome, Mr. McCreevy. Going back to the financial arrangements, you call it the Dermot McCarthy compromise. The memorandum of understanding between the Central Bank and the Financial Regulator dealt with the responsibilities being divided between the Central Bank and the IFSRA. Was there clarity on what should be dealt with by the regulator and was there an expectation that the Governor could exercise his rights under the memorandum of understanding and intervene with the regulator?

**Mr. Charlie McCreevy:** Well, the structure that was set up would have allowed great interaction between the regulator and the Governor of the Central Bank. The ECB insisted that the Governor of the Central Bank had to be totally independent and they were ... they were only anxious at that time about that particular matter, more than anything else. Mr. ... the structure that was set up would have ... the Governor to produce financial stability reports and I'm sure that there could have been interaction, as per the law, between him and the Financial Regulator, if the Financial Regulator brought to his attention any matters that he thought would compromise financial stability because the Act itself allowed that prudence was to be exercised and I'm sure there were sufficient powers there for the Governor to intervene if he thought so fit.

**Senator Sean D. Barrett:** And-----

**Mr. Charlie McCreedy:** But it certainly was not a matter for the Minister for Finance.

**Senator Sean D. Barrett:** Yes. But you were trying to run a fiscal policy where credit was expanding at 25% a year. Was there not a need to tell the guys in Dame Street, “Hey, we can’t continue like this”?

**Mr. Charlie McCreedy:** But the ... as I said in reply to earlier questions, I think the ... I think the key figure to look at is the explosion in credit from 2003 to, say, 2007, 2008. Nobody ... certainly ... maybe had a peremptory discussion at some stage, maybe with some of the officials about the increase in credit, but nobody was overtly concerned at that time because the Central Bank structure, including the regulator and the Governor, weren’t saying, “There is a great danger of a desperate situation occurring here”, at that time. Perhaps later, in the time after the structure that came about, but certainly I don’t remember-----

**Senator Sean D. Barrett:** Yes.

**Mr. Charlie McCreedy:** -----any debate like that in my term.

**Senator Sean D. Barrett:** Because in your introductory remarks, you referred to the “wall of money” coming in and that the downside was the loss of the interest rate as a method of control.

**Mr. Charlie McCreedy:** I said that in reply to a question, yes.

**Senator Sean D. Barrett:** You did indeed, yes, yes. So, was there any mechanism to deal with your concerns, the wall of money-----

**Mr. Charlie McCreedy:** Well ... well, that’s-----

**Senator Sean D. Barrett:** -----and the loss of the interest rate?

**Mr. Charlie McCreedy:** Well that’s why, that the ... that’s the purpose of having a Central Bank and having a Financial Regulator, to look at those particular issues. *In extremis*, I’m sure as happened in the recent past when the financial crisis occurred, when there was a threat to the financial stability of the State arising from the difficulties that the banking sector got themselves into, I’m sure then the Governor would report then to the Government and Minister for Finance on that situation but that was long, long, long after my term.

**Senator Sean D. Barrett:** But were the design faults there from the beginning?

**Mr. Charlie McCreedy:** Well, I suppose, I ... I ... the answer is I don’t know, but I don’t know what would extra we could have added into the Bill to give more powers to the regulator or the Central Bank Governor that would have prevented it happening, but unfortunately it occurred in ‘08, ‘09, ‘10.

**Senator Sean D. Barrett:** I know it’s the realm of speculation, but supposing we had at the separate regulator, and supposing we were looking to have a body which has the prestige, which say the IDA has, would that not have helped to say, “Look-----

**Mr. Charlie McCreedy:** But-----

**Senator Sean D. Barrett:** -----this rate of credit expansion and this rate of concentration



on construction will end in tears?"

**Mr. Charlie McCreedy:** But, Senator, it's quite a good point and we could talk about it for a long time. I'm not too certain about that, and I'll tell you why, for a number of reasons. One of the reasons for the ... I would suggest that the banks here went very loose with their credit policy, were a number of factors, but one certainly was competition, and competition not just from the ... what we call the Irish banks but from outside as well. And remember that, say, the Royal Bank of Scotland was involved here through their wholly-owned subsidiary. The Bank of Scotland was also involved here, Rabo was also involved here. And incidentally ... but they were regulated from their home base, and they ... Royal Bank of Scotland on their Irish operation, I read in the very recent past - you can correct me if I'm wrong - even though they never have announced fully the figures, have ... I think they've estimated that they lost something in the order of ... it's many, many billions, I've a figure ... I've ideas in the 20, in excess of 20. Bank of Scotland probably the same. Rabo who took over the ACC, very, very big figures as well. And the regulator in their home jurisdiction didn't spot this collapse in the Irish economy as well, and a massive credit growth. So I am not ... I can argue, I ... we can debate it, and you might be correct in some things could be put in place, but I actually don't see it like that because it was missed by there. And by the way, in the United States, they missed AIG, Bear Sterns, Wachovia and a few others as well, you know what I mean?

**Senator Sean D. Barrett:** Yes, and-----

**Mr. Charlie McCreedy:** So they were ... they were ... I think it is ... I think it is ... I don't ... I'm going outside the terms of my writ now, I think it's a little unfair, from the evidence I've heard at the committee and some of the commentary to lay all the blame at a certain door of a certain regulator. I'm not saying that the ... answers not to give ... but I just think to my book of fairness - and I don't know the individual at all.

**Senator Sean D. Barrett:** It was more or less the model ... rather than the individual. You say on page 7 of your statement, "I cannot recall [reports from the statutory auditors at the banks] ever being discussed in the department."

**Mr. Charlie McCreedy:** I don't remember it ever happening, Deputy, because actually I don't see why it would be because that'll be a matter wholly for the Financial Regulator.

**Senator Sean D. Barrett:** But we know from some of those accounts in June 2008, that they were putting banks as solvent which were into your successor within a matter of months looking for money. So did the accountants play a proper role in this, in retrospect, and as an accountant yourself?

**Mr. Charlie McCreedy:** Well, I refer to in my statement, as I thought for completeness, and showed ... in my witness statement, not the opening statement.

**Senator Sean D. Barrett:** Yes.

**Mr. Charlie McCreedy:** I think in the last page of it.

**Senator Sean D. Barrett:** The last sentence, I think, yes, yes.

**Mr. Charlie McCreedy:** I refer to the ... some people over the world have stated that the accounting rules may have exacerbated the financial crisis. I can go into it if you like as to what occurred there, but some people ... if you want me to talk about it.

**Senator Sean D. Barrett:** I'm on a time constraint, thank you.

**Mr. Charlie McCreevy:** Well, what happened was that back since the mid-1960s there's been a move to have international accounting standards. It's a desire that is very well worthwhile, that we'd have the same principles for accounting worldwide. Americans use US GAAP, that's general accounting accepted principles. Irish and UK used to use Irish GAAP. And there always has been a move since the '60s to try and have an internationally accepted standard the way we look at accounts, whether it be in Australia, America, Ireland, whatever, you'd be interpreting the same thing. The IASB, the International Accounting Standards Board, was set up in the '60s and it's funded from a variety of independent sources. They started to produce then IAS standards over the years. The European Commission decided in 2002 that they would endorse IFRS the new standards - International Financial Reporting Standards. And the European Commission, even though not a member of the IASB, which is totally independent, adopted all these particular standards, and public companies had to apply these IFRS standards as and from, I think the accounts starting January 2007. Those particular standards, some people ... those particular standards generally use mark-to-market. They all said there were some difficulties over standards, IAS2 and 39. And all these difficulties, some people would say, is that ... contributed somewhat to the financial crisis internationally but Ireland ... Ireland was ... Ireland was the one country, the same as all the other member states, bar one, who had ... who implemented exactly what the new regulation was. So the accounting professionals have been before the ... before the committee here, but they were doing their accounts on the basis of IFRS and there are certainly some anomalies in the IFRS standards which may have contributed globally to some of the financial problems and particularly in the EU. But that's a matter you can discuss with some accountants rather than me.

**Senator Sean D. Barrett:** On the wrap-up question then, well how did so many accountants and central bankers and, indeed, the bankers themselves, land us in so much trouble?

**Mr. Charlie McCreevy:** I think, Deputy, we ... Senator, we could have a discussion maybe another day over this. There'll be a whole variety of reasons. I said ... I mentioned earlier about low interest rate policies but if I can say one thing about ... I said competition among the banks, which we all thought, in Ireland, was a very good thing. And, as you rightly have ... over your long career as an academic have advocated competition, and competition is a good thing, but in certain areas, too much competition can be a very bad thing because you can't compete to the lower base, financial products being one of them. Auditing on price can be a bad thing as well because you can compete all the time on price for auditing ... you may end up with a very, very low base. So, therefore, competition has been recognised as being a very good thing and, as you well know, all of my political career I have been pro-competition, but in certain areas it can lead to these problems and, as I said earlier, the competition, not alone among Irish banks, but banks from the outside contributed to the lessening of credit standards being applied by banks.

And one final thing, may I say, if I was to ... from my experience in Brussels, and looking across what happened in the financial sector throughout Europe and throughout the world, the remuneration policies of financial institutions have led, in my view, to a lot of these difficulties. Very ... we'll make it very simple, here is bank A over here, led by a very conservative chairman, chief executive, lending officers etc., in business for 60 years, doing a nice ... doing a nice dividend at the end of the year for their shareholders. Along comes bank B over here, bright new sparks, new chief executive, incentivisation and bonus shares etc. etc. Profits keep going up and up and up. Every year at their annual meeting, old Mr. Fogey over here, "Why aren't your profits going up and up compared to bank B over here?" What happens, out is turfed

conservative Mr. A and his team. In come a whole lot of new whizz kids anyway and they're going to compete for more and more business, because they are being remunerated on results. And everybody's being remunerated on results, including the Government. The Government is being remunerated because they're going to get increased taxation and corporate taxation plus PAYE etc. etc. The shareholders are going to get more and more dividends. The employees are going to get more wages and more salaries and more bonuses baked in share schemes. And this cycle keeps going. And if you were to look across the world, not just Ireland, you will see that is one common denominator. Now, I'm making a comment, which I probably didn't intend to do, because it's post my time as Minister for Finance.

**Chairman:** We'll accommodate it. You're okay. Okay.

**Senator Sean D. Barrett:** Thank you. And thank you, Chair.

**Chairman:** I was hoping to raise this question actually later with you in the day but Senator Barrett has actually touched upon the IFSRA and the accounting standards. Just a supplementary that I was going to kind of delve into it - in your witness statement, you mention the introduction of the SRA accounting standards added to the banking crisis and you had-----

**Mr. Charlie McCreevy:** Well, there are people contend that, Chairman.

**Chairman:** And you've elaborated quite extensively there with Senator Barrett. So before asking you ... you've given your opinion and so on but what kind of struck me when I was reading your statement is that you described it as an independent body funded from a variety of sources. Do you know what the sources are?

**Mr. Charlie McCreevy:** Well, they're ... they got money from various independent bodies around the world because they were ... they didn't take any money from the EU Commission, for example, or any government organisation. They had very eminent people involved with them, such as Mr. Paul Volcker and people like that, because they want to be seen to be clearly independent because, you see, they would see it and rightly so that, you know ... that you shouldn't have influence in setting accounting standards from anybody, that it should speak definitively, coldly, etc., etc. So they fund themselves. They got ... you see they don't need an awful lot of money to keep going. But the small amount of money, so they've always guarded their independence jealously. But ... and they have a wide consultation process, they don't come up in the middle of the night and say "We're having a standard here." They go through an exhausting operation that might go on two or three years. And bodies from all over the world are represented in various fora there. And the process they go through is exhaustive, could go on for three or four years and everybody gets a chance to comment about it. But, I just ... some people have commented that some of the IFRS standards have contributed to this.

**Chairman:** Okay, it's about the independence, I just want to stick with the independence of the body. Are you aware that their biggest funders are the four biggest accountancy firms, PwC, KPMG, E and Y, and Deloitte, who last year contributed \$2.5 million each. Ireland's Central Bank and Financial Services Authority gave £6,000 sterling. So how independent are they actually, given that the agencies that are carrying out the tasks are funding the structure that does the regulation? So, given your statement that you're saying they are independent, given that funding structure-----

**Mr. Charlie McCreevy:** Well you see ... well ... well I'm not ... I'm only commenting on it because ... I, for completeness, I was asked in my ... direction as to influence of outside bodies

from Europe etc. etc. And I thought I should mention it because there are people that have this view. You'd have to ask the IASB, but you must remember, this whole accounting standards thing is not something that was ever run by a government. No government came along to ... like in the 1960s, '70s, '80s, '90s to say, "We want independent accounting standards." This body came ... was a body that came about itself from the accountancy bodies from day 1 ... that they say, "Look, worldwide we should have the same accounting standards."

But what gave it great momentum was, in Europe, was the EU decided that we will recognise this, the independence of this body, and we will put this into effect by issuing a directive and regulation and that's what gave them their strength. They didn't come along to us in Europe and say, "You have to do this."

Now by the way, the United States had signed up to do this as well, but until the time that I left office in Brussels, they hadn't actually put all of it into effect. So they were, it's not ... to be fair to this body, this IASB, it's not ... it was never a government that said "We'll have an independent accounting standards body." This body grew up itself from, there was a, quite a famous individual in the '60s who had this idea for years and he kept pushing it and pushing it, and ... it is a very, very good idea that there would be one international set of accounting standards. But ... therefore it's an idea that came from the professions and the accountancy bodies, it's not an idea that came from any government.

**Chairman:** All right, Mr. McCreevy I don't know if Senator Barrett touched on this or not but I just want to come back to it as well, that the memorandum of understanding between the Central Bank and the Financial Regulator dealt with the responsibilities of both the ECB, CBF-SAI and IFSRA, and this was the structure that you were discussing earlier. Was there clarity in what should be dealt with by the regulator and was there an expectation that the Governor would invoke his rights under the memorandum of understanding and intervene with the Financial Regulator, and did this ever happen?

**Mr. Charlie McCreevy:** Well, I'm trying to recall as best I can the sequence of this. I think the memorandum of understanding was agreed by ... was ... came about due to Europe intervening. For a long number of years, in ECOFIN Councils, there had been debates about a cross-border banking crisis, and finally in the middle 2000s they agreed anyway we'd have memorandums of understanding for cross-border financial institutions, and that's where the memorandums of understanding came from. Then in Ireland, I think in 2005, 2006, but you can check this record, but post my time in any event ... the domestic standing group was set up, which incorporated the Central Bank, the Financial Regulator, the Department of Finance and-----

**Chairman:** But apart ... just on the very short question Mr. McCreevy, was there an expectation when the architecture of legislation was being put in place, we were going to have this very elaborate structure, with two big pillars there; one dealing with regulation, and as you said earlier in your discussions, to be examining consumer affairs matters and consumer protection; Central Bank dealing with stability and the macroeconomics. Was there an expectation, when you were putting this architecture together that the Governor would, at some stage if required, invoke his rights under the memorandum of understanding?

**Mr. Charlie McCreevy:** Well it was always understood by me, and I'm sure my officials, that if there was a danger to the financial stability of the country that the Governor would act, but together with the people on ... with the body, that it was regarded as, you know, like, something that would be done.

**Chairman:** Okay, thank you-----

**Mr. Charlie McCreevy:** And I'm sure the legislation ... I can't remember the exact detail of the legislation ... it was a very complicated piece of legislation ... it encapsulated that as well.

**Chairman:** Thank you. Senator Susan O'Keefe.

**Senator Susan O'Keefe:** Thanks, Chair. Mr. McCreevy, during your tenure as Minister, there were obviously the difficulties that arose around Ansbacher and also the DIRT inquiry and in 2001-2002, the problems with Allfirst, the AIB subsidiary. I'm not asking you to elaborate on any of those matters; what I am asking you to do, is to say ... is to tell us why, in your own statement to us today, you said, "It was never contemplated as to the remotest possibility that any Irish bank could fail."

**Mr. Charlie McCreevy:** Well, I don't remember any commentator, Senator, ever, in that particular time ... ever thinking that an Irish bank could fall under. The only time, in my political career, that I can think of when that danger was about was around 1985 or so when the Insurance Corporation of Ireland, a subsidiary of Allied Irish Banks, had run into some difficulty and the ICI, or AIB, came to the then Government and asked them to take some measures because they, if I remember correctly, thought that the financial stability of AIB could be put at risk. I don't remember, since that time, and certainly not during my period, that anybody ever had the remotest possibility of thinking that any Irish financial institution, like mainly the major banks, was going to collapse. In fact the ... in fact, it was totally the opposite. Both of the major banks were having ... announcing enormous profits every year and enormous dividends and accordingly going from strength to strength.

**Senator Susan O'Keefe:** So it was just ... it was never discussed even though, clearly, there were problems at some banks. You already had that experience-----

**Mr. Charlie McCreevy:** Well-----

**Senator Susan O'Keefe:** -----from a previous time. You're just saying it wasn't-----

**Mr. Charlie McCreevy:** Now you see ... you're very good. You raise a good point. You've mentioned about Ansbacher and those three things, and the one ... from another angle, that did impinge upon the thinking leading up to the financial ... the single regulator and the structure. Because there was ... if I ... we had National Irish Bank and the overcharging scandal there; we had the Ansbacher issue regarding tax issues; we had the Allfirst thing somewhat later with the ... that was outside of the State so it's probably unfair to mention that in the same area; and there were some other ones as well. And all of that, the criticism the whole time, both in the Dáil and in the commentary was that the Central Bank, as constituted, was not up to the mark. And also there was an all-party committee sat back in those days as well and they, more or less, said the same thing. And out of that, the idea came then, we'll have a single regulatory authority and out of that then came this great debate that went on as to where it should be located. And from that also the whole debate was about consumer protection ... in fact, if you read the commentary at the time and including the McDowell report, there was nothing but praise for the prudential regulatory section of the Central Bank. All of the discourse was on the consumer angle which all of those things are. And they are very important. And I think ... I haven't been able to find it before I came to this committee, but you'll find, I think, at the committee, where I said, when I was being harangued by certain Deputies who are still in the House, about not doing anything about this ... I think I did make the comment, saying, "Well, I think actually Mary Jones would

be actually more worried about her deposit in the bank and keeping the bank from going under than the extra €3 that she might have been charged incorrectly.”

**Senator Susan O’Keeffe:** Okay. That’s fine-----

**Mr. Charlie McCreevy:** ----but I might as well-----

**Senator Susan O’Keeffe:** That’s the answer to the question-----

**Mr. Charlie McCreevy:** I might as well have been whistling on Carrauntoohill.

**Senator Susan O’Keeffe:** Okay. On page 8 of your own statement, you say, “In regard to the relationship with the property sector, we would’ve received representations from bodies such as the CIF, Irish Home Builders Association, IBEC, ISME and various other groupings.” You didn’t take the opportunity there to tell us that in your own diary in 2003, which was sought under freedom of information, not by us, but by a journalist, and it showed that you had met Treasury Holdings, Bernard McNamara, Seán Quinn, Jed Pierse, Miles Byrne, Bernard McNamara and so on. So, you just said that they were ... that was the relationship-----

**Mr. Charlie McCreevy:** But they ... well, I-----

**Senator Susan O’Keeffe:** I’m just wondering, Mr. McCreevy, why did you not take that opportunity to engage with us and tell us that you had actually made ... had formal meetings in at least just that one year, 2003?

**Chairman:** The timeline is 2003.

**Mr. Charlie McCreevy:** Well , I don’t know in what context I met them, was it in the Department-----

**Senator Susan O’Keeffe:** It’s from your diary, Mr.-----

**Mr. Charlie McCreevy:** No, no, I have no ... I have no problem with the diary because I am aware that my diaries were accessed under freedom of information many times many years ago-----

**Senator Susan O’Keeffe:** Yes.

**Mr. Charlie McCreevy:** -----by a certain journalist who has been getting them all of the time and all of the Ministers in between. But, I can’t remember ... I didn’t bother even looking it up ... I don’t know whether I met them in a group, partnered with somebody else or whatever-----

**Senator Susan O’Keeffe:** Well, it didn’t appear so from the way it’s listed. What I’m asking you though, Mr. McCreevy, is, these were people who were fairly important in that sector. You didn’t take the opportunity to tell us in your statement, so perhaps you might tell us now, why were you meeting them?

**Mr. Charlie McCreevy:** Well ... well ... I assume-----

**Senator Susan O’Keeffe:** And why were you meeting them so often?

**Chairman:** Allow time please Senator for Mr. McCreevy to reply.

**Mr. Charlie McCreevy:** Well I’m sure ... I would have met them in the context probably

were ... part of the delegation from the CIF or the house builders or whatever.

**Senator Susan O’Keeffe:** No, they don’t appear to have been as delegates ... sorry-----

**Chairman:** Senator I’ll bring you back in a moment. Mr. McCreevy.

**Senator Susan O’Keeffe:** Well there’s no ... there’s no ... they didn’t ... they weren’t as part of a delegation Mr.-----

**Mr. Charlie McCreevy:** Well, I can’t ... I actually can’t recall actually meeting those people in formal delegations at all but I’m-----

**Senator Susan O’Keeffe:** Do you recall meeting them as individuals?

**Chairman:** Sorry Senator. See, I have to allow Mr. McCreevy to respond.

**Senator Susan O’Keeffe:** Okay, I’m sorry.

**Mr. Charlie McCreevy:** But I just answered the question, Senator O’Keeffe, I have no recollection of meeting them formally at all. But I certainly ... those people that you mentioned, I certainly would have run into them in various other fora as well, everything from social occasions such as football matches to race meetings, etc., but actually I don’t recall meetings. But it was in my diary, so if it’s in ... I don’t know whether they were part of a delegation or whatever. But I’m sure if you access the Department of Finance records you’ll be able to see that, I’ve no problem with it.

**Senator Susan O’Keeffe:** That’s ... that’s what I’m saying, Mr. McCreevy, that is the Department record and I’m asking you ... it doesn’t say that they ... that they came in a delegation. They are in the diary as one ... or you know ... by themselves. Why would you have been meeting those people-----

**Mr. Charlie McCreevy:** Well I-----

**Senator Susan O’Keeffe:** -----in your office, as Minister for Finance?

**Mr. Charlie McCreevy:** Well it looks like I met them all in the one day is it?

**Senator Susan O’Keeffe:** No, no, this is over the whole year between January to December.

**Mr. Charlie McCreevy:** And what year was that?

**Senator Susan O’Keeffe:** 2003.

**Mr. Charlie McCreevy:** Well they must have come in to see me about something, I don’t know.

**Senator Susan O’Keeffe:** You don’t know?

**Mr. Charlie McCreevy:** I can’t remember.

**Senator Susan O’Keeffe:** Okay.

**Mr. Charlie McCreevy:** I can’t remember anything in particular at that time ... when ... people would be coming in like that but I’d always be ... I would always be conscious is ... no

matter where you go in Ireland, whether it was off to a social event or a political event-----

**Senator Susan O’Keeffe:** Of course.

**Mr. Charlie McCreevy:** -----you’d always certainly have a number of developers or builders at it and I’m sure they wouldn’t - like everybody else who’s ever been in politics here - they don’t miss the opportunity of advising you and giving you their views about things.

**Senator Susan O’Keeffe:** Mr. McCreevy how long were you the Minister for Finance for?

**Mr. Charlie McCreevy:** 26 June ‘97 to 29 September 2004.

**Senator Susan O’Keeffe:** Okay, so do you think that you - obviously in that time as you’ve said you met a lot of people both in the property sector and the banking sector and so on - did you use your knowledge and your contacts and your connections at that time to apply for and receive the €1.6 million loan that you got from INBS in 2006?

**Mr. Charlie McCreevy:** Well I don’t know if this comes within the remit of the committee, I was a banking customer-----

**Chairman:** I will allow you a bit of space here, as accountable as you want to be Mr. McCreevy, and then you can withdraw.

**Mr. Charlie McCreevy:** Yes. I want to point out ... first of all it took place in 2006 when it was long after my time as Minister for Finance. I haven’t said this before but I actually was a normal residential property loan with Irish Nationwide since December ‘84 or January ‘85, a loan which I paid off sometime in the 90s, I think anyway. I applied for a loan in the normal way and gave the normal documentation and it was got nothing to do with my time in finance or anything else.

**Senator Susan O’Keeffe:** Well in fairness ... that ... the reason I ask the question was that it was reported that the loan had been 100% plus and that INBS’s loans didn’t have that regulation at the time. Otherwise, in fairness, we wouldn’t be interested in-----

**Chairman:** You don’t have to answer these questions.

**Senator Susan O’Keeffe:** -----whether you’d borrowed the money.

**Mr. Charlie McCreevy:** Well, like-----

**Senator Susan O’Keeffe:** We are talking about the closeness between banks and-----

**Mr. Charlie McCreevy:** I was-----

**Chairman:** If you will allow me for a second, you can answer away, like I would ... the nature of that kind of movement, kind of personal loans and transactions I would ask people to talk to the legal team beforehand, but you are free to speak at your own will Mr. McCreevy.

**Mr. Charlie McCreevy:** Well it’s ... like ... it’s like ... I’ll have to speak even though I didn’t intend to because I think it’s quite unfair then to throw for ... for the questioner to throw in the ... throw in the allegation, then throw it up there, and I say I’m not going to answer that question. I accept ... I thank you, Chairman, for advising me that I don’t have to answer it but I know what the implication that the Senator is sneakily trying to throw in.



**Chairman:** I ... would ask you to withdraw the word “sneakily” because I try to ask members here to not do value judgments.

**Mr. Charlie McCreevy:** Well I withdraw the word “sneakily” and put in “innuendo”. So ... like so, the innuendo from the Senator-----

**Chairman:** Okay.

**Mr. Charlie McCreevy:** ----- is somewhat else. I applied to Irish Nationwide Building Society, sorry myself and my wife applied for Irish Nationwide Building Society, for a loan. In all, I got many loans personally over the years from many people, and I only got one ever before for Irish Nationwide in 1984 - 1985 when I neither was a Minister or had been a Minister at that particular time. I was elected in ‘77, I just applied for it in the normal way and in 2006 I applied for it in the normal way because I had a relationship with that particular institution. It was got nothing to do with ... I could do. I was out of Finance at the time. I was in the European Commission and there was nothing to do with Irish Nationwide or anything else. In all my years getting loans, some for myself, but mostly during my time as a partner in an accountancy firm, I would have got hundreds of loans or facilities for clients of mine from all types of institutions, and individuals, I never, ever, in all those years, ever knew it to be the job of the borrower to know what the processes were of the lender as to how he was going to get the loan. All I ever did, for either clients or myself, was to apply, and we received the loan.

**Senator Susan O’Keeffe:** Thank you. In relation to the cost of tax expenditures, and I know you’ve discussed this with other members, according to the OECD, by 2005 the cost of tax expenditures had become larger than the remaining income tax receipts. This is in the Regling and Watson report, page 27:

As a percentage of total tax revenue, tax expenditures in Ireland are more than three times larger than on average in the EU. Again, this excessive reliance on tax relief narrowed the tax base. In addition, it contributed - again - to the property bubble, as some of the tax relief was directed to the property sector.

So, I just want to know, because you said earlier on, Mr. McCreevy, that there had been tax breaks, if you like, in Ireland for 50 years. And I’ve no doubt that that’s true. All I’m saying is that the OECD’s observation was that by 2005, they were way higher than in any other country, and they were narrowing the tax base and they led to a property bubble.

**Mr. Charlie McCreevy:** Well, I stated in my opening statement, and I gave some ideas as to what the purpose of tax incentives are. It’s not primarily to give a tax break to individuals, but to stimulate investment in the area, which is lacking such investment, and I referred to it quite considerably during my opening statement. Now much of the commentary in recent years, and I note that during the inquiry, the little I’ve looked at, that the Senator seems to concentrate totally on the tax foregone and very little credit is given for the economic activity created. There were tens and tens and tens of thousands of jobs created in the construction and other ancillary jobs. There were hundreds and billions collected in PAYE-PRSI, etc., etc. Now, there seems to be just an over-concentration in all of those years as to, “What is the tax foregone?” And also, a, kind of, belief, well it’s tax foregone, but it really isn’t tax foregone because if the incentive wasn’t there-----

**Senator Susan O’Keeffe:** Mr. McCreevy, I asked you a question-----

**Chairman:** Hold on. Allow him to answer and then I’ll allow you have a supplementary

on it, okay?

**Mr. Charlie McCreevy:** The activity mightn't have taken place in the first instance at all, if there hadn't been the incentive. So, therefore, there wouldn't be any tax foregone in any particular thing. It's a tax break, to give to ... in order to allow activity to take place, as I said in my opening address, in areas where it wouldn't take place, or if it did take place, it would be too little, too late. Yes, like when the more uptake there is, the more tax there'll be foregone. But yes, there'll be more and more people employed and yes there'll be more and more taxation. Like the question to Deputy, or Senator D'Arcy about the SSIA's; the more people took them up, the greater the income tax foregone was going to be, but the benefit to the people who took up the SSIA's have lasted until the present day. So on your question, Deputy, there is certainly tax foregone, the greater the activity there would be in any sector. By the way ... but there seems to be an ideological bias against some type of tax incentive related to the construction sector.

**Chairman:** Could I bring you ... Sorry Mr. MacSharry, or Mr. McCreevy, could I reframe the question for you? The question has been put that there was over-stimulation of tax incentives in the property sector; it wasn't that there was an incentive here to get something going, the broader sector, residential, commercial, above the shop, parking schemes, student accommodation, there was a litany of stimulation taking place there. So there was a menu of numbers. The question has been put to you, if I can come back to Senator O'Keeffe ... it's in that context that the question has been made. There's a plethora of tax incentivisations, all property-related.

**Senator Susan O'Keeffe:** With respect, Chair, from the OECD, it's not Senator O'Keeffe saying this.

**Mr. Charlie McCreevy:** Oh no, no.

**Senator Susan O'Keeffe:** I'm quoting to you from the OECD and their observations and I would add that the Indecon-Goodbody report that was done put a cost of €6.8 billion-----

**Mr. Charlie McCreevy:** Yes, and the thing-----

**Senator Susan O'Keeffe:** So I'm saying to you-----

**Mr. Charlie McCreevy:** Yes, and the bigger the success there would have been in these schemes, the greater the tax cost would have been. In fact, you needn't go to the OECD. If you put down the parliamentary question to Michael Noonan, he'll give you the figures going back all of these years of what the tax foregone was, like, because they're all there. But there were a number of schemes which I've outlined and I outlined a whole plethora of them earlier on, introduced by my Administration and by the previous Administrations as well which have been ... we had some exotic reliefs brought in such as the seaside resort relief, not to mention the designated islands regime. But actually I didn't bring them in. I just thought I'd mention it.

**Senator Susan O'Keeffe:** So just finally-----

**Chairman:** Senator, just to wrap up please and we can move on.

**Senator Susan O'Keeffe:** Finally, yes, the fact that they were three times larger than the average in the EU, you are saying ultimately, you were happy with that? That there was a contribution made, is that correct? Have I understood you correctly?

**Mr. Charlie McCreevy:** Of course it was because we had an infrastructural deficit in places such as private nursing homes, all these others areas which I mentioned, and it stimulated the

economy and yes, there was a cost, as there would be. And as I said, the greater the take-up, the greater it would have been the cost. But the greater the benefit there was as well. There comes a time, Deputy, unquestionably I agree with you, there comes a time, as we had a debate earlier with Deputy O'Donnell, when you have to cut off these particular reliefs and say, "Well, we've done enough now at this area, so it can get on by itself." And there is a debate, and you can have an argument about whether you should do it, whether it's too late or whatever. I accept that as a kind of general kind of point. But that is a point of view and you must take an opinion at a particular time and a view at a particular time when it is time to close them off.

**Chairman:** Thank you very much. Deputy Joe Higgins.

**Deputy Joe Higgins:** Mr. McCreevy, we've had evidence to the tribunal or the inquiry here and statistics to show that between 1996 and 2006, the price of a home each year increased for ten years in succession by the equivalent of the average industrial wage. That's the equivalent of the average industrial wage in an increase every year. Eight out of those ten years, Mr. McCreevy, you were Minister for Finance. Were you aware of the growing virtual economic crucifixion?

**Chairman:** Deputy, be mindful now of judgmental language. Just stay with the maths.

**Deputy Joe Higgins:** Were you aware of the huge pressure that this put on the young generation of first-time buyers faced with those demands from developers and builders and having to go to mortgages of 35 and 40 years at very onerous rates? Were you aware of this?

**Mr. Charlie McCreevy:** Yes, Deputy, and I recognise also that you, in particular, have been highlighting this for a long number of years, much to your credit may I say. And the Government of which I was member ... all of the initiatives that we took place before Bacon, post Bacon was to try and increase the supply in the belief that in any other area when you increase supply, the price of the product falls down. That was ... various measures that we took place were all intended to increase the supply in that, maybe somewhat mistaken belief, which maybe proves that in this particular sector, the normal laws of supply and demand did not take place and the reason that my colleague, the then Minister for housing, I think it was Deputy Robert Molloy, initiated the first Bacon study. I think there might have been studies by Goodbody Economic Consultants as well but someone else can check that ... is that was on this belief is that the first-time buyer and the ordinary person on the average industrial wage and people starting off with young families or whatever, couldn't get on the housing ladder. We may not have ... Deputy, you're correct, we definitely did not succeed for a lot of that period, but that was the intention, you can take it from me.

**Deputy Joe Higgins:** But, Mr. McCreevy, is it the case that a huge part of that massive increase was due to the speculation and profiteering in the building land on which the houses were built? And for example, an 11-acre site in Stillorgan was bought in 2000 by a group of very wealthy individuals, sat on for four years and sold for €85 million in 2004. A €53 million speculative gain on which apartments were to be built which would cost each young person buying, maybe €120,000 extra, just as a result of that gain. Mr. McCreevy, can I ask you, is it fair to describe that as inordinate greed and can you justify doing nothing to curb that profiteering and how do you justify the fact that your cuts in capital gains tax put an extra €10.5 million into the pockets of those speculators?

**Mr. Charlie McCreevy:** Well, Deputy, it was the market that decided the price of that particular piece of land, together with all other pieces of land as well. It was the market ... in the ...

I know Deputy Higgins doesn't accept the principles of the free market. He has another view, which I have always respected. I don't ... I am a free marketeer and I make no secret about it. It was the market that decided those particular issues. I certainly ... but I want to tell you the *modus vivendi* of all Government initiatives in the housing area and all these other matters was to increase supply in the belief - mistaken as you might contend it was - that the more supply that we put in place, that the price of housing would stabilise and come down. And if you go back and see all of the studies from '97 onwards predicting what the proper number of houses that would be completed the following year and what was the proper number to take account of the population of the country, they were understating it by zillions. Like, there was ... I think the number of units completed in the last year before the crash was something like 90,000 or whatever. But you would have thought a long time earlier - due to the measures we put in place to increase supply - that some sync would have occurred between the price of property ... the price of housing and the market would take account of that, which would've allowed the people that you represent get their foot in the housing ladder.

**Deputy Joe Higgins:** Well, it may have been due to the fact that the banks were shovelling out billions to speculators-----

**Mr. Charlie McCreevy:** Yes-----

**Deputy Joe Higgins:** -----but let's move forward a little bit, Mr. McCreevy, because property developers, many of whom were among the biggest loans that were transferred to NAMA at an enormous cost to society ... and I am asking this under the relationship between Government, Oireachtas, banking and property sectors, many of those biggest property developers that went to NAMA funded your party, Fianna Fáil, including some who gave serious donations to two politicians found by tribunals to be corrupt. Every year Fianna Fáil had a marquee at the Galway Races which became notorious in media circles, etc., for the property interests, speculators, etc., who assembled there to fund Fianna Fáil. Did this close relationship between property developers, speculators and Fianna Fáil affect the policy of your Government in relation to not taking measures to curb-----

**Chairman:** That's a point of view, the question's made, Deputy-----

**Deputy Joe Higgins:** -----the property levels-----

**Chairman:** -----and you're becoming judgmental.

**Deputy Joe Higgins:** -----that were happening?

**Mr. Charlie McCreevy:** No and certainly not. I actually ... I think it is common knowledge that developers are close both ... to the major political parties. That's very obvious. Like, the major political parties, until the recent election, represented maybe upwards of 75% to 80% of the electorate since more or less 1930. So, therefore, it would be expected that developers and the builders would come from that large constituency from both parties. I personally am not close to any of the builders. I know lots of builders and know lots of tradesmen and I know lots of accountants, I know lots of punters, I know lots of other kinds of people. I know lots of politicians, or I used to in any event.

And in regarding the Galway tent, I find the whole thing about the Galway tent a bit disingenuous and I think so ... I've always thought so about through the years. It was a big social event, right. There were not just builders in the Galway tent. In fact, I didn't attend that often because I found it a terrible pain in the backside because I'm a punter and people know I am

a punter and like a bet and I used to have to put in my time and decide one day to go into this bloody tent. And most of the people ... what ... the biggest thing I remember of the Galway tent was, if people want to know ... was one thing anyway, you would be inundated for about three weeks previously, or my office would be, with loads of journalists wanting a freebie into the Galway tent in order to get plenty of drink and food. That's the more thing I remember about it and that definitely was a pain in the backside to me as well.

**Chairman:** Bring it back to Deputy Higgins's question.

**Mr. Charlie McCreevy:** But is ... I never ... most of the people I met in the Galway tent the few days I went into it when I wasn't able to have a few quid and lose or win a few quid with the bookmakers, was mostly ... were all types of people from all walks of life in Ireland and not just big builders. So I don't ... and, by the way, I don't think ever, for the few times I was in the Galway tent, and I only spent ... I didn't spend a lot of time there up and down the ... when I was inside anyway, I don't actually remember anybody in their drunken stupor ever asking me any, kind of, a simple question at all.

**Chairman:** All right. Okay. Back to Deputy Higgins.

**Deputy Joe Higgins:** Mr. McCreevy, even after the Ansbacher and the DIRT controversies, penalties for banks and their senior management were minor and difficult to enforce. Do you ever remember discussing this with the Central Bank Governor or measures that might be taken to increase penalties to stop-----

**Mr. Charlie McCreevy:** Well, the Central Bank Bill, the number, the 2000 ... the first Bill in 2002 and the second Bill in 2003 did two separate things. The first Bill in 2002, the Central Bank Financial Services [Regulatory] Authority [of Ireland] Bill in 2002 set up the structure and all things relating thereto. During the course of that debate, I signalled that I would be bringing forward a second Bill that was going to do other things. The second Bill we did in 2003. That second Bill dealt with things like administrative sanctions, penalties, set up the Financial Services Ombudsman, did a whole lot of things like that. So, in the second Bill in 2003, there were adequate legislative measures put in place to do all of things to do with penalties, sanctions, etc., etc., and that's what the purpose of the second Bill was in 2003, and that was done.

I can't ... I'm not in a position to know as to how that was implemented post my leaving the Department of Finance. There always would have been, even pre the old Acts, before we had a new structure ... there would have been provision in the Central Bank Act of 1942, as amended on many occasions, for that type of sanctions and penalties. Panels have to be set up, and the lawyers around here will know it, and you had to, the minute ... one of the jobs of the Minister for Finance was to publish a list of ... the panel lists that would be ... banks could appeal some of the decisions of the regulator. So, therefore, there were always provisions for sanctions and penalties in the old Central Bank Act, and in the new Acts as well.

**Deputy Joe Higgins:** And, Mr. McCreevy-----

**Mr. Charlie McCreevy:** But it would be a matter for the regulator or the Governor, not me.

**Deputy Joe Higgins:** Second last question on a different theme.

**Chairman:** I'd ask you to combine the two of them, Deputy, if you can, if you're able to.

**Deputy Joe Higgins:** Right, okay, I'll do that. First then, that ... contributors to the Wright

report, which you're familiar with, indicate that there was a lack of leadership and direction in the Department of Finance during 2000-2010. Do you agree with the comments that were made in the Wright report, and what was done, or what should have been done, in your view, looking back in relation to that? And the last one is just of a more general-----

**Mr. Charlie McCreedy:** Well, I could answer that question. I replied to it earlier, and I said the answer, my answer was "No."

**Deputy Joe Higgins:** Okay. Just one last thing then, Mr. McCreedy, is this. You regard yourself, I think it's true to say, as a champion of the swashbuckling capitalist markets.

**Mr. Charlie McCreedy:** Well, no, no, I never said that-----

**Chairman:** Let the ... let Mr McCreedy make his own definition with regard to his own character, please, Deputy Higgins.

**Mr. Charlie McCreedy:** That's totally a pejorative term. I don't mind being regarded as a personal champion, as a free-marketeer but swashbuckling, like, where I come from in County Kildare we wouldn't recognise a swashbuckler.

**Chairman:** Leave it outside the door now, Deputy.

**Deputy Joe Higgins:** Okay, well a champion-----

**Mr. Charlie McCreedy:** Probably in Kerry now you'd have a fair lot of them, I can think of, all right.

**Chairman:** All right.

**Mr. Charlie McCreedy:** One was actually a Deputy in this House for a long time. And I liked him a lot.

**Chairman:** Mr. McCreedy, Deputy ... sorry, Mr. McCreedy, Deputy Higgins, question. You can have a chat later on.

**Deputy Joe Higgins:** Yes, you would portray yourself definitely as a champion of the free capitalist markets, right?

**Mr. Charlie McCreedy:** Yes. I've no problem with that.

**Deputy Joe Higgins:** Now, Mr. McCreedy, in view of what happened in Ireland, with those markets delivering this massive bubble and horrific crash, with all the awful austerity and suffering for ordinary people and, internationally, the toxic debts that also inflicted devastation on communities around the world, do you still believe in those markets and the way they operate?

**Mr. Charlie McCreedy:** Well, I certainly accept your contention, Deputy, and the facts speak for themselves, is that there has been a terrible devastation on ordinary people the length and breadth of Ireland, and the length and breadth of many other countries as well. It certainly has, and I agree with you on this, brought the whole way of how the capitalist system works, in particular, how the financial institutions work or didn't work, how regulation works or didn't work, but, having said all that, I'm not a believer ... is that the alternative of ... solutions that you've advocated since we were both students a long, long time ago, I don't think that is a solution either. I certainly would agree with you that the capitalist system, and what happened to the free market certainly caused a lot of devastation, but I am not giving up on it yet.

**Chairman:** Thank you very much-----

**Mr. Charlie McCreedy:** And neither, of course, have you given up on your ideas either, Deputy Higgins.

**Chairman:** All right. Good man. Thank you very much. Deputy John Paul Phelan.

**Deputy John Paul Phelan:** Thank you, Chairman. Good afternoon, Mr. McCreedy. I have a lot of questions so I'll be brief and I hope you can ... you can be as brief as you can, too. I want to start, maybe continuing on from Deputy Higgins's earlier question in Galway. Core documents, Vol. 2, page 92, if you can find it there. Page 92 of Vol. 2. It's a letter to you from the then chief executive officer of EBS, signed by the then head of lending with EBS, Mr. Martin Walsh. It's 2 August 2000.

**Mr. Charlie McCreedy:** I ... my page 92 says a letter on 29 August.

**Deputy John Paul Phelan:** Yes, it refers to a conversation, sorry, a conversation from 2 August.

**Mr. Charlie McCreedy:** Oh yes, sorry.

**Deputy John Paul Phelan:** It's on the opening line. 2 August 2000 was the Wednesday of ... of race week in Galway. It must be one of ... it might be one of the years that you were at the races in Galway-----

**Mr. Charlie McCreedy:** Well, I'd say, Deputy, I was at the races most years in Galway throughout my lifetime, where I had some pleasant punting experiences.

**Deputy John Paul Phelan:** Okay. I want to refer to the contents of the letter. And it's, as I said, signed by the head of lending with EBS, it's in relation to the SSIA scheme. And in it, Mr. Walsh appears to state that the origin of the SSIA scheme came from that conversation that he had with you at the Galway races on 2 August 2000. Is that how you remember the genesis?

**Mr. Charlie McCreedy:** Well, actually, I don't ... either ... I remember Mr. Pat O'Reilly being chief executive, I don't know who Mr. Martin Walsh is. I can't even remember who he is. Maybe someone I know very well but it doesn't spring to mind. I ... in 2002, leading up to that, the EBS had an idea about the scheme, which is outlined in-----

**Deputy John Paul Phelan:** This is 2000 now.

**Mr. Charlie McCreedy:** Sorry in 2000 and it set out there the bones of their particular scheme-----

**Deputy John Paul Phelan:** The following pages-----

**Mr. Charlie McCreedy:** Yes, it's quite complicated, as you're probably ... can see.

**Deputy John Paul Phelan:** Yes. It's the first ... and I'm not trying to cut you short, but I'm down to seven minutes. It's the first document that I have found relating to the SSIA's. Now, many people might wonder what impact the SSIA's might have had on the ... the banking collapse but, I just want to ask you, what analysis ... like, cost benefit analysis was done, either by yourself or by officials or by anybody who was advising you at the time, as to the impact on ... on the property market in particular, of the potential impact of the establishment of an SSIA scheme?

**Mr. Charlie McCreedy:** Well, can I say this anyway, not alone did the EBS have the guts of a scheme to give some tax incentive for people to save, and Mr. O'Reilly sets it out there, which is quite a complicated scheme, other people came forward with some ideas as well. They were ... the general idea was floating about, and then I came along with what became the SSIA scheme. As I said, in reply to an earlier question a long ... some hours ago, is that, we ... we decide ... decided to having the ... an incentive scheme for savers for the reasons I so outlined, to encourage people, in the very good times, to do what the State was doing, put money aside for an essential day.

**Deputy John Paul Phelan:** Okay-----

**Mr. Charlie McCreedy:** And, I said, on many occasions ... the more people save, the more costs will be, and the better it'll be. I would think, Deputy, and I think our ... you probably can get this ... I haven't seen any analysis since the ... the end of the ... in 2006, or 2007, when the money flowed back, as to-----

**Deputy John Paul Phelan:** Sorry, I've asked you what analysis did you do or did your officials do, before-----

**Mr. Charlie McCreedy:** Sorry, Deputy, I'd said very clear with this, I didn't do any.

**Deputy John Paul Phelan:** And that's fair enough. And I'm not asking you about post-----

**Mr. Charlie McCreedy:** And there was no intention because, like-----

**Deputy John Paul Phelan:** I'm not asking you about post.

**Mr. Charlie McCreedy:** How would you do an analysis about it, anyway? I just didn't ... leave it, and it worked very well, and I'd say it's the one scheme that, you go around the country, that people remember, and most people have still kept money from the SSIA scheme. You probably have yourself, Deputy, as well.

**Deputy John Paul Phelan:** No, I haven't.

**Mr. Charlie McCreedy:** Has your wife?

**Deputy John Paul Phelan:** I'm not even sure where it is. Probably spent it on an election. Can I ask you, Mr. McCreedy-----

**Mr. Charlie McCreedy:** And by the way, I don't think it had any effect on the property market.

**Deputy John Paul Phelan:** You see, this is ... this is the kernel of the questions that I want to ask. You said, at your own admission, you were calculating how much it cost the Exchequer, it would have resulted in €11 billion to €12 billion being saved.

**Mr. Charlie McCreedy:** Being saved, yes.

**Deputy John Paul Phelan:** But that was core tier 1 capital for the banks, that they were able to then lend multiples of into the economy. Most of which, we've had evidence from several witnesses, at that time was being lent to property. Whether to developers to build property or to individuals or businesses to buy either commercial or residential property. And I just want, no ... and the question I want to ask you is, how could you make a decision based on a conversation at the Galway Races in 2000-----



**Mr. Charlie McCreevy:** No, I didn't make my decision based on a conversation at the Galway Races.

**Deputy John Paul Phelan:** Well, I want to ask the question first ... and not have any analysis as to the impact that it would have on lending? This is the SSIA ... you can have daring views as to its impact. You said it had a counter-cyclical impact. It might have had in the short term, in the longer term, because it was a five-year scheme, it arguably didn't have a counter-cyclical impact because there was an increase in expenditure. We've had evidence from David Doyle, from John FitzGerald, from other witnesses that the major increase in lending to property took place in or around the years just preceding or just following when the SSIA came to fruition. And I'm asking you about why you didn't do that analysis.

**Mr. Charlie McCreevy:** Sorry, but Deputy, you can't ... you're counter-arguing against yourself there. Is that, when the money became available to the SSIA person in 2006-2007, my ... I would think that most of the money was ... people didn't rush off and start buying houses with it. Some did; some used it as a deposit which ... I remember saying in the Dáil at the time that would be a good thing, whatever they were going to do, maybe some did. My own view is that the majority of people spent a little of it, did whatever they wanted to do, maybe send children to school, tuition, holiday or whatever. A lot of them kept a good bulk of the money there. But it can't ... so, and it was counter-cyclical, if you want to argue about that, because they were taking at least €2.5 billion out of the economy every year, so we can't ... the two ends of this thing.

**Deputy John Paul Phelan:** I am not disputing the short-term effects. But what I am arguing is that this put €11 billion into the banks.

**Chairman:** Just ask the question.

**Deputy John Paul Phelan:** No, I'm asking the question. €11 billion was saved that the banks could then lend multiples of in the years ... in the years preceding the maturity of the SSIA, which were the key years-----

**Mr. Charlie McCreevy:** Hold on now, Deputy, hold on. The money was in '01, '02, '03, '04, '05 and '06. The fruition of them came in 2007. Most people held on to their money. In the years where the banks had it deposited ... by the way, don't get me wrong now, it wasn't only banks that were entitled to have SSIA.

**Deputy John Paul Phelan:** I know that.

**Mr. Charlie McCreevy:** There were every ... all types, including credit unions-----

**Deputy John Paul Phelan:** Building societies.

**Mr. Charlie McCreevy:** -----funds, all these type ... they all played in this particular area, they all competed for the market ... so, therefore, it'd be a big jump of logic plus mathematics to link the amount of money that was saved, say, €2 billion a year to the money that the banks ... that went into ... that was in deposits in the bank to the tier 1 or other capital that banks would have been ... based their lending on. It would have some effect but nothing like ... you couldn't possibly explain the amount of money that banks started to lend from 2003 to 2007 based on what went into deposits from SSIA. At least I wouldn't anyway.

**Deputy John Paul Phelan:** Okay. In November 2000 your own officials, according to a

memo revealed to *The Irish Times* on 6 May 2002, stated the following about the scheme, and I want to quote it directly, “Given the uncertain effectiveness of tax incentives for savings, the potential cost and significant deadweight, the provision of tax relief for capital investment in medium-term savings schemes is not recommended.” Now, that’s a very strong statement from your officials at the time. Why ... why, on the basis of what you’ve said here to us today that there was no analysis carried out, did you ignore that advice from the officials?

**Mr. Charlie McCreevy:** Sure I’ve ignored hundreds of advices from the officials in the Department.

**Deputy John Paul Phelan:** No, but I’m talking on the basis of no analysis. Who was advising you?

**Mr. Charlie McCreevy:** But who was proved correct about the SSIA’s? I think I was because the amount of money that was put into the SSIA’s accounts, it gave a nest egg for ordinary ... ordinary decent people such as you represent in Carlow-Kilkenny and Deputy Higgins represents in Dublin. To go into an SSIA, all you had to do was €10 per month ... per month, which wasn’t a pint of stout per week extra and people participated because they saw it as a simple, good scheme. And that applies from Mulhuddart all the way to Graiguenamanagh and all the way to Letterkenny as well. And it worked out well and people appreciated it more than any other issue that was done over the last 15 years - ordinary people. I don’t actually expect that most of the big financiers were ... actually participated in the SSIA’s but the ordinary Joe Soap and Mary Jones definitely did.

**Deputy John Paul Phelan:** We know from evidence today, by the way, that one of the senior officials in your Department at the time, Mr. McNally, said that he didn’t take one out. Were there any senior officials who advised you to introduce the scheme at the time, yes or no?

**Mr. Charlie McCreevy:** Oh, absolutely no. I did it myself.

**Deputy John Paul Phelan:** Okay. I have a question that I must ask you before I finish.

**Chairman:** Final question.

**Deputy John Paul Phelan:** In your view, did the macro-prudential fiscal strategy agreed by Government reflect the emerging risks and challenges to the economy between 2000 and 2004?

**Mr. Charlie McCreevy:** I do.

**Chairman:** Thank you very much. If you don’t mind, Mr. McCreevy, if I could maybe just propose, just for a couple of minutes, a short comfort break and it’s 16.55; we will return on the first Angelus bell at 6 o’clock, okay?

**Mr. Charlie McCreevy:** You’re well gone along the Angelus bell because-----

**Chairman:** Oh, sorry, we’re gone well ... it must be the +1 channel. Sorry, it must be the +1 channel, Deputy. Oh, sorry, at 7 o’clock. Just literally if we can come back within five minutes. My apologies, I’m having so much fun, ‘tis flying. Thank you very much.

*Sitting suspended at 6.55 p.m and resumed at 7.01 p.m.*

**Chairman:** Okay, with that said, if I can ... I’ll go back into public session. Is that agreed? Agreed. And we’ll finalise the line of questioning there now, about half an hour maybe or so

left, and just remind members that some documentation has come in as well that they may just pick up when they're leaving at the conclusion of this meeting.

So with that said, if I can now invite Deputy Michael McGrath. Deputy McGrath.

**Deputy Michael McGrath:** Thank you, Chair. You're very welcome Mr. McCreevy. Mr. McCreevy, during your time as Minister for Finance, did you get anything wrong?

**Mr. Charlie McCreevy:** I think I'll quote what Patrick Honohan said last week when he was asked that question, that any mistakes he made were of the tactical nature rather than the strategic. If it's good enough for him, it's good enough for me.

**Deputy Michael McGrath:** Well it's not good enough for me. Can you go into a bit more detail?

**Mr. Charlie McCreevy:** I think, I think we didn't ... I think we did a very good job. I'm inclined ... spent most of this afternoon speaking about the very good job that we did. I think we put Ireland, in terms of everything, from infrastructure to a social structure to better public services, the increasing populace. I ... I've outlined all these things anyway, and I think that we did a very, very respectable job. Of course I would say that, wouldn't I?

**Deputy Michael McGrath:** But can I ask you again, in your time as Minister for Finance, do you think you got anything wrong?

**Mr. Charlie McCreevy:** I've answered that question, Deputy.

**Deputy Michael McGrath:** Specifically.

**Mr. Charlie McCreevy:** That's what I've said. I said "No." I said I've ... I-----

**Deputy Michael McGrath:** Nothing?

**Mr. Charlie McCreevy:** Well, I'm sure like, they're certain things it was ... that I might like to, if it was there again, maybe I would, perhaps, I don't know. But like ... Mr. Hindsight is a luxury that busy people cannot afford.

**Deputy Michael McGrath:** Well you have the benefit of hindsight today. So with the benefit of hindsight even, is there anything you would like to allude to that you feel you could have done better?

**Mr. Charlie McCreevy:** Look, every politician of any persuasion and anyone who's been in public office for any period of time would always say, "Ah there was a few other things I should have done." I don't operate like that, Deputy. I spent 15 years on the backbenches of Fianna Fáil. I thought I'd be continuous to stay on the backbenches of Fianna Fáil. I got my chance at government given to me by Albert Reynolds and more or less I was on the Front Bench and Minister for the second half of my career. I enjoyed my time in the backbenches as well but probably caused a fair amount of mischief to my own party more than anything else. Certainly, the late Mr. Haughey would think like that anyway, but ... and I got my chance as Minister for Finance, and I always thought if I ever got the chance at being a Government Minister that I was going to approach every day as if it was going to be my last day there.

**Deputy Michael McGrath:** Okay.

**Mr. Charlie McCreevy:** And I wasn't going to come to the end of my period and say, "Well

maybe I should have done this, and did that and the other.” I went about doing it and I-----

**Deputy Michael McGrath:** Okay.

**Mr. Charlie McCreevy:** -----don't regret one moment of it.

**Deputy Michael McGrath:** And do you believe, Mr. McCreevy, in any sense that you should take any share of the responsibility for the crisis that emerged four years later?

**Mr. Charlie McCreevy:** Well, I suppose what you're asking me to do there is to apologise for certain things, but you ... you would only apologise for things that you think you got very much wrong or you made a mistake, or a big mistake or a series of large mistakes. I don't believe that I did.

**Deputy Michael McGrath:** Okay. Can I put an assertion to you, Mr. McCreevy, that the ingredients of what would eventually become a major crisis were very much in place by the autumn of 2004. For example, there was a rapid expansion of the balance sheets of the banks in the two or three years leading up to the end of your tenure. There was a growing dependence on property lending by the banks at that time, a growing dependence on wholesale funding from the international market. The states were becoming increasingly dependent on transaction taxes and, from 2001, current expenditure was growing at a faster rate than nominal GDP every year and there was a distinct lack ... or, loss of competitiveness from 2000-2001. Now, all of those elements, it could be argued, certainly accelerated after your tenure but do you accept that those ingredients were in place when you departed Merrion Street in the autumn of 2004?

**Mr. Charlie McCreevy:** Well, who can say what would have happened or what I would have done if I had remained as Minister of Finance. I didn't and there's no point kind of speculating on it. I would have ... I certainly have recognised since I left, and looking at the figures from 2003, 2004 to 2007, that there was massive increases in the property lending area, which I alluded to earlier. I have dealt earlier with the questions of increases in Government expenditure, both capital and current, and given you the figures as a percentage spend on GNP. If you like, I can give you other figures relating to what the spend was in various years. So I think that, all in all, that what was ... in the time that I was Minister of Finance, I am quite happy that I dealt with the issues as presented to me. If it became very obvious some of the things that have occurred since my time there in Finance, I'm not too sure as to what actions I would have taken or whatever but there's no point ... there's no point ... you do what you do when you're there. There's no point in speculating what you would have done when you weren't there. So I regard that as a total futility for me to be speculating about that. I think that the changes that we brought about in the Irish economy, the things that we done, were all very, very worthwhile.

**Deputy Michael McGrath:** So on those issues that I highlighted there, did you not have any concerns about the trends that were emerging-----

**Mr. Charlie McCreevy:** Well, the trends-----

**Deputy Michael McGrath:** -----in the early 2000s?

**Mr. Charlie McCreevy:** Well, the trends that were emerging, Deputy ... like, if you look at the ... if you take expenditure, for example, over the period of my time, you will see you come out with an average figure of 6.1% or 6.2% or whatever the case may be.

**Deputy Michael McGrath:** Yes.

**Mr. Charlie McCreevy:** As a result, GNP, which I think is the more relevant measure of expenditure than GDP, it more or less stayed the same and came over 30%. You must remember the economy was expanding at a very fast rate, the population was increasing, there was greater demand for services, which were going to cost more. You can't have a good medical service, a good education service without people, and people cost money. So, therefore, if you want to do things in the big areas of public expenditure ... do something worthwhile in those areas, then you have to put the resources, and that's what we did. At the same time, we ran ... the biggest thing we could have done was to keep reducing the national debt. I was in the House here, Deputy McGrath, when the national debt was 122% of GNP, when the country was practically bankrupt and we never thought we'd get out of it. And we did, and we saw the percentage debt-to-GDP ratio coming down, which freed up massive resources, because we didn't have interest payments to be paid to all the money that we had borrowed, and that allowed other ... that money to be used for worthwhile social purposes.

**Deputy Michael McGrath:** Okay.

**Mr. Charlie McCreevy:** So, therefore, I think our biggest thing that we done was to keep the economy moving, giving everybody a chance. By the way, there seems to be a body of opinion that seems to suggest, well, maybe we shouldn't have got unemployment down to 4%, maybe the safer rate for the economy was 6%, 7% or 8%. Maybe it was done too quickly. Well, I don't subscribe to that at all. So you're going to tell the ... the people that have that theory seem to advocate that Joe Smith, "Well, Joe, you should stay there - you're unemployed and stay unemployed." And "Mary Jones, you don't have to go to work, you stay in the home and don't come out to work, you could bury income," whatever the case may be. And we'll keep you at that level, 8% unemployment - that's better for the economy, because some whizz kid economist or some theoretician belonging to some think tanks-----

**Deputy Michael McGrath:** Okay.

**Mr. Charlie McCreevy:** -----you can't be too quick, too fast. I don't ... I don't subscribe-----

**Deputy Michael McGrath:** There's no one in this room has made that assertion, Mr. McCreevy, so-----

**Mr. Charlie McCreevy:** Well, hold on ... well, hold on, but the implication is that he should have been ... it was too quick too fast. You go tell that to the people in Glanmire or in Blackrock and say, "You stay out there, Mick, and stay unemployed." I'm telling you I don't subscribe to that and no proper socialist, like Deputy Higgins, would either.

**Deputy Michael McGrath:** Mr. Brian Patterson, the chairman of IFSRA, told this committee that it was the responsibility of the Minister for Finance to monitor the chairman of the financial regulatory board and to set goals for him. Would you accept this statement? Do you believe this role was carried out adequately for the period in which Mr. Patterson was chairman and which overlapped with your time as Minister?

**Mr. Charlie McCreevy:** Well, Mr. Patterson was appointed as the chairman of the interim authority early in 2002, and then the Bill went through in 2002, and then they were ... everything was set up and then the new Bill came in 2003. I'm afraid ... setting of the goals etc. etc., I went in September 2004, I wouldn't have had time to monitor what was being set there for the regulator because it was too early in the process. I do remember, and I think it's in some of the documentation, that we gave extended time during my last year in Finance, we gave until the

end I think of 2004 to produce some of their programmes, plans etc. etc, so therefore I can't ... in my short time with Mr. Patterson, I can't really make any great judgment on that area.

**Deputy Michael McGrath:** Finally, Mr. McCreevy, going back to the budget strategy memos, which were signed off on each June and you would have signed off on those within the Department as the Minister, you would have signed off on the advice contained in the budget strategy memo, is that correct?

**Mr. Charlie McCreevy:** We would circulate the memorandum to the Government usually in June of every year where it sets out our intentions regarding spending, etc., and the general budgetary process for the coming year. That would have been brought to the Government by the Minister for Finance. So I would have been responsible for that document, bringing that document to the Government in all of those years.

**Deputy Michael McGrath:** And you would have endorsed it's contents-----

**Mr. Charlie McCreevy:** Yes, yes.

**Deputy Michael McGrath:** -----in so bringing, in bringing to Cabinet? And, can I ask then Minister ... Mr. McCreevy, in light of the fact that there was a lot of horse-trading from that memo in June to the announcement of the budget in December, did the advice of the Department change from June to December or how otherwise can you explain the fact that in 1999, 2000, 2001, 2002 the income tax and welfare package announced on budget day dramatically exceeded the recommendation made by the Department the previous June?

**Mr. Charlie McCreevy:** Well, because we were anticipating greater economic growth and greater economic growth was occurring. And I said in my first budget in December 1997, that I wanted my ... the first lines of my first budget were that they should ... that I want to be judged over the period of the five budgets that this Government was going to bring in, and that all those ... and in many interviews afterwards I said, it had to be judged in the totality. And as I said earlier, in my, in the five budgets that I introduced between '98, '99, 2000, 2001 and 2002 and then 2003, 2004, the total income tax and PRSI package came to €5,607 million-----

**Deputy Michael McGrath:** Yes, I have that.

**Mr. Charlie McCreevy:** And the figure for social welfare packages came for €4,507 million, which in the time of the previous Government of three years, the income tax package ... outstripped the social welfare package-----

**Deputy Michael McGrath:** My question is a pretty narrow one, and that is, when you got to your feet ... during the first week of December to introduce the budget for the following year, was the ... the Department's advice, as set out in the June budgetary strategy memo, was that still the most up-to-date advice from the Department or did their advice change from June to budget day?

**Mr. Charlie McCreevy:** Well in the budget documentation you will see various updates about economic stability, growth rates anticipated, etc. etc. What you do after ... and I'm sure it's the same now ... when the Minister for Public Expenditure will now set out his memorandum, there's a considerable amount of horse-trading in this on the spending side. The taxation ... decisions on the budget are made separately, or they were in my time. We made them but certainly in ... within ... I dealt with spending and culminating in the publication in November of the Abridged Estimates Volume setting out the Estimates for the following year. And then

I dealt with the taxation package mostly on budget day. The Government has gone back ... or has for some years now to have a unified system, of announcing about tax and expenditure changes on the one day and it's all done together. That was actually done some previously ... all the years up until about, I think, my predecessor, Ruairí Quinn, might have got into the form I followed in 1996 ... having a separate process, or maybe I did it myself, I just can't remember that. So ... the ... we then went along then ... the memorandum was put to Government and you can note that all years bar the Estimates, bar the memorandum for 2003, that the spending figures for all years, except for 2003, the figure in the budget day or the Abridged Estimates Volume was less than ever and I think that's the first time, someone has told me, in the history of the State that has occurred. Is that we didn't ... we must ... I'm sure it's ... I can't say it's the same now, but it I ... it may just be. When the Minister for Finance sets out in budgets in his memorandum in the middle of the year, he's trying to get the process started. He's trying to get some law and order on the figures because every Department will come back immediately with gigantic figures, so if you didn't start the process by putting some guidelines down what the totality will be, you'll always be beaten up by the various Departments, and that I'm sure has occurred long before my time and probably occurs to this day as well.

**Deputy Michael McGrath:** So is it the case that you would've viewed the June budgetary strategy memo as, not so much the Department's advice as to what to do for the following year, but as the starting point for negotiations?

**Mr. Charlie McCreevy:** Well, I'll tell you this, Deputy, and it will not be a surprise to you, that would've been ... if you get someone to fess up from the Department of Finance, that's the way they'll treat it as well.

**Deputy Michael McGrath:** So do you accept or not that your budget packages for each year, bar one, were in excess of what the Department recommended?

**Mr. Charlie McCreevy:** But sure the figures speak for themselves, Deputy, and I've read out the totality of the figures-----

**Deputy Michael McGrath:** Okay.

**Mr. Charlie McCreevy:** -----and I've also given the figures regarding expenditure as percentage of GNP. That speaks for itself. But I'm also saying quite openly, anyway, is the Department of Finance would say, "If we don't get this process started and put down some particular figures into these boxes we'll never get any type of order when it comes to the final Estimates." Because when ... the Estimates demands that come from Departments are usually ginormous and way above our ... the indicative allocations. And that was the situation every year during my term and pre my time and post my time and the only year where I got something different was in 2003 when I actually went lower than the figure that the Department wanted to. By the way, I know that in some of the earlier evidence of the committee is that the Department contended after my 2003, 2004 budgets, is that the line Departments were complaining that I had left them at least €2.1 billion short in the moneys that they needed to provide for existing services. I accept that as well because I went in 2003 and 2004 in very, very heavily on Departments in order to get back to a better baseline for the future. That's what I did.

**Deputy Michael McGrath:** Is that why you were sent to Brussels?

**Mr. Charlie McCreevy:** You're a member of my party, Deputy. I'm sure there'll be books written about that.

**Deputy Michael McGrath:** Well, I'm giving you an opportunity to answer the question.

**Mr. Charlie McCreevy:** I ... well, if that is your question, I don't think I should answer it.

**Chairman:** Senator MacSharry.

**Senator Marc MacSharry:** Thanks very much and thanks, Mr. McCreevy. Last, but not least, hopefully. Can I ask you first, in your one-to-one meetings with the Governor of the Central Bank, did the Governor ever indicate that there was a difference of views expressed in the financial stability reports compared to members of the board themselves?

**Mr. Charlie McCreevy:** I would certainly remember that if it came up. I wouldn't ... there's no point in me telling you that I remember every time that the Governor came to see me regarding the pre-budget processes. He'd send a letter and then he'd come up and I dealt with two Governors of the Central Bank, Maurice O'Connell and John Hurley. I couldn't be able to tell you what they said when they came for the meeting. But I certainly would remember if they said to me that there's a difference of opinion between members of the board-----

**Senator Marc MacSharry:** So, it was always-----

**Mr. Charlie McCreevy:** -----it never happened.

**Senator Marc MacSharry:** -----on message and 100% this is what we believe?

**Mr. Charlie McCreevy:** Well, it was ... the Governor came ... it was the Governor's letter that came up and the Governor's report so I didn't anticipate they'd come into me and start telling me, "Well, there are lots of people around the table, now with some of them with different views about what's here." So no visit, no company, Senator-----

**Senator Marc MacSharry:** And in the one-to-one meetings the ... would he have said. It's just that we had-----

**Mr. Charlie McCreevy:** No, no, he didn't.

**Senator Marc MacSharry:** -----a senior staff member at the time and later chief economist in the bank who would've said that he had difficulty getting across views that were contrarian and, in particular, the fact that he contended that there were political and property interests on the board that prevented that. Would you have any comment on that?

**Mr. Charlie McCreevy:** Well, except to comment ... is that ... as far as I am concerned, I never had any discussion, good, bad or indifferent, with anybody in the Central Bank board as to what they should be doing or otherwise. I, somehow ... I don't like the ... maybe peoples' recall of these things are somewhat different, but I can't think that there was that type of activity going on with the Central Bank. But I'm sure the Governor and maybe other members of the Central Bank board can speak for themselves. But certainly, nothing like that ever came next or near my attention. In fact, like the only kind .. of the first time I heard of it when you were questioning one of those officials, I think, quite recently. I had never heard it ever mentioned before by anybody. And, by the way, you must remember in Ireland nowadays if someone has a bad thought at the bottom of Grafton Street before they got to Stephen's Green, you'd read about it in the Sunday newspapers.

**Senator Marc MacSharry:** Indeed. Earlier on in your testimony, you said that you were aware that the single currency had downsides, so, presumably, what you mean by that is the lack



of control of monetary policy in terms of interest rates. Is that correct?

**Mr. Charlie McCreevy:** Well, not just interest rates, Senator, and ... like there ... you see the structure of the euro is very, very unique in that you don't have a central government, you don't have a central fiscal authority. We used to have the broad economic policy guidelines which are, kind of, recommendations in a, kind of, a way. I know things will be slightly changed now in the last two years or so. You don't ... so, therefore, you don't have what you'd have in a normal, say, country like Ireland, the United Kingdom, America, Germany, whatever, where all those things are melded together. So, therefore, you have a currency; you have the individual member states running their own economic policies; you have various differences between cultures and everything else; and, yet, you're supposed to run a single currency.

Now, before we set up the euro ... for example, there were five criteria that countries or member states were supposed to meet before they joined. One was inflation; one was the 3% debt - the 3% debt every year; one was the total debt ratio which meant that every country was supposed to have a debt-to-GDP ratio of less than 60%. There were two others as well about that you had to ... your currency was supposed to have stayed within a band, I think, not greater than 2.25% of the central ... and I forget the last one. Incidentally, Ireland was one of the few countries to meet all of those criteria. Sorry, inflation was the last one. In the inflation one ... that you weren't supposed to be, I think, more than 2%, or less than 2%, outside the average of the three lowest countries and, actually, Ireland was one of the three lowest countries. Ireland had a debt ratio less than 60%.

Now, some countries that were allowed to join the euro, like a founding member state of the European Union like Italy, had a debt ratio of 100% where all ... the country where all the struck ... all the bodies are, Belgium, has a debt ratio of over 100 % as well, so that was a long way from 60%, but, lo and behold, *mirabile dictu*, the 60% absolute rule that the German Government had insisted upon in negotiations then came to be interpreted as "approaching 60%". So, therefore, the Italian Government was approaching 60% because I think the ratio came from 114% one year to 110% and the Belgian Government did something similar.

**Senator Marc MacSharry:** Time is ticking so-----

**Mr. Charlie McCreevy:** So, therefore, from day 1 it was a very unusual structure now, so therefore ... and there were difficulties there from day 1 which have been found out, which we are dealing with at the present day. But the Irish Government and the Irish political parties, after all considerations of everything, and we were a very small player picking up less than about 2% of the EU's GDP at the time, we decided, in our long-term best interests, it was better to be in. And the most worrying factor for us at the time was not actually all those other areas because we more or less thought we were doing very well in those other criteria. But our main worry at the time, both my party, the Fine Gael Party and the Labour Party, we were going to join knowing that the United Kingdom was staying out. So, therefore, from day 1 the structures were a bit less ... sorry, the foundations were less than certain.

**Senator Marc MacSharry:** Okay, that was a two and a half minute answer.

**Mr. Charlie McCreevy:** Thanks.

**Senator Marc MacSharry:** I have three and a half minutes left and 50 seconds. From 1997 on, exports were decreasing, so as a proportion of national income, it was transaction based taxes that were beginning to drive things. Did this worry you on the basis that we didn't

have the same suite of tools post-euro to deal with cooling the economy?

**Mr. Charlie McCreevy:** Well, I would have had ... I would have debated with myself and with others the whole interest ... the tool of interest rate that a central bank has, and we're going to give that away. But I concluded, and I think rightly, that for a small country like Ireland, although we had the interest rate tool available to us since the foundation of the State, what difference ... what great thing did it do for us? Effectively, for all that period of time, we followed... went along in the ... London. And up until 1979 or so we had a one-for-one exchange rate but, generally then, even in the interest rates after that, we more or less followed after London. So we ... so although we had the interest rate tool available to us for all these years, it didn't seem to have done an awful lot to grow the Irish economy, give or take, say the glorious period in the '60s. So, therefore, I kind of ... I came to the view that losing the interest rate tool at the time was not the worst thing that could happen. Subsequently, I would look back on, say, what happened from, say, 2003 to 2008 and I would've said, "Well, if we had the interest rate tool then, that it might have made a whole big difference." But like that's ... now I'm going back and I must chastise myself because I'm now doing Mr. Hindsight as well, the same as the rest of the country.

**Senator Marc MacSharry:** But, as others have said, it's important to get the benefit of expertise in judgment-----

**Mr. Charlie McCreevy:** That's just my view. Other people would differ.

**Senator Marc MacSharry:** That's good and thank you for that. We were talking about lobbying earlier and Senator O'Keeffe mentioned a list of developers, in particular, who your diary had shown that you had met with. Would it be reasonable to assume that they didn't meet with you to talk about racing, that it was likely to be something-----

**Mr. Charlie McCreevy:** I just ... I don't know what ... I'm sure if we looked up in the Department of Finance, I'm sure if all these people came around the one time, it was to do with some specific area or-----

**Senator Marc MacSharry:** It wasn't all at one time, it was over the course of a year. So, but would it be reasonable to assume that if there were developers, it was likely to be something to do with business-----

**Mr. Charlie McCreevy:** I'd say ... well, of course-----

**Senator Marc MacSharry:** -----the legislative aspect of what might affect their business?

**Mr. Charlie McCreevy:** No, I'd say ... most of the time that I would've met with people in the construction area, or other areas, related to the level of economic activity in their particular area. And that applied as equally to, say, construction people as it applied to other areas as well. You must remember - as you probably know in any event - Ministers are all the time being requested to meet various people, and you usually agree-----

**Senator Marc MacSharry:** Of course.

**Mr. Charlie McCreevy:** ---to meet people who are in an area which is having considerable economic impact.

**Senator Marc MacSharry:** I agree and, indeed, we've all seen it and we've probably been all involved in it. Can I, just before ... we know there's a huge amount of lobbying goes on and

all that kind of stuff. I just want to say, like, is it reasonable that if it's the Institute of Auctioneers, they want to talk about auctioneering or things to do with that, if it's the CIF, they want to talk about things that affect their register. I'm not saying that you might respond to them by doing anything, I'm just saying that tends to be what meetings tend to be about. Would that be fair?

**Mr. Charlie McCreevy:** Yes and, by the way, we'd meet with IBEC, meet with SIPTU, ICTU, and everybody else. I just ... this is the point I was going to make. There was one great thing ... there are many great things about Europe and there are many downsides about Europe, and there are certain pluses and minuses about being in the European Commission ... being the European Commissioner. But one of the great things in Europe, I'll have to say, is that as a Commissioner, you are encouraged to meet all types of lobbyists at all times. And it's all there to meet ... and you can bring in everyone you like or don't like, whatever the case may be, and there's never a comment in the wide earthly world. Whereas here in this country, it seems to be you must only meet with certain persons-----

**Senator Marc MacSharry:** Nobody's judging that at all.

**Mr. Charlie McCreevy:** I think it's a load of ... I think it's the greatest load of old nonsense ... one of the greatest loads of nonsense that I can think of.

**Senator Marc MacSharry:** Yes, no, I understand where you're coming from, Mr. McCreevy, but what I'm trying to say is, is it reasonable - yes or no - that people want to talk about-----

**Mr. Charlie McCreevy:** Yes.

**Senator Marc MacSharry:** It is, okay, that's fine. So, can I ask you to outline if anybody, as a political lobbyist or as a sectoral lobbyist, as a political representative or a political party, in your nine Finance Bills, can you recall anyone ever asking or lobbying for you to reduce expenditure and increase taxes?

**Mr. Charlie McCreevy:** Lobby to reduce expenditure and increase taxes?

**Senator Marc MacSharry:** Yes.

**Mr. Charlie McCreevy:** Deputy, or Senator, I'll say this: in your long experience of being a politician, and you come from a very eminent political family, did you ever know a politician or a political party ever to go before the people and say "We're going to increase taxes and we're going to decrease public expenditure"?

**Senator Marc MacSharry:** It's important that we get the answer to this on the record because we've asked the secretaries of the Departments in the day-----

**Mr. Charlie McCreevy:** The answer to that ... was anyone asked me to increase taxes and decrease expenditure?

**Senator Marc MacSharry:** Did anybody ever?

**Mr. Charlie McCreevy:** You mean, outside of the public service?

**Senator Marc MacSharry:** Either a sectoral representative organisation-----

**Mr. Charlie McCreevy:** No.

**Senator Marc MacSharry:** -----a political party, a politician, an individual, the media, anybody.

**Mr. Charlie McCreevy:** Well maybe Deputy Higgins might have in the Dáil, done it anyway. But he might remember better than I do. But I don't remember actually any other Deputies ... maybe he didn't do it either-----

**Deputy Joe Higgins:** Corporation tax.

**Mr. Charlie McCreevy:** Oh, sorry, you did. I knew ... I knew, Deputy. But apart from anything else, does anyone else around this table, all being elected representatives-----

**Senator Marc MacSharry:** Is that a "No" then - apart from Deputy Higgins?

**Mr. Charlie McCreevy:** Well, apart from Deputy Higgins, who asked corporation tax, I can't remember anybody else. But sure I'm getting old and maybe my memory is going as well.

**Senator Marc MacSharry:** I have two further very last questions, is that okay?

**Chairman:** Quickly, if you can, Senator, please.

**Senator Marc MacSharry:** Okay. One is, given everything that's happened and you said that coming into elections, we like to get re-elected, so decisions are made in terms of budgeting around that. Do we need a more mature approach to democracy in this country, in your opinion?

**Mr. Charlie McCreevy:** Well, I touched on it in an earlier reply there about a more mature approach to lobbying and representation.

**Senator Marc MacSharry:** But to budgeting? I mean, do we have to say "Look, it's about what we need to do rather than what's going to buy us the votes," for want of a better expression?

**Mr. Charlie McCreevy:** Well, I think to be fair to all Governments of all persuasions, I think, and all the politicians that I have known, whereas politicians naturally will always have at the back of their head "I'd like to be re-elected", I would definitely say that all the politicians I know want to do the right thing. But they're not against one another, the fact that a politician wants to be re-elected and doing the right thing. Like, I gave various examples earlier of things that we had done which couldn't have had the political impact in the short term of a positive nature. So, I think, look, a democracy such as Ireland is less, well, nearly 100 years now. I'm sure things ... the way we do things now are different to the way of doing 60 years ago and hopefully we learn all the time and do things somewhat differently and improve things. I think that's what we're all about. We might disagree about how doing it, we certainly disagree on economic philosophies ... the way of doing things. I don't have any difficulty with people that stand up for a strong view, such as Deputy Higgins, and I have said that publicly when I was a Member of Dáil Eireann. I would like to think the same right exists for people like me to have strong views, not of the same type.

**Chairman:** Thank you, I'm going to-----

**Mr. Charlie McCreevy:** I think that's the essence of a liberal.

**Chairman:** Okay. And I'm going to wrap up and then invite both Deputy Doherty and

Deputy Murphy to come in and it's on that very point, as to what the essence of a liberal is, and on your earlier engagement with Deputy Higgins about the free market and so forth is where I maybe would like to begin the wrap-up. I maybe put the question to you, Mr. McCreevy, and it comes back to my earlier engagement with you today that was demonstrating the residential house prices and the period in which the Bacon report was most active and how that was actually playing out in the market. So, could I maybe begin by putting a question to you? Is the property market entirely free and neutral, given that when tax interventions take place, they do have an impact in the market in one capacity or another?

**Mr. Charlie McCreevy:** They certainly do but you can't anticipate what might happen in the longer term. I refer to what Deputy Noonan said back many years ago when I brought in that, there'll be an unintended consequences and there can be. So ... by the way, not just he said that, I said it subsequently some years later during the Dáil debates. There can be ... yes, you have an effect but you can have unintended effects also.

**Chairman:** Okay. And do interventions through tax measures on that basis have potential to favour one side of the market over others? For example, investors/speculators versus home buyers?

**Mr. Charlie McCreevy:** Well, what we try ... yes, the answer to that question is again, yes and what we try to do, not alone by the interest deductibility issue, but the biggest thing was the stamp duty changes that we made. You must remember, we increased stamp duty dramatically and left it at zero, it went to zero for the first-time buyer and we increased stamp duty enormously, up to 9%, which is a fair old hike, anyway, and it had damn all effect on the housing market or very little.

**Chairman:** Now, before I ... the kernel of this question is: do the measures have potential to favour one side of the market over others, which is investors and speculators on one side and people trying to buy a home on the other side?

**Mr. Charlie McCreevy:** Well, we tried in the changes I made regarding stamp duties. We tried to penalise, if that's the appropriate phrase I should use, the investors and benefit, by having lower rates of stamp duty, for the first-time buyer. That's what we attempted to do.

**Chairman:** Who paid the stamp duty ultimately because we know from the majority of questions asked here that ultimately when the ... when the whole process was finished, it was the purchaser who had the stamp duty kind of stitched into the purchasing price?

**Mr. Charlie McCreevy:** Well, that's the same argument, Deputy, that you can make and justifiably so, with grants. Like, when you give grants to new houses or things like that over the years, in fact, it's built in, or new grants for anything in areas of construction, it's built in then to the price, it's taken up by the person that's doing the job or building the house or selling the house. There's always that particular difficulty. What we tried to do with stamp duty and I made so many changes that we made ... I made quite a simple system that I started off with into a very complicated one and my goal all the time in all the years of taxation were to make things simple because I think that's the best way to get the maximum amount of money from any area. You'd have a very simple system and a very transparent one. But what happened in the stamp duty area to do with price we were trying give a benefit and trying to skew the market in favour of the first-time buyer. It just didn't work.

**Chairman:** So that comes back to whether it was the first-time buyer or whether it was

people trying to buy a home and trading up and trading down or whatever. And if I can bring up the next slide there. What we see in that slide is the ratio of new house prices to the average industrial wage and the ratio of average second hand prices to the average industrial wage. And we see it, they are the kind of more or less ... you can nearly put one on top of the other for both markets. In 1996, the purchasing range is in and around just over four times the national industrial wage for somebody trying to buy a home which would be in the Central Bank's sort of ratio levels, and likewise for the new market, it is just over 4%. And going into 2007, we are seeing ratios of 12 times or so the national industrial wage in trying to buy the average sort of house. In that regard, Mr. McCreevy, in reviewing your tenure as Minister for Finance and the property-related tax measures that you implemented or increased or elongated or put off by means of deferral, do you think that these actions benefitted one sector of society over the other and, if one, which?

**Mr. Charlie McCreevy:** Well, certainly the price of housing went up, there is no question - the facts speak for themselves and in the ratios to industrial wage. But there are other ratios that you can use as well, such as affordability. People had more money in their pockets due to less taxation, greater money, etc. So there are other ways of measuring that. But at the end of the day, Chair, whether we like it or we certainly ... and maybe we don't, it is the market that spoke. The price of houses went up, people were prepared to buy them at the prices they went up to. Banks were prepared to lend at ratios which turned out to be, later on, weren't so good for the banks either. So therefore, the ... now there are various-----

**Chairman:** And that brings me right to my final question. The market spoke and from our earlier questioning, we know that the market is not neutral, that the market takes direction from the tax incentives put in place. The market was speaking loud and clear that affordability levels were running beyond the capacity of people in this country. To be able to buy a home in ratios of four to five and you are dead right, Mr. McCreevy, whenever we talk about affordability as well. Because what we have found since the crash, it's not actually people losing their jobs that has been the main difficulty in terms of them servicing their mortgages and the Keane report is very explicit in this, it has been their affordability to be able to service their mortgage. So I put the question to you again, do you think your actions as Minister for Finance either impacted on one section of society more than the other, favoured one side of society over the other or had legacy issues that related in terms of hardship or benefit to one side?

**Mr. Charlie McCreevy:** Well, during my time as Minister for Finance, I believe that the measures I took allowed everybody an opportunity to have a better standard of living and all the benefits that came with that. And it certainly allowed people to move up the property ladder if they so wish. What some of these issues about affordability relate to is the ratios which the lending institutions decided to operate. What the regulator was doing about same. I read interestingly enough, with the regulator that he seemed to, that he did increase as far as I can make out the ... their issues of risk-related assets of what he was imposing upon the banks. That didn't seem to have any effect either and I referred to earlier different things that I believe contributed to the whole chasing one another. But I don't ... I find it hard to believe that things such as that the park ... tax incentivisation ... regarding, say, things like park and ride schemes, small towns renewal, docklands relief, enterprise only, another, contributed say to housing-----

**Chairman:** I'll say one example to you. It was in around the period I'm talking about. The tax relief that was given to investors of residential property gave a more favourable position to somebody who in terms of tax relief who was actually trying to buy a home or if they were trying to trade up or whatever. So the mortgage for an investor in the buy-to-let sector was

cheaper for a mortgage than a person who was trying to buy a home through the tax reliefs. Now, if somebody was competing in the market to buy a home, and you have a first-time buyer or an existing homeowner trying to trade up, they're competing with somebody who has an additional edge on them because their tax relief is actually greater.

**Mr. Charlie McCreevy:** Yes but, Deputy, the tax relief regarding property was-----

**Chairman:** I'm talking about ... I'm talking about the investments. Forget now about the over-the-shop schemes and the student accommodation-----

**Mr. Charlie McCreevy:** Yes, but the-----

**Chairman:** -----I'm talking strictly about residential accommodation where there was two agencies in the market, people trying to buy homes and investors, and the investors had, in the way the tax structure was created, a more favourable method to repay the mortgage. The mortgage was ultimately cheaper for them.

**Mr. Charlie McCreevy:** But, Deputy, I'm sure ... or Chair, I'm sure you're going to do this in any event. I say that you should go and, say, have an investigation or a study into, say, the housing ... the number of houses that were sold during that particular period on which there was any tax relief given at all. You must remember, and I should have referred to this earlier, the biggest change in doing the tax relief came about after the initiative I had in the 1998 Finance Bill when I restricted to a level of £25,000 - €31,000 and something subsequently - as to the amount of money that an investor could cross over from, say, his rental property area and set against his other income as well. That actually was the biggest disincentive and control of that particular time during tax reliefs. That's the ... in my first budget I did this. And it had more of an effect. So then because not every part of the country had tax ... had section 23 relief for ... you see, section 23 relief would have started in 1981 and we reintroduced it in 1984. So most of the houses built in the boom period, as you call it, didn't have section 23 relief at all. And I think if you get an independent study you will find that.

**Chairman:** Thank you. I'm going to move to wrapping things up, so. Deputy Doherty, five minutes, and then Deputy Murphy, five minutes, and then we'll conclude.

**Deputy Pearse Doherty:** Yes, can I just ... a couple of quick things. You say that you weren't personally close to any of the developers or builders, I think, in response to Deputy Joe Higgins. Is that a correct statement? There's-----

**Mr. Charlie McCreevy:** Well sure like I did-----

**Deputy Pearse Doherty:** Just let me finish the question. There's reports, and you may want to correct the reports, that you were personally very close friends with Sean Dunne and indeed were invited to his wedding in the Riviera ... which would be deemed as one of the major developers, so-----

**Mr. Charlie McCreevy:** But sure I'm ... I haven't lived to the ripe old age that I am without meeting a large cross-section of people and some of them happened to be builders and developers. Now that you mention Sean Dunne, I would have met Sean Dunne in 1983-'84 when, I think, it might have been his first or second venture out on his own. He's a chartered ... he's a quantity surveyor. And Mr. Dunne was building, I think, about 40 or 50 houses under some type of licence for the National Building Agency. It was local authority housing he was building. So I know Mr. Dunne from about '83-'84 and he comes from Carlow. So that's the length

of time I know Mr. Dunne. So he's a friend of mine, together with lots and lots of friends of mine. He ... by the way, the housing ... by the way, he's quite a good builder as well and I regard him as a long-standing friend of mine. And I ... it's common knowledge that I was invited to his wedding.

**Deputy Pearse Doherty:** Yes. No, the only reason I ask you is because you've given evidence to this investigation to say, when you were on a line of questioning about the Galway tent and developers, you said, "I was not personally close to any builder." So, I just-----

**Mr. Charlie McCreavy:** Well I personally like I suppose, maybe ... maybe that particular bit ... I regard myself as not ... I don't go on holidays with Mr. Dunne, I never have. I go on holidays with other friends of mine which are not in the building business.

**Deputy Pearse Doherty:** Yes.

**Mr. Charlie McCreavy:** So I ... it's a ... look, it's totally judgmental as to whether it is a ... I have a deep personal relationship with many people. Like, I think it's a ridiculous question, by the way, Deputy, with respect.

**Deputy Pearse Doherty:** Well, sorry, you're entitled to your opinion in terms of my line of questioning. I was actually just-----

**Mr. Charlie McCreavy:** No, no, that particular question.

**Deputy Pearse Doherty:** No, I was actually ... can I just point this out? This is evidence that you're providing to this committee and it's important that ... we're relying on your testimony as evidence. When you said, and you opened this, that you were not personally friends with any builder, then I was offering you the opportunity to correct the record in relation to your evidence-----

**Mr. Charlie McCreavy:** Well, well, I would know-----

**Deputy Pearse Doherty:** -----and, you know, whether that's ridiculous, allowing you that opportunity or not is different.

**Mr. Charlie McCreavy:** Well, okay, I take the ... I take the suggestion then, so if you want to-----

**Deputy Pearse Doherty:** Yes. I'm sure many people watching this would ... would deem your interpretation of a friend, you know-----

**Chairman:** That's ... that's a ... back.

**Deputy Pearse Doherty:** -----they'll have different interpretations what a friend is, you know, and these days we have online friends and all the rest-----

**Chairman:** Let's move on to questions, Deputy. Let's move on to questions.

**Deputy Pearse Doherty:** -----and Facebook friends but having a definition of a friend that they ... you go on holidays with is a ... is another version of that.

**Mr. Charlie McCreavy:** No, well, I'm not saying ... look, look, I think this is quite a surreal conversation ... anyway, is that-----



**Deputy Pearse Doherty:** Okay. Listen, can I ... can I ask you, in relation to ... can I ask you-----

**Mr. Charlie McCreevy:** -----all this about friends and categorise them, and-----

**Chairman:** I'll allow ... Mr. McCreevy, when you're wrapping up I'll allow you as much freedom as you like, when you're wrapping up-----

**Deputy Pearse Doherty:** I was only ... I was only giving you an opportunity to not-----

**Mr. Charlie McCreevy:** Maybe I'm not-----

**Chairman:** Excuse me. Mr. McCreevy ... Mr. McCreevy-----

**Mr. Charlie McCreevy:** -----something like that, that seems to be the way we're going.

**Chairman:** Sorry, Mr. McCreevy, please. Please.

**Mr. Charlie McCreevy:** Oh, sorry, Chair.

**Chairman:** I don't want to be directing you again. And I've said to you on a couple of occasions, I just said it a moment ago, and ... just stop the clock ... I'll afford you as much time at the end of this session today to say whatever you wish. And if you believe that there's outstanding stuff and all the rest of it-----

**Mr. Charlie McCreevy:** Okay, Chairman.

**Chairman:** -----but when you're making your comments, I do appreciate ... and you've done it with ... right up to now, that you get your comments directed to the Chair, and it's not an engagement to be having discussion ... you're more than welcome to do that when the ... when this hearing is over, to catch up with people and talk to them if you so wish and have a discussion with any member that you'd like to talk about. But I just want to keep things focussed upon the questions at the moment and bring things to an end. Deputy Doherty.

**Deputy Pearse Doherty:** Thank you. You've also acknowledged that you, in your 2004 budget, which was delivered in 2003, extended many of the property tax reliefs to 2006. Can I ask you, in light of that, when you travel around the country, and particularly if you go to the Shannon region, if you go to Leitrim, if you go to Roscommon, what do you think when you see the ghost estates, some of them that were built as a result of the tax policies that you introduced and extended? What do you feel when you hear, for example, the fact that 40 ghost estates are to be demolished, and the fact that a report in 2006 showed that, during your tenure as Minister for Finance, that individuals who used these schemes were able to reduce their tax bill to zero? And they were ... those numbers were being increased year on year as a result of your measures.

**Mr. Charlie McCreevy:** Well I'd be very disappointed that the estates which were started upon weren't completed and I'm further disappointed that people didn't go to live in them. So, therefore, I'd prefer if that hadn't occurred, naturally, but it's the whole property market collapsed and I, of course, would be very pleased if some local authorities or public bodies would take over some of these estates and make them available to people who cannot own their own homes. But that's a matter for the Government of the day.

I would prefer ... I would prefer ... the idea of the incentivisation was to allow people to get on and do this particular type of work. There were lots of jobs and incomes created in that time.

I'm also very pleased to go around the country and notice lots of facilities in the country which local business people and local developers kept ... did for the community, including sponsoring everything from football teams to everything else. That has been missed as well and I'm very glad of the economic activity that people in the more rural parts of Ireland who didn't get the same great benefits from ... say the Celtic tiger that occurred in Dublin, say, Cork, and say, Galway, that they got some benefit as well. I'm disappointed that it didn't end up to ... it didn't end up in a way that I would have envisaged. But I think it did generate a considerable amount of economic activity and there were spin-offs from it at that time.

**Deputy Pearse Doherty:** Yes and that's all well acknowledged in terms of tax revenue and employment, and the impact it had on the ... on those communities at the time. But what is your view in relation to counties such as Leitrim, which would nearly have to double its population to occupy the houses that were built under schemes that you introduced and extended?

**Mr. Charlie McCreevy:** That was the market.

**Deputy Pearse Doherty:** The market didn't sign the Finance Bill, with respect.

**Mr. Charlie McCreevy:** No, no-----

**Deputy Pearse Doherty:** A Minister signed the Finance Bill and extended these schemes.

**Mr. Charlie McCreevy:** But, Deputy, you'll find references that I made on different Finance Bills about taxation matters. I always said, including some of the incentives I brought in, that any business person that makes a decision solely on the basis on a taxation incentive, without looking at the other aspects of the issue, will often be very, very disappointed. I said that at the time, so therefore, it was a matter for the developers and construction people and their financial institutions, to listen ... to look at all the aspects, were they going to be able to a) finance on this, could they sell them at an affordable price? And b) was the market there to buy it? That I'm afraid-----

**Deputy Pearse Doherty:** Okay. Can I just finally ... can I finally say this, because I was-----

**Mr. Charlie McCreevy:** That's a job for-----

**Chairman:** A wrap up question.

**Deputy Pearse Doherty:** That's fine. It's all the market's fault, in your view, in that area. But can I put it to you, and I mentioned this here, a review of the 400 top earners in Ireland during 2002 and 2001 ... and they benefitted ... the review shows that the way that they were able to reduce their effective tax rate was through these schemes. These schemes that allowed you to have the schemes such as the Shannon Basin property-based capital allowance incentives. For example, there were six individuals of the top 400 earners that paid no tax in 2002, which was an increase from 2001. There was 37 of the 400 that paid between 0% and 5% effective tax rate. That was an increase from 25 the year before. Do you believe or can you agree that because of some of these schemes and because of how individuals were able to reduce their tax rates, houses were being built to effectively reduce your tax rate, not with the intention that somebody will live in it? If it worked out that you could you flip them in a couple of years' time, you would benefit on the double. But these individuals were able to reduce their tax rate, in some cases, to a level of zero as a result of the policies that you introduced.

**Mr. Charlie McCreevy:** Successive Finance Ministers, pre my period and during my pe-

riod, have introduced changes into the taxation code to ensure that everyone is trying to .. that everyone is paying an adequate level of tax. As I referred to a few minutes ago about the change I made in the 1998 Finance Bill regarding the capping of the reliefs that could be carried across, that was the total amount you could bring across which was, I think, the most significant change I made. Subsequently over the years, my successor made changes regarding some of these reliefs as well and put in an overall threshold for them. All of that is a job that you review every couple of years to see, “Well, are we getting ... is there too much avoidance in this particular area and should we even it up?” That’s the job of what a Finance Minister does previewing a Finance Bill. The Revenue Commissioners come along and say, “Well the figures show this and this relief has been overused or this relief has been abused or this particular section of a Finance Bill was never intended to give this particular type of relief.” And we take anti-avoidance measures all of the time. That’s what I did and my successor did as well.

**Chairman:** Deputy Murphy.

**Deputy Eoghan Murphy:** Thank you, Chairman, and thank you, Mr. McCreevy. Just a couple of brief questions if I may and it’s just in relation to your approach to budgets to try and understand the level of analysis done by the Department. Because throughout various points of your evidence today, it has not been clear what degree of analysis had been done prior to a budget proposal and what degree of analysis had been done after it is implemented. In your first budget, the budget for 1998, you proposed having the capital gains tax from 40% to 20%. I’m not interested in the actual proposal itself or its impact but was this proposal out of the blue for your officials or did it come from them?

**Mr. Charlie McCreevy:** I decided that it was going to do that.

**Deputy Eoghan Murphy:** Where did that idea come from?

**Mr. Charlie McCreevy:** I always intended to do it.

**Deputy Eoghan Murphy:** Okay. Did you have any analysis for it as to what the outcome might be?

**Mr. Charlie McCreevy:** No but I was proved right as to what would happen. Just a second now ... if you look at that particular budget, my officials insisted that I would put in a figure that the cost to the Exchequer would be €19 million. I said in the Dáil during a PQ subsequently - I didn’t believe a word of it - but I put it in for good prudence because I knew from my own experience down through the years a rate of 40% capital gains tax - and it was higher in other years - that it was stifling a lot of people doing anything and that if we reduced the rate, a lot of people would sell everything from shares to property, etc., and we’d get a gigantic amount of money. My officials did not believe that but I did and we did it and I was proved correct.

**Deputy Eoghan Murphy:** Thank you, Mr. McCreevy. I’m not interested in the proposal itself, just in the approach is what I am asking about. Was it your usual practice to come up with a policy idea without informing your officials?

**Mr. Charlie McCreevy:** Some of the things we mentioned earlier today, we ... I told the officials I was going to do it. I remember about the SSIA’s, for example, I remember informing them about this. That was a few weeks before the budget though.

**Deputy Eoghan Murphy:** This particular cut, you had informed your officials, I think, two weeks before the budget?

**Mr. Charlie McCreevy:** Before the budget? The SSIA's?

**Deputy Eoghan Murphy:** No. The CGT, capital gains tax-----.

**Mr. Charlie McCreevy:** Probably so, I don't know.

**Deputy Eoghan Murphy:** Okay and they were ... I think their understanding was that you might be introducing it over a series of years but you wanted to go ahead and do it immediately. Is that correct?

**Mr. Charlie McCreevy:** Correct.

**Deputy Eoghan Murphy:** Okay.

**Mr. Charlie McCreevy:** Well, no sorry, I may be ... sorry ... wrong. When I told the officials I was going to do this, it was my intention to bring it from 40% to 20%. Perhaps some of them interpreted that maybe ... I think the day I said it, they thought I was going to bring it in gradually over a period and maybe it was later that day or the following week when they realised it was going to be all in one go.

**Deputy Eoghan Murphy:** And when did the Taoiseach first hear about this?

**Mr. Charlie McCreevy:** Well it would be ... the way all budgets were being decided in my day is that the Estimates were done in one particular box and then it is left ... there's a Government decision made that the taxation arrangements will be discussed between the Taoiseach, the Tánaiste and the Minister for Finance. I'm sure now it's done by the ... the council, the economic council this Government has. And that's how all budget taxation changes were made.

**Deputy Eoghan Murphy:** But that budget, two weeks beforehand you tell your officials.

**Mr. Charlie McCreevy:** Oh yes. Yes, yes.

**Deputy Eoghan Murphy:** So, when do the Cabinet and the Taoiseach find out about it?

**Mr. Charlie McCreevy:** Well ... oh, the Taoiseach and the Tánaiste would have been apprised of what I was going to do some considerable time in advance of it.

**Deputy Eoghan Murphy:** A considerable time being six months, being three weeks, being-----

**Mr. Charlie McCreevy:** No, sorry, oh no, sorry, well maybe the Taoiseach and the Tánaiste and I had some discussions about taxation probably throughout the year, I can't remember in any year, but we probably did. But there would have been no secret that that's what I was going to do. But we would have finalised and then, on the morning of the budget, you come along to the Cabinet and you tell them the taxation changes.

**Deputy Eoghan Murphy:** Okay. In Brian Cowen's first budget day speech as Minister, he said that the budget is the initiative of Government as a whole and not simply the work of the Minister for Finance. What did he mean by that?

**Mr. Charlie McCreevy:** What he said.

**Deputy Eoghan Murphy:** What ... is he implying something there?

**Mr. Charlie McCreevy:** I-----

**Deputy Eoghan Murphy:** Do you think he was implying something there, when he says that's an initiative of the Government as a whole and not simply the work of the Minister for Finance?

**Mr. Charlie McCreevy:** Well it is the Government as a whole, in this particular sense: the Estimates process is conducted between the Minister for Finance ... first of all, there's the memorandum in the middle of the summer, then we start the actual process-----

**Deputy Eoghan Murphy:** Yes, yes.

**Mr. Charlie McCreevy:** -----then we have individual line meetings, so the Government is involved at all stages. The Government under Bertie Ahern used to have a number of ... a series of meetings throughout the year, usually ... often on a Saturday, where we would discuss on the Estimates side as to what we would like to do in terms of public expenditure the following year - everything from social welfare packages, etc. The detail was never decided in those particular meetings. Then later on in the process we ... the decision was made that taxation changes will be discussed with the Taoiseach, the Tánaiste and the Minister for Finance. At some of those meetings that we had on the Saturdays, or different other times we had them, Ministers would come forward with various ideas that they might like done in the taxation area and they'd be taken on board and then we'd come ... so there was an ongoing process, so therefore Brian Cowen is correct. It's no different than the process I did.

**Deputy Eoghan Murphy:** So he wasn't implying a change-----

**Mr. Charlie McCreevy:** But-----

**Deputy Eoghan Murphy:** -----from how you-----

**Mr. Charlie McCreevy:** But-----

**Deputy Eoghan Murphy:** -----approached the budget?

**Mr. Charlie McCreevy:** But then no Minister for Finance that I know of and there'd be ... would discuss his taxation changes with his ... with ... up until the recent times, would discuss possible taxation changes with the wider Cabinet until he was going to ... except with the Tánaiste and Minister for Finance. That's been a Government decision going back *ad nauseam* over the years. It may be changed now because there's a-----

**Deputy Eoghan Murphy:** The EMC.

**Mr. Charlie McCreevy:** Yes the EMC. But that has been the way that it was always done in my time and, might I say, it was done in the previous Government as well. There may ... on account of the previous Government was a three-party Government, if I remember correctly, I'm sure there had to be more liaison between, say, the three parties with their programme managers in all these areas. But with us it was ourselves and the Progressive Democrats and it was done between the Taoiseach, Tánaiste on taxation matters. So all the Government at various stages was along. Now there were people who perhaps post all of that over the years sought maybe to give the impression that some changes, maybe taxation and some spending measures, were done without other Ministers knowing. That was not correct.

**Deputy Eoghan Murphy:** Not correct, okay. And just my final question then is why do you think Brian Cowen directed the Department and Revenue and outside consultants to undertake that review of all property-related tax breaks?

## NEXUS PHASE

**Mr. Charlie McCreevy:** Well, for the obvious reason that you conduct a review of any scheme that you have for a particular period of time. It would be the sensible and logical thing to do. Like, if I was ... if I had been there, I probably would have done the same. So there was ... what the Department and the Minister would want would be some empirical evidence how ... what the effect of all these schemes were, what the effect now is and what we should do and the way you have a book of evidence. That's why you would consult ... why you generally commission a consultancy review. We did many of them in our time in a whole variety of areas. The Department also conducts its own review in these areas as well, or did.

**Deputy Eoghan Murphy:** Okay, thank you.

**Chairman:** Okay? Thank you, Deputy.

**Deputy Eoghan Murphy:** Thank you, Chairman.

**Chairman:** Mr. McCreevy, I'm going to bring things to a conclusion now. But as I said earlier, and with all witnesses, the purpose of this inquiry is not just to go back into the past and to see what happened and to give the fullest picture to the Irish public in terms of the full story as to the financial crisis and the aftermath that this country faced, but also an opportunity to draw lessons from that to apply into the future and which will inform the final report that we will be bringing forward to, to the best of our ability, ensure that a crisis of this type is not revisited upon the shoulders of the Irish public again. In that regard, if I could invite you to make any closing comments that you may wish to make, the matters that may be outstanding this afternoon that you need ... that you feel that you can give somewhat further attention to, or anything, given your extensive experience as a senior politician here in Dáil Éireann with regard to suggestions going into the future?

**Mr. Charlie McCreevy:** Well I'm sure post the event in the weeks to come I'll think of various things I possibly should have said but that's always ... that's always in every situation.

**Chairman:** Yes. Okay. So do you want to close on that statement, so-----

**Mr. Charlie McCreevy:** Yes.

**Chairman:** -----Mr. MacSharry. Okay ... Mr. McCreevy. Okay, with that said, I'm going to bring conclusions to a conclusion. I'd like to thank Mr. McCreevy for his participation today and for his engagement with the inquiry. The witness is now excused and I propose to adjourn the meeting until 9.30 a.m. tomorrow morning, 2 July 2015. Is that agreed? Agreed. Thank you.

The joint committee adjourned at 8.01 p.m. until 9.30 a.m. on Thursday, 2 July 2015.